kotak Institutional Equities

Pharmaceuticals

India

Sector View: **Neutral** NIFTY-50: **23,658** **March 24, 2025**

Indian CRDMOs: A new world order beckons

The global pharma CRDMO (Contract Research, Development and Manufacturing Organization) sector is at a crossroads, wherein the hegemony of the ~US$28 bn Chinese innovator CRDMO market is being tested. Even as global R&D outsourcing trends remain healthy, innovators are looking at alternate sources to de-risk their dependence on China. Indian CRDMOs, backed by skilled talent, lower cost and strong small molecule capabilities, are well-poised to capture a meaningful chunk of this ongoing shift. We add to our existing CRDMO coverage and initiate on Piramal Pharma and Syngene with BUY, and Sai Life Sciences with a REDUCE.

Initiate with BUY on PPL and Syngene, and REDUCE on Sai Life Sciences

Our DCF-based FVs for PPL, Sai and Syngene are Rs300, Rs700 and Rs875, respectively. Within these, at CMP, we prefer PPL (~37% upside), followed by Syngene (~22% upside). In our view, PPL's diversified CRDMO presence with niche capabilities holds it in good stead. On the other hand, Syngene offers a healthy blend of best-in-class small molecule expertise in discovery and attractive valuations. While we believe Sai is well poised to deliver a strong earnings trajectory backed by its solid capabilities and opportune expansion, we are cognizant of the relatively high valuations.

Rising R&D outsourcing and shift from China augur well for Indian CRDMOs

The pharma innovator R&D outsourcing mix continues to inch up (42% now versus 18% in CY2005), led by rising R&D costs, increasing drug complexity, declining IRR on R&D spends and others. Simultaneously, biotech funding by PE/VCs, which largely powers R&D outsourcing for smaller pharma innovators, is also recovering gradually after a couple of years of slowdown. India offers a unique blend of small molecule expertise and quality at a lower cost and is in a sweet spot to benefit from innovators looking to lower their reliance on China since Covid. Our detailed global CRDMO capability benchmarking (Exhibit 5,6) reveals leading Indian CRDMOs are not materially inferior to global peers.

Indian innovator CRDMO market to almost quadruple over the next decade

Well-established Indian companies are poised to capitalize on the tectonic shift in the global pharma CRDMO industry, driven by higher outsourcing and supply chain de-risking by innovator companies. Despite factoring in no benefit from the US Biosecure Act, assuming China stays relevant (Chinese CRDMO market to still grow in double digits), and baking in the benefit of de-risking with a lag, in our base case, we expect the Indian CRDMO market (currently at ~US$3 bn) to almost quadruple over the next decade (Exhibit 2).

Key risks: Slow funding pick-up, regulatory changes, threat from GCCs

While biotech funding has been recovering, geopolitical uncertainties have led to prolonged decision-making by clients. Delay/annulment of the US Biosecure Act could slow the pace of diversification. Indian CROs are also exposed to the increasing trend of global capability centers (GCCs) by big pharma companies. Reciprocal tariffs could also pose an indirect risk for Indian CRDMOs.

Company data and valuation summary

Company	Rating	Fair Value (Rs)	EV/EBITDA (X) 2025E	2026E	2027E
Blue Jet	ADD	710	42.8	28.8	24.4
Divis Labs	SELL	4,550	52.4	42.3	32.9
Gland Pharma	REDUCE	1,525	18.2	15.0	12.5
Laurus Labs	SELL	420	35.0	26.5	22.4
Piramal Pharma	BUY	300	22.8	18.5	14.7
Sai Life Sciences	REDUCE	700	39.1	32.1	24.3
Syngene	BUY	875	26.9	22.6	18.1

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of March 24, 2025

We initiate coverage on PPL and Syngene with BUY, and Sai with a REDUCE, with FVs of Rs300, Rs875 and Rs700 respectively

In our base case, we expect the Indian CRDMO market (currently at ~US$3 bn) to almost quadruple over the next decade

Our benchmarking across modalities, capabilities and financial metrics suggests leading Indian CRDMOs are not materially inferior to global peers

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Executive summary: Indian CRDMOs—the stars are aligning

We believe well-established Indian CRDMOs (Contract Research, Development & Manufacturing Organizations) are well poised to benefit from an increasing trend of outsourcing and supply chain de-risking by innovator companies. Led by availability of skilled talent, lower cost structure and expertise in development and manufacturing of small molecules, we expect Indian CRDMOs to capture ~30% of the incremental demand shift due to China de-risking, in our base case. Even if we do not assume any benefit from the US Biosecure Act and bake in the benefit of supply-chain de-risking with a lag, we expect the Indian innovator CRDMO market to almost quadruple to ~US$12 bn over the next decade. We initiate coverage on PPL and Syngene with a BUY rating, and Sai Life Sciences with a REDUCE rating.

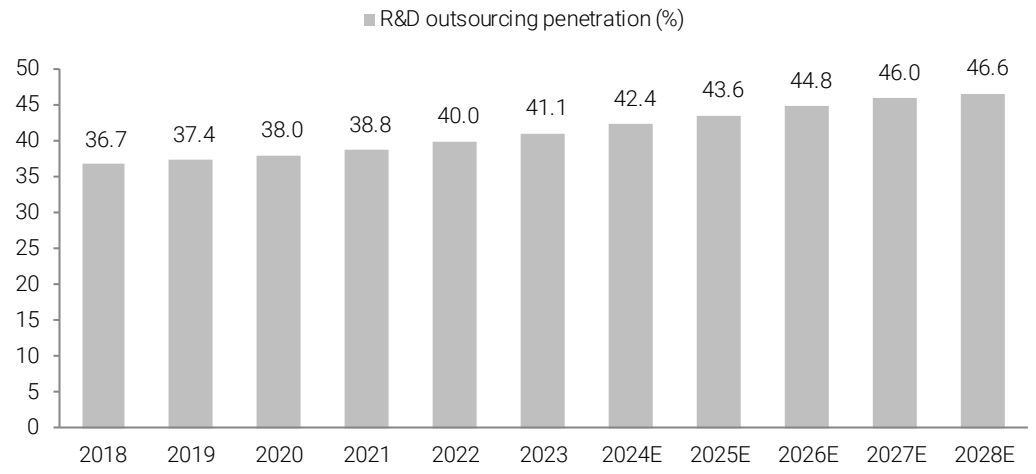
Global innovator R&D outsourcing services penetration has increased from <20% two decades ago to ~42% in CY2024

Even as pharma R&D outsourcing continues to inch up, supply chain de-risking is picking up speed

The global pharma and biotech industry is characterized by certain challenges, notably the R&D expertise and associated costs required to develop a portfolio of increasingly complex drugs, the high capex needed to establish and maintain manufacturing units, declining IRR on R&D spends, the need for technical know-how and a trained workforce, among others. The average cost to develop and commercialize a new drug today exceeds US$1 bn per approved drug, which signifies a tenfold increase since the 1970s. The pharma innovators have responded to R&D productivity challenges by seeking to improve the RoIs for R&D spending by realizing efficiencies through outsourcing. Owing to these challenges, global pharma firms have sought to control their costs and improve their efficiency, and resultantly, the industry has witnessed a trend of increased R&D outsourcing by innovators. Apart from providing cost advantages to the innovator, CRDMOs also help reduce overall development timelines, compared with the time innovators would have required for in-house manufacturing. In addition, the past 15 years has seen the emergence of several PE/VC funded smaller and virtual pharma innovators. Compared to big pharma, these smaller innovators are more likely to seek the services of CRDMOs. Driven by a combination of these factors, the overall penetration of global innovator R&D outsourcing services increased from 36.7% in CY2018 (<20% two decades ago) to ~42% in CY2024 and is further expected to increase to 46.6% by CY2028E. Including generics, the size of the global CRDMO market is US$200 bn+. However, the innovator-focused global CRDMO market is currently estimated to be ~US$140 bn.

Global innovator R&D outsourcing penetration is expected to increase to ~47% by CY2028E

Exhibit 1: Outsourcing penetration in global innovator R&D, December calendar year-ends, 2018-28E (%)



Source: Frost & Sullivan, Kotak Institutional Equities

In the base case, we expect India to capture ~30% of the demand shift due to China de-risking

Excluding the contribution from generics CDMO, the Indian innovator CRDMO market has broadly doubled in the past five years to stand at ~US$3 bn (~2% global share), as of CY2024. On the other hand, the Chinese innovator CRDMO industry, which stood at ~US$28 bn in CY2024, operates at a significantly larger scale. China is strong across CRO (30%+ of the products licensed globally are researched out of China) as well as small molecules and biologics CDMO. However, the ongoing supply chain diversification is likely to hurt growth prospects for the Chinese industry over the medium to long term. We highlight that innovator companies had already started work on lowering their dependence on China since Covid. Hence, in our view, any delay or even annulment of the US Biosecure Act will not significantly alter the industry dynamics, as the process of de-risking has already been set in motion. Nevertheless, given that this process of onboarding new vendors is time-consuming, we start factoring in slightly lower growth for the Chinese innovator CRDMO market only from CY2027E. Also, we stay conservative in our estimates and assume China stays quite relevant with the Chinese CRDMO market still growing in double-digits over the next 10 years.

With multiple structural tailwinds in place, from ~2% currently, we expect India's share in the global innovator CRDMO market to increase to ~3.5% over the next decade

Although India has been a relatively late entrant in the CRDMO paradigm, we expect India to capture a significant chunk of the incremental demand shift due to China de-risking (~30% in our base case), owing to its inherent cost advantages, experience in small molecule development and manufacturing as well as availability of skilled manpower. Moreover, Indian CRDMOs have demonstrated enhanced capabilities, including availability of skilled talent, and quality infrastructure and systems, positioning them to benefit from increased R&D and manufacturing outsourcing by pharma innovators. Accordingly, we expect the Indian innovator CRDMO market growth to accelerate and bake in a robust ~14% CAGR over CY2024-34E. With multiple structural tailwinds in place, from ~2% currently, we expect India's share in the global innovator CRDMO market to increase to ~3.5% over the next decade.

In our base case, we expect the Indian innovator CRDMO market to report a 10-year CAGR of ~14% over CY2024-34E

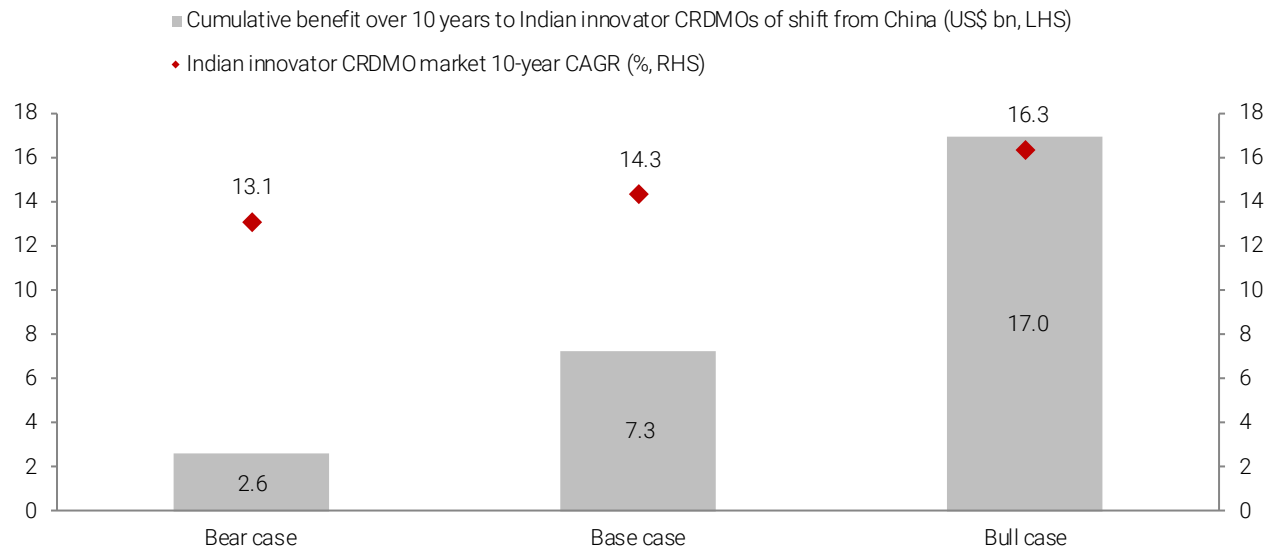
Exhibit 2: Indian NCE CRO-CDMO market size, December calendar year-ends, 2024-34E (US$ bn, %)

	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	10-year CAGR (%)
Assuming no shift from China												
Global innovator CRDMO market (US$ bn)												
CRO	70	76	82	89	96	104	112	120	129	138	148	*7.8*
CDMO	70	77	84	92	101	111	122	134	147	162	177	*9.7*
CRDMO (US$ bn)	**140**	**153**	**166**	**181**	**197**	**215**	**234**	**254**	**276**	**300**	**325**	***8.8***
Chinese innovator CRDMO market (US$ bn)												
CRO	9	10	11	12	13	15	16	17	19	21	23	*9.7*
CDMO	19	21	24	27	30	33	36	40	44	49	54	*11.0*
CRDMO (US$ bn)	**28**	**31**	**35**	**39**	**43**	**47**	**52**	**58**	**63**	**70**	**77**	***10.6***
Indian innovator CRDMO market without any benefit from China + 1 (US$ bn)												
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.1**	**1.3**	**1.4**	**1.6**	**1.8**	**2.0**	**2.2**	**2.5**	***11.8***
Discovery	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.3	1.4	1.6	*12.0*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.9	*11.5*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.2**	**3.6**	**4.1**	**4.6**	**5.1**	**5.8**	**6.4**	**7.1**	***12.5***
Development	1.2	1.4	1.5	1.7	1.9	2.2	2.4	2.7	3.0	3.3	3.7	*11.9*
Manufacturing	1.0	1.1	1.3	1.5	1.7	1.9	2.2	2.4	2.8	3.1	3.4	*13.1*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.3**	**4.9**	**5.5**	**6.2**	**6.9**	**7.8**	**8.6**	**9.6**	***12.3***
Incorporating the benefit of China + 1 (bear case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***1.0***	***1.6***	***2.3***	***2.9***	***3.5***	***4.2***	***4.8***	***5.4***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***15.0***	***15.3***	***15.5***	***15.8***	***16.0***	***16.3***	***16.5***	***16.8***	
CRO shift to India (%)	–	–	–	*10.0*	*12.0*	*14.0*	*15.0*	*16.0*	*17.0*	*18.0*	*19.0*	
CDMO shift to India (%)	–	–	–	*17.3*	*16.2*	*15.9*	*15.9*	*16.0*	*16.1*	*16.3*	*16.5*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.3**	**1.5**	**1.6**	**1.8**	**2.1**	**2.3**	**2.5**	***12.3***
Discovery	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.6	*12.3*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	*12.2*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.2**	**3.7**	**4.2**	**4.8**	**5.4**	**6.1**	**6.9**	**7.7**	***13.4***
Development	1.2	1.4	1.5	1.7	2.0	2.2	2.5	2.8	3.1	3.5	3.9	*12.5*
Manufacturing	1.0	1.1	1.3	1.5	1.7	2.0	2.3	2.6	3.0	3.4	3.8	*14.4*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.4**	**5.0**	**5.7**	**6.4**	**7.3**	**8.2**	**9.2**	**10.3**	***13.1***
Incorporating the benefit of China + 1 (base case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***2.0***	***3.0***	***4.0***	***5.0***	***5.8***	***6.5***	***7.3***	***8.0***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***26.5***	***27.0***	***27.5***	***28.0***	***28.5***	***29.0***	***29.5***	***30.0***	
CRO shift to India (%)	–	–	–	*20.0*	*22.0*	*24.0*	*26.0*	*28.0*	*30.0*	*32.0*	*34.0*	
CDMO shift to India (%)	–	–	–	*29.4*	*28.6*	*28.5*	*28.5*	*28.6*	*28.8*	*28.9*	*29.1*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.3**	**1.5**	**1.7**	**2.0**	**2.2**	**2.5**	**2.8**	***13.4***
Discovery	0.5	0.6	0.6	0.8	0.9	1.0	1.1	1.3	1.4	1.6	1.8	*13.5*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.0	*13.3*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.3**	**3.9**	**4.5**	**5.2**	**5.9**	**6.7**	**7.6**	**8.6**	***14.6***
Development	1.2	1.3	1.5	1.8	2.1	2.4	2.7	3.1	3.5	3.9	4.4	*13.8*
Manufacturing	1.0	1.1	1.3	1.6	1.8	2.1	2.5	2.8	3.3	3.7	4.2	*15.5*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.5**	**5.2**	**6.0**	**6.9**	**7.9**	**9.0**	**10.1**	**11.4**	***14.3***
Incorporating the benefit of China + 1 (bull case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***5.0***	***6.0***	***7.0***	***8.0***	***9.0***	***10.0***	***11.0***	***11.9***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***37.5***	***38.5***	***39.5***	***40.5***	***41.5***	***42.5***	***43.5***	***44.5***	
CRO shift to India (%)	–	–	–	*30.0*	*32.0*	*34.0*	*36.0*	*38.0*	*40.0*	*42.0*	*44.0*	
CDMO shift to India (%)	–	–	–	*39.2*	*40.0*	*40.8*	*41.5*	*42.3*	*43.1*	*43.8*	*44.6*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.4**	**1.6**	**1.9**	**2.2**	**2.5**	**2.8**	**3.2**	***14.9***
Discovery	0.5	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.6	1.7	1.9	*14.5*
Pre-clinical	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.8	0.9	1.1	1.3	*15.4*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.8**	**4.5**	**5.2**	**6.0**	**6.9**	**8.0**	**9.1**	**10.4**	***16.8***
Development	1.2	1.4	1.5	1.9	2.3	2.7	3.2	3.6	4.1	4.6	5.2	*15.7*
Manufacturing	1.0	1.1	1.3	1.9	2.2	2.5	2.8	3.3	3.9	4.5	5.3	*18.0*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**5.1**	**5.9**	**6.8**	**7.9**	**9.1**	**10.5**	**12.0**	**13.6**	***16.3***

Source: Kotak Institutional Equities estimates

In our bull case, we estimate a 10-year cumulative benefit of ~US$16.2 bn due to a shift from China for Indian innovator CRDMOs

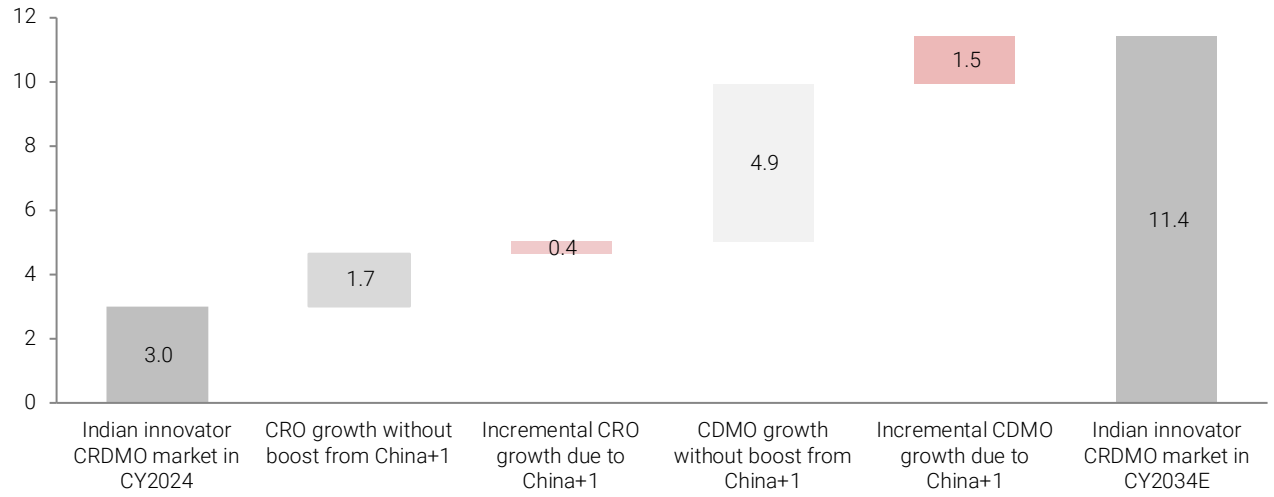
Exhibit 3: Business shift from China to Indian CRDMOs in various cases, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

In our base case, we expect India to get incremental annual innovator CRO/CDMO benefits of US$0.4/1.5 bn due to China+1

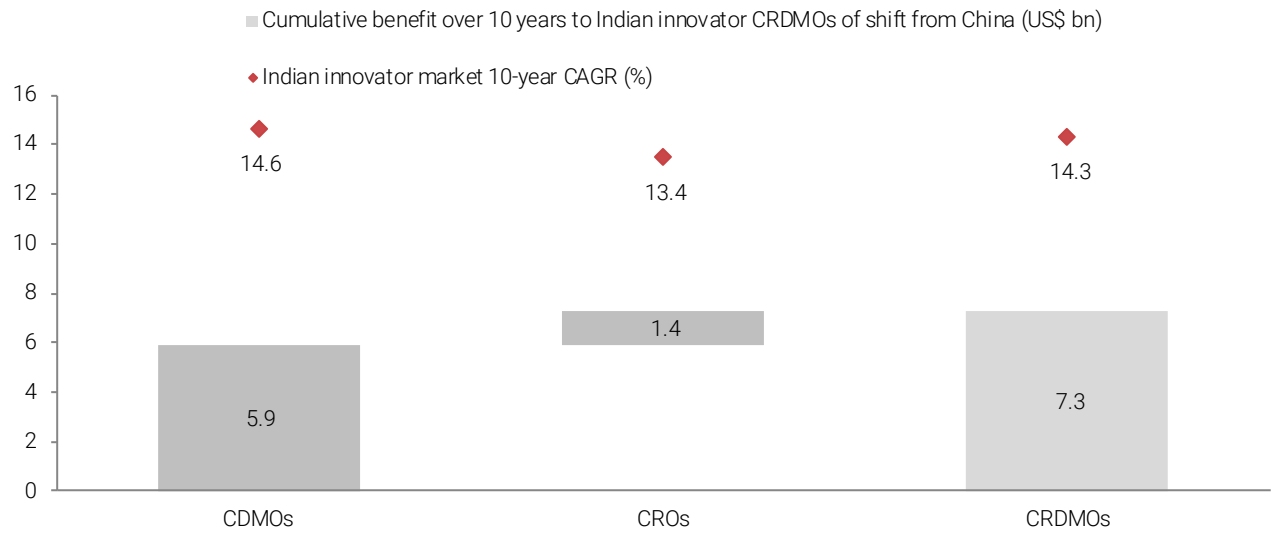
Exhibit 4: Indian innovator CRO-CDMO market growth due to China+1 boost, December calendar year-ends, 2024-34E (US$ bn)



Source: Frost & Sullivan, Kotak Institutional Equities estimates

In our base case, we estimate a 10-year cumulative benefit of ~US$7.3 bn due to the shift from China for Indian innovator CRDMOs

Exhibit 5: Business shift from China to Indian CRDMOs in various cases, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

Indian companies continue to add capabilities and capacities to compete globally

Over the past few decades, leading Indian CRDMO companies have built inimitable capacities and capabilities, thereby becoming reliable partners for innovator companies. While the emphasis on value-driven outsourcing continues, innovator companies have been increasingly looking to diversify their supply chains since Covid. With an innovator CRDMO market size (excluding generics CDMO) of ~US$28 bn, China is the largest player outside the US and EU in the global CRDMO landscape. On the other hand, India offers a unique blend of small molecule expertise and quality at a lower cost and is in a sweet spot to benefit as innovator companies look to lower their reliance on China. Indian companies have extensive experience working with global regulatory agencies; India has the highest number of US FDA-approved plants outside the US. India also has a strong base of science, technology, engineering or mathematics (STEM) graduates, more than the US and the UK, crucial for science-intensive drug discovery work.

Our detailed global CRDMO capability benchmarking reveals leading Indian CRDMOs are not materially inferior to global peers

Aided by various factors listed above, Indian CRDMOs are well-positioned to benefit from higher R&D and manufacturing outsourcing by pharma innovators and be part of a de-risked supply chain sought by US and EU companies. While the benefit in late stage/commercial projects is likely to kick in relatively faster than other functions, we also expect discovery and pre-clinical development projects to receive a fillip over the medium to long term. In addition, a formidable integrated offering by Indian companies with expanded capabilities and capacities will also serve as an advantage. An improving IP regime in India will continue to be an enabling factor for the CRDMO industry. Accordingly, on a low base, the Indian CRDMO market is expected to report a relatively higher growth rate over the next five years.

We have benchmarked various Indian CRDMO companies with their global peers across multiple modalities, capabilities and financial metrics. We highlight that several of these capabilities have been added over the past decade. More importantly, Indian companies continue to invest more proactively in newer technologies, thereby narrowing the capability gap versus their global counterparts. When it comes to molecular expertise, Indian CRDMO firms have managed to get a foothold in the small molecule CRDMO segment, backed by on-time deliveries and strong compliance track records, especially given India has the second highest number of US FDA-approved facilities in the world, behind the US. However, Indian companies have lagged behind on the biologics front due to multiple reasons, including the lack of quality talent in biologics, higher capital investments required for setting up a biologics plant compared with small molecules and the prevalence of process patents over product patents in line with Indian law.

Compared with global peers, Indian CRDMO companies have limited presence in innovation hubs in the US and UK

Exhibit 6: Competitive mapping of global CRDMO players

		Purely innovator focused	R&D presence in innovation hubs (US, UK)	No. of discovery programs (#)	No. of customers in top pharma companies by revenue (#)	Dedicated R&D centers with customers
Indian CRDMOs	Anthem Biosciences	✓	×	Not applicable	3+ / Top 10	×
	Aragen Life Sciences	✓	✓	Undisclosed	7/Top 10	×
	Divis	×	×	Not applicable	12+/Top 25	×
	Laurus Labs	×	×	Not applicable	6/Top 10	×
	Neuland Labs	×	×	Not applicable	Undisclosed	×
	Piramal Pharma	×	✓	Undisclosed	15+/Top 25	×
	Sai Life Sciences	✓	✓	200+	18/Top 25	✓
	Suven Pharma (inc. NJ Bio)	✓	✓	Undisclosed	14/Top 20	×
	Syngene	✓	×	Undisclosed	15+/Top 25	✓
Global CRDMOs	Catalent	✓	✓	Not applicable	Undisclosed	×
	Charles River	✓	✓	400+	16/Top 25	×
	Fujifilm Diosynth	✓	✓	Not applicable	Undisclosed	×
	Lonza	✓	✓	Not applicable	Undisclosed	✓
	Pharmaron	✓	✓	750+	20/Top 20	×
	Samsung Biologics	✓	×	Not applicable	17/Top 20	×
	Siegfried	×	✓	Not applicable	Undisclosed	×
	Wuxi AppTec	✓	✓	600+	20/Top 20	×
	Wuxi Biologics	✓	✓	Undisclosed	20/Top 20	×

Source: Companies, Kotak Institutional Equities

Indian CRDMOs have been steadily adding capabilities to build global competitiveness

Exhibit 7: Comparison of capabilities across global CRDMO players, March fiscal year-end, 2024

	Indian CRDMOs									Global CDRMOs								
	Anthem Biosciences	Aragen Life Sciences	Divis	Laurus Labs	Neuland Labs	Piramal Pharma	Sai Life Sciences	Suven Pharma (inc. NJ Bio)	Syngene	Catalent	Charles River	Fujifilm Diosynth	Lonza	Pharmaron	Samsung Biologics	Siegfried	Wuxi AppTec	Wuxi Biologics
Scope of operations																		
Discovery																		
Development and manufacturing																		
Sales mix (%)																		
CRDMO as % of overall sales	100	100	45	23	49	58	100	57	100	100	100	100	95	100	66	100	100	100
Facilities																		
India	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	×	×	×	×	×	×	×
US	×	✓	×	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓	✓
UK	×	×	×	×	×	✓	✓	×	×	✓	✓	✓	✓	✓	×	×	×	×
Offerings																		
Intermediates	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓	✓	×	✓	✓	✓
APIs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Formulations	×	✓	×	✓	×	✓	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Differentiated capabilities																		
HP-APIs																		
ADCs																		
Peptides																		
Sterile injectables																		
Biologics																		
Oligonucleotides																		
Cell & gene therapy																		
GLP-1																		
ADC capabilities																		
mAb																		
Payload																		
Linker																		
Conjugation																		
Fill finish																		
Technology																		
Lyophilization																		
Column chromatography																		
Flow-based chemistry																		
High vacuum distillation																		
Fermentation																		
RNA platforms																		
Bio-catalysis																		
Clients																		
Number of clients (#)	500+	400+	NA	300+	500+	500+	280+	100+	450+	1,000+	315+	NA	770+	2,800+	100+	500+	6,000+	570+
Client concentration																		
Top 5 clients revenue share (%)	65.1	NA	37.0	NA	91.0	~30	31.2	NA	40+	NA	NA	NA	NA	NA	NA	NA	30.4	NA
Top 10 clients revenue share (%)	72.4	32.0	NA	45.0	93.0	45.0	46.3	NA	NA	NA	NA	NA	~52	<15	NA	~40	> 40	40
Product concentration																		
Top 5 products	NA	NA	41.0	NA	91.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Top 10 products	NA	NA	NA	NA	98.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	~30	NA	NA
Capacity																		
Existing capacity	271 kL in CM, 142 kL in fermentation	257+ kL, 5 L in fermentation	~14,600 m3	~7,800 m3 + 240 kL in fermentation + 10 bn units	941 kL	5bn+ tablets + 1.4bn capsules + 750+ kL + 104 batches (sterile fill-finish) + 5 ADC dedicated suites	526 kL	2,650 kL	520 L in fermentation + 30kL for large molecules	300L in fermentation + 70 bn+ units		140 kL	23 kL in fermentation	18k vials/ hour	604 kL		41 kL in solid state synthesizern + 12 bn units in sterile injectables	490 kL
Planned capacity expansion	25 kL in CM, 40 kL in fermentation			4,000 kL + 1 bn units		136 batches (sterile fill-finish) in Lexington	150-200 kL		20kL for large molecules (acquired from Stelis)			600 kL			180 kL		60 kL in solid state synthesizer	120 kL

✓ Present
× No presence

Strong presence
Moderate presence
Minimal presence

Source: Companies, Kotak Institutional Equities estimates

Initiate on PPL and Syngene with BUY, and Sai Life Sciences with REDUCE

We initiate coverage on PPL and Syngene with a BUY rating and on Sai with a REDUCE rating. Our DCF-based FVs for PPL, Sai and Syngene are Rs300, Rs700 and Rs875, respectively. Within these, at current valuations, our pecking order is Syngene and PPL, followed by Sai. In our view, Syngene offers a healthy blend of best-in-class small molecule expertise in discovery and attractive valuations. On the other hand, PPL's diversified presence across CRDMO with certain niche capabilities holds it in good stead. While we believe Sai is well poised to deliver a strong earnings trajectory, we are cognizant of the relatively higher valuations.

Our FVs imply ~21X, 23X and 23X FY2027E EV/EBITDA multiples for PPL's CRDMO segment, Syngene and Sai Life Sciences, respectively

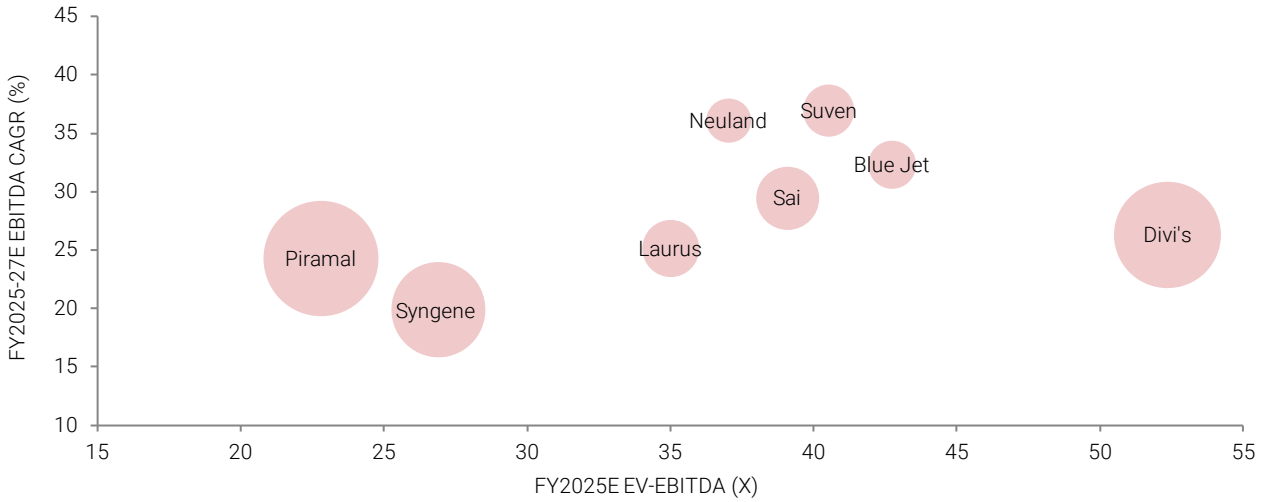
- **PPL**: We initiate coverage on PPL with a BUY rating and a DCF-based FV of Rs300, offering a ~37% upside from CMP. Our FV implies 21/16/20X FY2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver stellar ~13/23/170% revenue/EBITDA/PAT CAGRs over FY2024-28E, driven by a ramp-up in CRDMO sales, led by a robust pipeline, higher utilizations at the overseas facilities and higher focus and faster decision-making, after the demerger with Piramal Enterprises in FY2023. Over the past decade, PPL has added capabilities through 15+ M&As, involving a mix of capability/facility acquisitions in CRDMO, complex product portfolios in CHG and brands in ICH. While this has historically led to a significant drag on the balance sheet, we expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoAEs/RoICs to ~10/9% to address long-standing investor concerns around debt, FCF burn and low return ratios.

- **Syngene:** We initiate coverage on Syngene with a BUY rating and a DCF-based FV of Rs875, which offers an upside of ~22% to CMP. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Syngene. In our view, Syngene offers a healthy blend of best-in-class expertise in discovery, compelling biologics offerings and attractive valuations. It is one of India's most prominent CRDMOs, with 5,656 scientists (almost half the FTE count in India) and a robust client base of 400+. Compared with Indian peers, Syngene's USP lies in its integrated offering, leading to a 60:40 CRO:CDMO mix. Its 'follow-the-molecule' strategy allows it to be present throughout the lifecycle of a molecule, as evident from the 18-20 active integrated projects under its 'SynVent' platform.

- **Sai Life Sciences**: We initiate coverage on Sai with a REDUCE rating and a DCF-based FV of Rs700, offering a ~5% downside from CMP. In our DCF model, we forecast 10-year sales and EBITDA CAGRs of ~16% and ~22%, respectively. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Sai, in line with Syngene. Driven by recovery in funding and improved utilizations across its Indian and overseas facilities due to a higher commercial mix, we expect Sai to report robust 17/29/41% sales/EBITDA/PAT CAGRs over FY2024-28E. Similar to Syngene, the company's 'follow-the-molecule' strategy enables it to be present across the CDMO supply chain of innovators, right from the start of the molecule lifecycle.

PPL and Syngene are trading at a relatively higher discount to domestic peers

Exhibit 8: EV/EBITDA versus EBITDA CAGR for Indian CRDMOs, March fiscal year-ends, 2024-27E (%, X)



Notes:

(1) We have used Bloomberg estimates for Suven and Neuland; for the rest of the companies, we have used KIE estimates.

(2) Size of the bubble indicates relative size of FY2024 CRDMO revenues for these companies.

Source: Companies, Kotak Institutional Equities estimates

Most Indian CRDMOs continue to trade at a premium to their global counterparts

Exhibit 9: Valuations for Global CRDMO companies, March fiscal year-ends, 2024-27E

		EV	PER (X)				EV/Sales (X)				EV/EBITDA (X)			
	Country	(US$ mn)	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
Global CRDMO valuations														
Asymchem Laboratories Tian-H	China	2,779	NA	18.7	14.6	11.8	2.6	3.4	2.9	2.5	7.1	15.1	11.6	9.4
Hangzhou Tigermed Consulti-A	China	6,759	23.0	40.9	31.6	26.1	6.6	7.2	6.5	5.8	20.8	30.1	25.0	21.6
Joinn Laboratories China	China	1,643	40.4	94.4	44.3	31.7	5.1	5.8	5.5	4.5	24.0	74.7	34.6	20.6
Pharmaron Beijing	China	6,699	30.1	26.7	25.9	22.2	4.2	3.9	3.5	3.1	16.2	17.0	14.6	13.0
Wuxi Apptec	China	25,112	20.5	16.8	15.1	13.2	4.6	4.3	3.8	3.4	14.0	11.5	10.2	9.0
Wuxi Biologics Cayman	China	13,787	32.1	30.7	25.6	22.3	5.9	5.5	4.9	4.3	19.4	17.0	14.5	12.5
Blue Jet Healthcare	India	1,789	95.8	54.2	38.6	33.2	21.5	15.2	10.7	9.2	66.8	42.8	28.8	24.4
Concord Biotech	India	1,999	56.4	50.7	40.1	32.1	16.8	14.9	12.0	10.0	39.6	36.2	29.5	24.6
Divi's Laboratories	India	17,906	98.0	72.4	58.4	45.4	19.5	16.4	14.3	11.9	69.5	52.4	42.3	32.9
Gland Pharma	India	2,797	34.2	35.3	26.3	21.1	4.2	4.1	3.5	3.1	18.0	18.2	15.0	12.5
Jubilant Pharmova	India	1,902	183.7	21.3	26.5	19.1	2.4	2.2	2.1	1.8	18.0	14.1	12.3	10.0
Laurus Labs	India	4,246	208.0	107.3	67.4	52.3	7.2	6.7	5.8	5.2	46.7	35.0	26.5	22.4
Neuland Laboratories	India	1,776	50.9	58.0	34.5	25.0	10.0	9.8	7.4	5.8	32.9	37.0	23.1	17.2
Piramal Pharma	India	3,899	1,625.2	560.1	117.9	53.8	4.1	3.6	3.2	2.8	27.6	22.8	18.5	14.7
Sai Life Sciences	India	1,890	168.3	101.3	81.1	58.1	11.0	9.8	8.3	6.9	55.6	39.1	32.1	24.3
Suven Pharmaceuticals	India	3,425	99.6	86.2	63.4	46.8	28.3	13.7	8.4	6.9	72.2	40.5	25.1	19.6
Syngene International	India	3,341	55.8	62.2	57.6	43.4	8.2	7.6	6.6	5.6	25.5	26.9	22.6	18.1
Celltrion	South Korea	29,106	90.4	37.1	26.2	19.2	12.0	9.5	7.9	7.2	46.9	23.7	18.0	14.7
Samsung Biologics	South Korea	52,414	70.8	59.6	48.1	41.5	16.9	14.0	12.0	10.5	40.1	34.8	29.1	25.5
Lonza Group Ag	Switzerland	49,952	64.8	34.2	28.8	24.1	6.7	5.7	5.2	4.6	27.5	20.0	17.3	14.9
Charles River Laboratories	United States	11,240	841.5	18.0	16.4	14.7	2.8	2.9	2.8	2.6	17.1	11.8	11.3	10.2
Iqvia Holdings	United States	45,313	24.7	15.8	14.1	12.7	2.9	2.8	2.7	2.5	13.0	11.9	11.1	10.3
Labcorp Holdings	United States	25,481	26.5	14.7	13.3	11.9	2.0	1.8	1.7	1.7	13.1	10.7	10.1	9.4
Thermo Fisher Scientific	United States	224,790	31.6	22.5	20.3	18.1	5.2	5.1	4.8	4.5	20.8	19.7	18.2	16.7

Notes:

(1) We have used KIE estimates for companies under our coverage; for the rest, we have used Bloomberg estimates.

(2) 2024-27 March fiscal year-ends for Indian companies, 2023-26 December calendar year-ends for global companies.

Source: Bloomberg, Kotak Institutional Equities estimates

Key risks: Slow funding pickup, further delay/annulment of the US Biosecure Act and emerging GCCs

Slow funding pickup, further delay/annulment of the US Biosecure Act and emerging GCCs are the key risks for Indian CRDMOs

- **Further pickup in biotech funding is key monitorable**: The PE/VC funding environment for the global biotech industry was subdued in CY2022 and early CY2023, resulting in a slowdown in incoming projects for global CROs (Contract Research Organizations). However, over the past one year, there has been a pick-up in the funding environment and the annual value of deals in the biotech space is at a much higher-level compared with the pre-Covid average. Nevertheless, according to our discussions with various companies, the buoyancy in funding is still missing. This could result in slower R&D spends by big pharma and, particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding to further their R&D programs.

- **Delay/annulment of the US Biosecure Act:** Over the past few years, Chinese CRDMOs have been subject to increasing scrutiny by the US authorities due to purported linkages with the Chinese Communist Party (CCP). In lieu of these concerns, the House Select Committee in the US had introduced the Biosecure Act on January 25, 2024, in the wake of its attempt to de-risk sourcing from China. The Act is aimed at prohibiting contracting by US companies with Chinese biotech providers. While US innovators do acknowledge the over-reliance on Chinese CRDMOs, they lobbied against the bill, which resulted in amendments to the bill. The last amendment of the bill allowed the US pharma companies to reduce their Chinese CRDMO exposure by end-December 2031 and included certain waivers and exceptions. While the bill was successfully passed in the House of Representatives in September 2024, it failed to advance in the Senate as it was not included in the National Defense Authorization Act (NDAA) in December 2024. The path to law for the Biosecure Act is even more uncertain heading into CY2025E, as it will now have to go through the whole legislative process again. A further delay/annulment of the US Biosecure Act could slow the pace of supply chain de-risking by innovators.

- **Emergence of several GCCs in India poses a risk for native CRO service providers**: In recent years, India has emerged as a GCC hub, largely due to the ongoing technological advancements. Although most work in pharma GCCs is centered around computing and data management capabilities, GCCs pose few risks to the indigenous CRO industry such as increased competition, as GCCs often bring in-house capabilities that were previously outsourced to CROs. With increased competition from GCCs, CROs may face pressure to lower their prices to remain competitive. Moreover, GCCs can attract skilled professionals, potentially creating competition for talent with CROs. This can make it more challenging for CROs to recruit and retain qualified staff.

- **Imposition of reciprocal tariffs to have an indirect impact:** We note that given the B2B nature of the business, CRDMO companies will be directly shielded from tariffs and would have a slightly higher ability (compared with B2C formulation companies) to pass on the tariffs to their clients; however, there remains an indirect exposure to US tariffs for these companies as well. Moreover, passing on higher costs to clients will lead to higher quoted prices for services, eventually resulting in Indian CRDMOs becoming less competitive. We note that generic CRDMO companies would be more impacted due to these tariffs, compared with innovator-focused CRDMOs. Among our coverage companies, PPL, Syngene and Sai have facilities in the US, thereby reducing the extent of the potential impact of tariffs for these companies.

2

Supply chain rejig, gradual funding uptick & niche tech to drive Indian CRDMO

Well-established Indian companies are poised to capitalize on the tectonic shift in the global pharma CRDMO industry, driven by higher outsourcing and supply chain de-risking by innovator companies. While the current share of India in the innovator CRDMO market (valued at ~US$140 bn; including generics, the global CRDMO market size is US$200+ bn) is just ~2%, there lies an immense opportunity for Indian companies led by the ongoing supply chain realignment, backed by the availability of skilled talent, a lower cost structure and technological expertise, particularly in small molecules. In the base case, despite factoring in no benefit from the US Biosecure Act, assuming China stays relevant and baking in the benefit of supply-chain de-risking with a lag, we expect the Indian CRDMO market to almost quadruple to ~US$12 bn over the next decade.

Aided by macro tailwinds, the Indian CRDMO industry is poised to deliver a ~14% 10-year CAGR

Over the past few decades, leading Indian CRDMO companies have built inimitable capacities and capabilities, thereby becoming reliable partners for innovator companies. The Indian CRDMO sector now stands at a critical juncture. While the emphasis on value-driven outsourcing continues, innovator companies have been increasingly looking to diversify their supply chains since Covid. With an innovator CRDMO market size (excluding generics CDMO) of ~US$28 bn, China is the largest player outside the US and EU in the global CRDMO landscape. On the other hand, India offers a unique blend of small molecule expertise and quality at a lower cost and is in a sweet spot to benefit as innovator companies look to lower their reliance on China. Some other growth enablers for Indian CRDMO companies include a healthy delivery track record over the past several years especially for leading players, returns from significant investments in advanced technologies built over the past few years leading to an infrastructure advantage, improvement in IP protection laws and availability of English-speaking science graduates and PhDs.

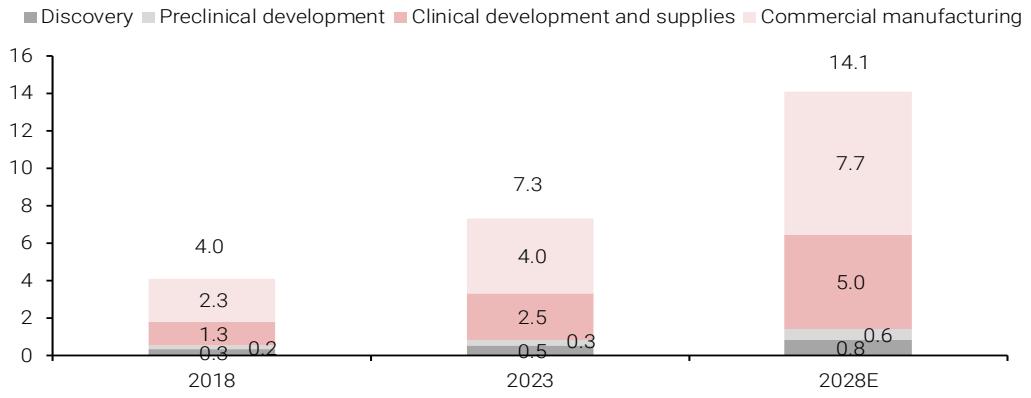
Indian innovator CRDMO market has broadly doubled in the past five years to stand at ~US$3 bn (only ~2% market share in global innovator CRDMO market), as of CY2024

With just ~2% global share, the Indian innovator-focused CRDMO market stood at ~US$3 bn in CY2024

Including CDMOs catering to generics companies, the Indian CRDMO market has grown from ~US$4 bn in CY2018 to ~US$7.3 bn in CY2023, reporting a ~13% CAGR over CY2018-23. Excluding the contribution from generics CDMO, the Indian innovator CRDMO market has broadly doubled in the past five years to stand at ~US$3 bn, as of CY2024. The market has been largely dominated by small molecules, with their proportion constituting 90%+ of the total industry in CY2023. With the increasing prominence of Indian CRDMOs in global markets and elevated outsourcing of small molecules, India's strength within small molecules is expected to continue. Moreover, Indian CRDMOs have demonstrated enhanced capabilities, including the availability of skilled talent, an economical cost base, quality infrastructure and systems adhering to good laboratory practices (GLP) and current good manufacturing practices (cGMP) standards, positioning them to benefit from increased R&D and manufacturing outsourcing by pharma innovators.

Commercial manufacturing constitutes ~55% of Indian CRDMO market (including generics)

Exhibit 10: Indian CRDMO market size by function, December calendar-year-ends, 2018-28E (US$ bn)



Source: Frost & Sullivan, Kotak Institutional Equities

The Chinese innovator CRDMO industry, which stood at ~US$28 bn in CY2024, operates at a significantly larger scale, compared with India (~US$3 bn in CY2024). China is strong across CRO (30%+ of the products licensed globally are researched out of China) as well as small molecules and biologics CDMO. The Chinese CRDMO industry has rapidly emerged into a position of global dominance, led by government impetus, a large pool of scientific talent and a growing domestic market. Before the 2010s, China had limited R&D capabilities and was heavily leaning on generic APIs, intermediates and KSMs. However, Chinese companies began investing in biotechnology and biosimilars over CY2010-15, which was also aided by policy support through the creation of national biotech parks and innovation hubs to boost research. Later, NMPA (Chinese regulator) accelerated drug approval processes, which allowed clinical trials in China to run concurrently with global trials. All these efforts encompassing regulatory support, focus on R&D and innovation, and increased investments in novel treatments led to China becoming a global leader in clinical trial activity, delivering best-in-class drugs with treatments for oncology, autoimmune and rare diseases. Focused efforts by Chinese companies on innovative drug development, including areas such as CGT, oligonucleotides and a variety of novel capabilities have enabled them to challenge well-established western CRDMOs.

In our base case, we expect the Indian innovator CRDMO market growth to accelerate and bake in a robust ~14% CAGR over CY2024-34E, as we expect India to capture ~30% of the demand shift due to China de-risking

In the base case, we expect India to capture ~30% of the demand shift due to China de-risking

The ongoing supply chain diversification is likely to hurt growth prospects for the Chinese industry over the medium to long term. We highlight that innovator companies had already started work on lowering their dependence on China since Covid. Hence, in our view, any delay or even annulment of the US Biosecure Act will not significantly alter the industry dynamics, as the process of de-risking has already been set in motion. As big pharma and biotech innovators look to increasingly onboard non-Chinese suppliers, we expect a gradual shift in demand away from China. We highlight that while switching suppliers for existing projects is cumbersome, big pharma companies have been working on developing alternate vendors for late stage/commercial projects over the past few years. Given that this process of onboarding new vendors is time-consuming, we factor in slightly lower growth for the Chinese innovator CRDMO market only from CY2027E.

While India will be one of the key beneficiaries, we do expect a shift to other countries, including the US, the UK/EU, Japan and Korea as well. Several CRDMOs in these markets have been commenting about witnessing a higher inflow of RFQs/RFPs and a surge in client audits over the past couple of years. We expect global CRDMO giants such as Lonza, Samsung Biologics and Fujifilm to be the early beneficiaries of the demand outflow from China, owing to their existing large-scale capacities and varied capabilities. With Korea proposing a law to simplify exports for CRDMOs, other countries are also positioning themselves to address the opportunity arising from supply chain diversification. Although India has been a relatively late entrant in the CRDMO paradigm, we expect India to capture a significant chunk of the incremental demand shift due to China de-risking (~30% in our base case), owing to its inherent cost advantages, experience in small molecule development and manufacturing and availability of skilled manpower. Accordingly, we expect the Indian innovator CRDMO market growth to accelerate and bake in a robust ~14% CAGR over CY2024-34E. With multiple structural tailwinds in place, from ~2% currently, we expect India's share in the global innovator CRDMO market to increase to ~3.5% over the next decade.

In our base case, we expect the Indian innovator CRDMO market to report a 10-year CAGR of ~14% over CY2024-34E

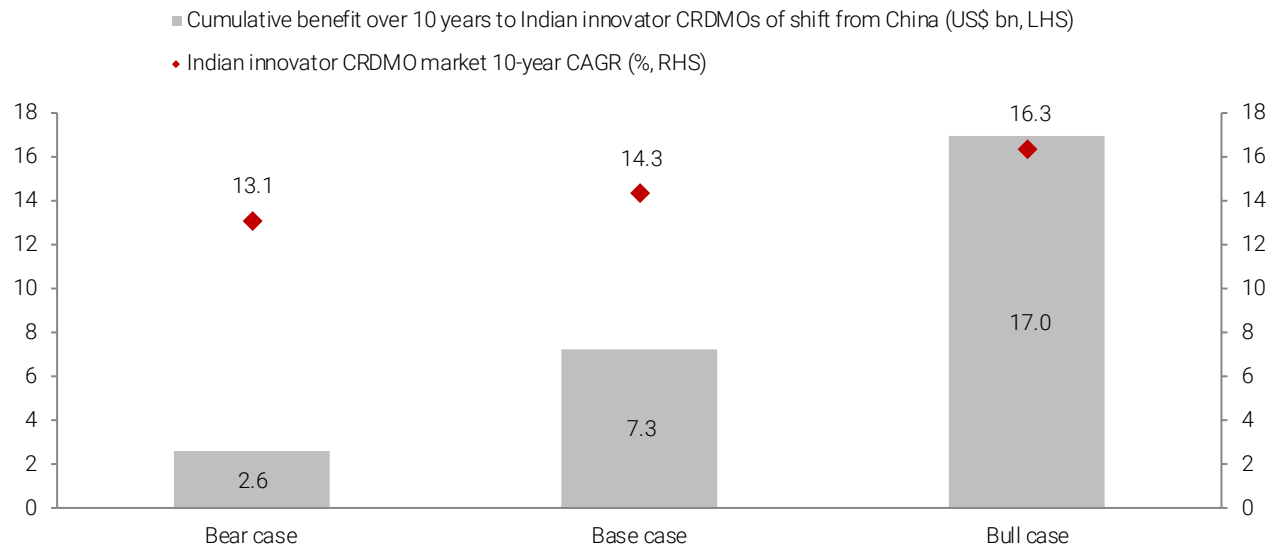
Exhibit 11: Indian NCE CRDMO market size, December calendar year-ends, 2024-34E (US$ bn, %)

	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	10-year CAGR (%)
Assuming no shift from China												
Global innovator CRDMO market (US$ bn)												
CRO	70	76	82	89	96	104	112	120	129	138	148	*7.8*
CDMO	70	77	84	92	101	111	122	134	147	162	177	*9.7*
CRDMO (US$ bn)	**140**	**153**	**166**	**181**	**197**	**215**	**234**	**254**	**276**	**300**	**325**	***8.8***
Chinese innovator CRDMO market (US$ bn)												
CRO	9	10	11	12	13	15	16	17	19	21	23	*9.7*
CDMO	19	21	24	27	30	33	36	40	44	49	54	*11.0*
CRDMO (US$ bn)	**28**	**31**	**35**	**39**	**43**	**47**	**52**	**58**	**63**	**70**	**77**	***10.6***
Indian innovator CRDMO market without any benefit from China + 1 (US$ bn)												
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.1**	**1.3**	**1.4**	**1.6**	**1.8**	**2.0**	**2.2**	**2.5**	***11.8***
Discovery	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.3	1.4	1.6	*12.0*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.9	*11.5*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.2**	**3.6**	**4.1**	**4.6**	**5.1**	**5.8**	**6.4**	**7.1**	***12.5***
Development	1.2	1.4	1.5	1.7	1.9	2.2	2.4	2.7	3.0	3.3	3.7	*11.9*
Manufacturing	1.0	1.1	1.3	1.5	1.7	1.9	2.2	2.4	2.8	3.1	3.4	*13.1*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.3**	**4.9**	**5.5**	**6.2**	**6.9**	**7.8**	**8.6**	**9.6**	***12.3***
Incorporating the benefit of China + 1 (bear case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***1.0***	***1.6***	***2.3***	***2.9***	***3.5***	***4.2***	***4.8***	***5.4***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***15.0***	***15.3***	***15.5***	***15.8***	***16.0***	***16.3***	***16.5***	***16.8***	
CRO shift to India (%)	–	–	–	*10.0*	*12.0*	*14.0*	*15.0*	*16.0*	*17.0*	*18.0*	*19.0*	
CDMO shift to India (%)	–	–	–	*17.3*	*16.2*	*15.9*	*15.9*	*16.0*	*16.1*	*16.3*	*16.5*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.3**	**1.5**	**1.6**	**1.8**	**2.1**	**2.3**	**2.5**	***12.3***
Discovery	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.6	*12.3*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	*12.2*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.2**	**3.7**	**4.2**	**4.8**	**5.4**	**6.1**	**6.9**	**7.7**	***13.4***
Development	1.2	1.4	1.5	1.7	2.0	2.2	2.5	2.8	3.1	3.5	3.9	*12.5*
Manufacturing	1.0	1.1	1.3	1.5	1.7	2.0	2.3	2.6	3.0	3.4	3.8	*14.4*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.4**	**5.0**	**5.7**	**6.4**	**7.3**	**8.2**	**9.2**	**10.3**	***13.1***
Incorporating the benefit of China + 1 (base case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***2.0***	***3.0***	***4.0***	***5.0***	***5.8***	***6.5***	***7.3***	***8.0***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***26.5***	***27.0***	***27.5***	***28.0***	***28.5***	***29.0***	***29.5***	***30.0***	
CRO shift to India (%)	–	–	–	*20.0*	*22.0*	*24.0*	*26.0*	*28.0*	*30.0*	*32.0*	*34.0*	
CDMO shift to India (%)	–	–	–	*29.4*	*28.6*	*28.5*	*28.5*	*28.6*	*28.8*	*28.9*	*29.1*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.3**	**1.5**	**1.7**	**2.0**	**2.2**	**2.5**	**2.8**	***13.4***
Discovery	0.5	0.6	0.6	0.8	0.9	1.0	1.1	1.3	1.4	1.6	1.8	*13.5*
Pre-clinical	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.0	*13.3*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.3**	**3.9**	**4.5**	**5.2**	**5.9**	**6.7**	**7.6**	**8.6**	***14.6***
Development	1.2	1.3	1.5	1.8	2.1	2.4	2.7	3.1	3.5	3.9	4.4	*13.8*
Manufacturing	1.0	1.1	1.3	1.6	1.8	2.1	2.5	2.8	3.3	3.7	4.2	*15.5*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**4.5**	**5.2**	**6.0**	**6.9**	**7.9**	**9.0**	**10.1**	**11.4**	***14.3***
Incorporating the benefit of China + 1 (bull case)												
Overall shift of CRDMO from China (%)	**–**	**–**	**–**	***5.0***	***6.0***	***7.0***	***8.0***	***9.0***	***10.0***	***11.0***	***11.9***	
Within this, proportion of CRDMO shift from China to India (%)	**–**	**–**	**–**	***37.5***	***38.5***	***39.5***	***40.5***	***41.5***	***42.5***	***43.5***	***44.5***	
CRO shift to India (%)	–	–	–	*30.0*	*32.0*	*34.0*	*36.0*	*38.0*	*40.0*	*42.0*	*44.0*	
CDMO shift to India (%)	–	–	–	*39.2*	*40.0*	*40.8*	*41.5*	*42.3*	*43.1*	*43.8*	*44.6*	
CRO (US$ bn)	**0.8**	**0.9**	**1.0**	**1.2**	**1.4**	**1.6**	**1.9**	**2.2**	**2.5**	**2.8**	**3.2**	***14.9***
Discovery	0.5	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.6	1.7	1.9	*14.5*
Pre-clinical	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.8	0.9	1.1	1.3	*15.4*
CDMO (US$ bn)	**2.2**	**2.5**	**2.8**	**3.8**	**4.5**	**5.2**	**6.0**	**6.9**	**8.0**	**9.1**	**10.4**	***16.8***
Development	1.2	1.4	1.5	1.9	2.3	2.7	3.2	3.6	4.1	4.6	5.2	*15.7*
Manufacturing	1.0	1.1	1.3	1.9	2.2	2.5	2.8	3.3	3.9	4.5	5.3	*18.0*
CRDMO (US$ bn)	**3.0**	**3.4**	**3.8**	**5.1**	**5.9**	**6.8**	**7.9**	**9.1**	**10.5**	**12.0**	**13.6**	***16.3***

Source: Kotak Institutional Equities estimates

In our bull case, we estimate a 10-year cumulative benefit of ~US$16.2 bn due to a shift from China for Indian innovator CRDMOs

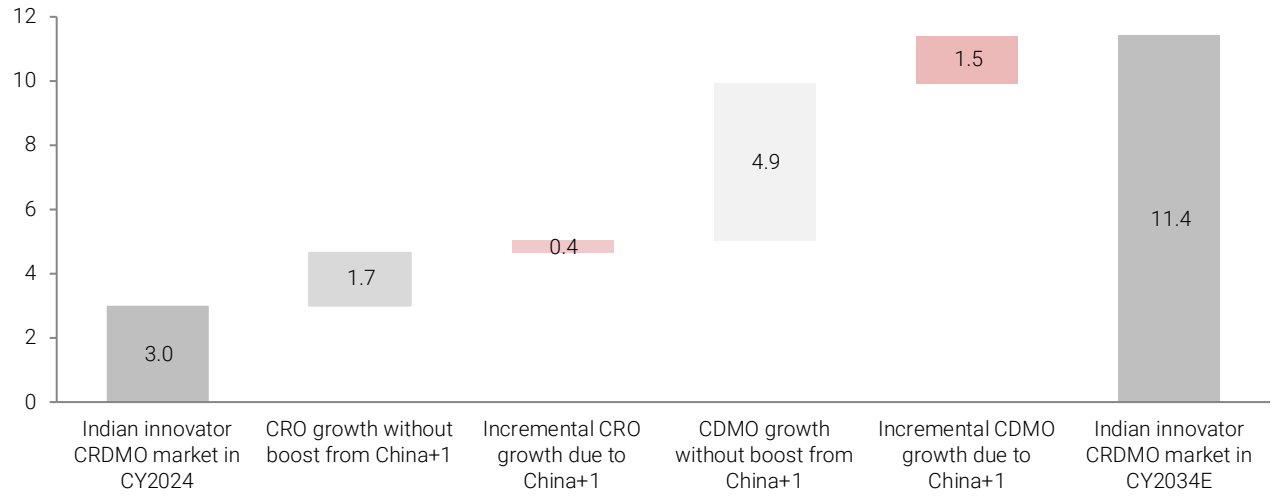
Exhibit 12: Business shift from China to Indian CRDMOs in various cases, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

In our base case, we expect India to get incremental annual innovator CRO/CDMO benefits of US$0.4/1.5 bn due to China+1

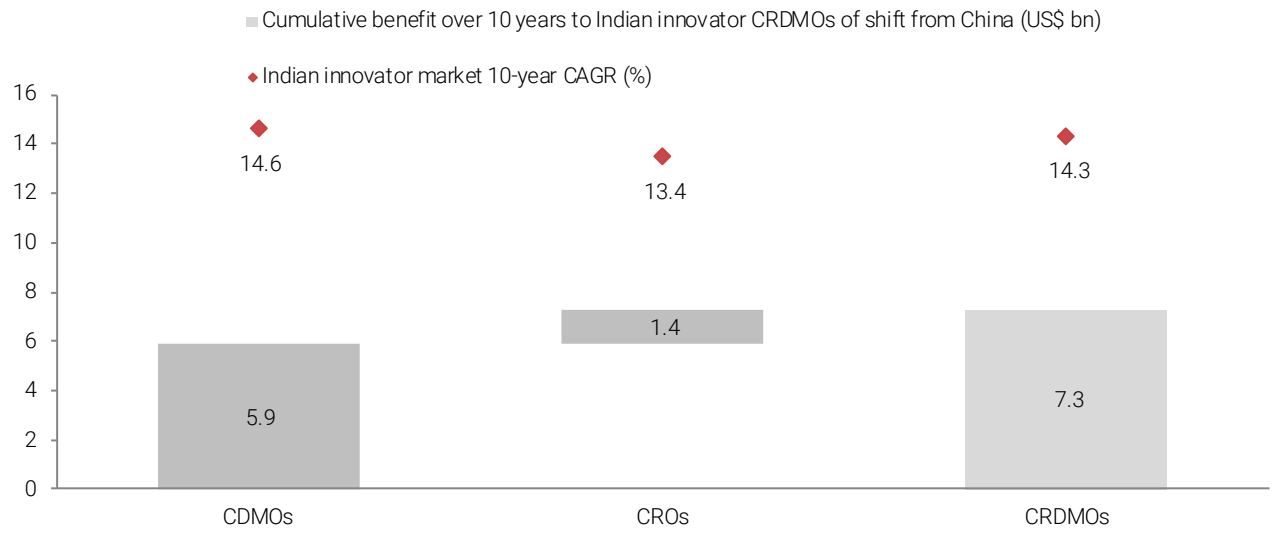
Exhibit 13: Indian innovator CRO-CDMO market growth due to China+1 boost, December calendar year-ends, 2024-34E (US$ bn)



Source: Frost & Sullivan, Kotak Institutional Equities estimates

In our base case, we estimate a 10-year cumulative benefit of ~US$7.3 bn due to the shift from China for Indian innovator CRDMOs

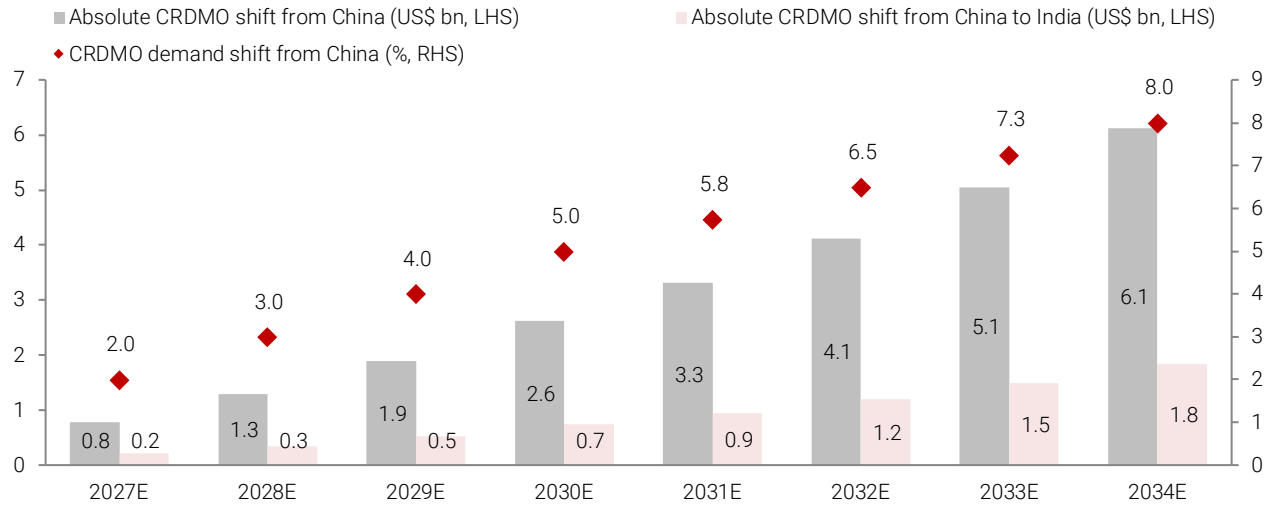
Exhibit 14: Business shift from China to Indian CRDMOs in various cases, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

In our base case, we estimate gradual benefit accruing to India due to supply chain diversification away from China

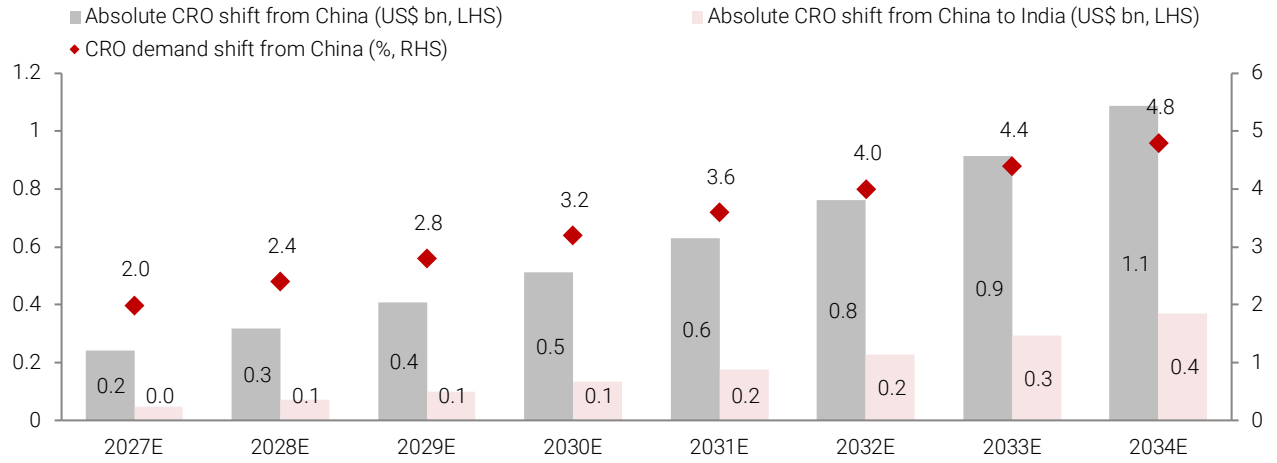
Exhibit 15: Business shift from China to global and Indian CRDMOs, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

In our base case, we estimate Indian CROs to garner cumulative benefit of ~US$1.4 bn over CY2027-34E

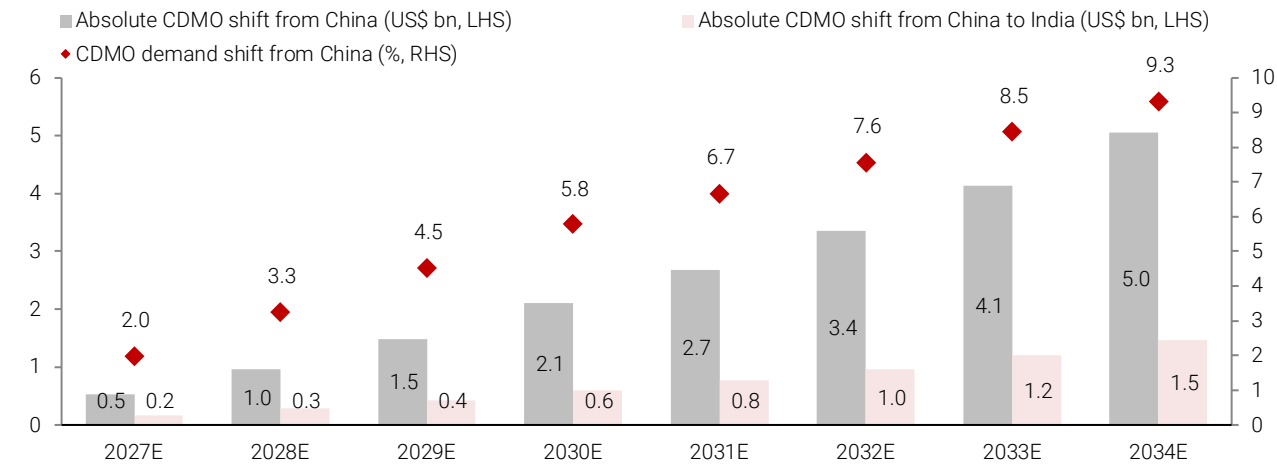
Exhibit 16: Business shift from China to global and Indian CROs, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

We expect a slightly greater boost for India in manufacturing and development due to de-risking versus discovery and pre-clinical

Exhibit 17: Business shift from China to global and Indian CDMOs, December calendar year-ends, 2027-2034E (US$ bn, %)



Source: Kotak Institutional Equities estimates

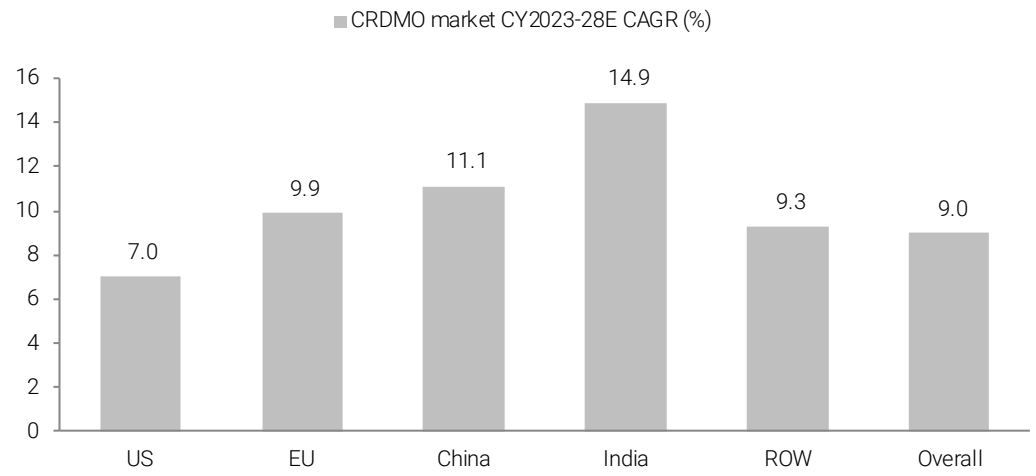
While the benefit in late stage/commercial projects is likely to kick in relatively faster, we also expect discovery and pre-clinical development projects to receive a fillip over the medium to long term

Among key markets, India is well placed to benefit from higher outsourcing and de-risking

Aided by various factors listed above, Indian CRDMOs are well positioned to benefit from higher R&D and manufacturing outsourcing by pharma innovators and be part of a de-risked supply chain sought by US and EU companies. While the benefit in late stage/commercial projects is likely to kick in relatively faster than other functions, we also expect discovery and pre-clinical development projects to receive a fillip over the medium to long term. In addition, a formidable integrated offering by Indian companies with expanded capabilities and capacities will also serve as an advantage. An improving IP regime in India will continue to be an enabling factor for the CRDMO industry. Accordingly, on a low base, the Indian CRDMO market is expected to report a relatively higher growth rate over the next five years.

According to F&S, India is set to deliver faster CRDMO growth than other markets over the medium term

Exhibit 18: Global CRDMO industry CAGR, December calendar year-ends, 2023-28E (%)



Source: Frost & Sullivan, Kotak Institutional Equities

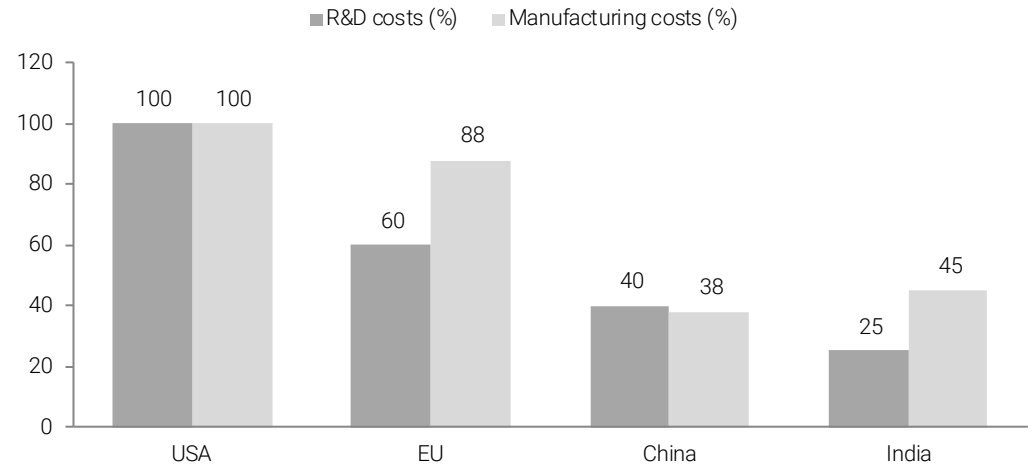
Cost-efficiency across discovery, development and manufacturing holds Indian CRDMOs in good stead

Amid escalating pricing pressures globally, the need for cost efficiency has intensified. For instance, over the long term, the Inflation Reduction Act in the US could also accelerate outsourcing, driven by higher pricing pressures for big pharma companies. Indian CRDMOs offer substantial cost advantages over their global counterparts across R&D as well as manufacturing.

Indian CRDMOs offer substantial cost advantages over their global counterparts across R&D as well as manufacturing

R&D and manufacturing costs in India are substantially lower than in the US and Europe

Exhibit 19: Cost comparison across R&D and manufacturing, December calendar year-end, 2023 (%)



Source: Frost & Sullivan, Kotak Institutional Equities

Availability of infrastructure and skilled manpower are added advantages

Low cost of operations, availability of infrastructure and skilled manpower, and favorable IP protection laws and conducive policies are increasingly attracting global innovators

India has a legacy in pharma manufacturing across regulated and semi-regulated markets with the presence of 3,000+ drug companies and 10,500+ manufacturing units. India contributes to ~20% of the global pharma supply chain. It also meets ~45% of the generic volumes in the US and provides ~25% of all drugs in the UK. Indian companies have extensive experience working with global regulatory agencies, and India has the highest number of US FDA-approved plants outside the US. This allows Indian firms to use transferable knowledge of working at global standards with different regulatory bodies and offer superior services. India also has a strong base of science, technology, engineering or mathematics (STEM) graduates, more than the US and UK, crucial for science-intensive drug discovery work. India creates an average of ~24k post-doctoral graduates annually, ranking among the top-five nations globally. Nevertheless, we highlight that most of the STEM talent needs rigorous training before they are deployed in labs. While India has an abundance of trained process scientists, discovery talent is not as common.

Favorable IP protection laws and conducive policies to increasingly attract global innovators

With stronger IP protection legislation, India has become a more trusted partner for outsourcing research and development for big pharma companies. India's 1995 General Agreement on Tariffs and Trade (GATT) accession and its CY2005 compliance with Trade-Related Aspects of Intellectual Property Rights (TRIPS) regulations, which changed the focus from process to product patents, are notable turning points. As a result, worries about patent infringement have subsided, increasing India's appeal for pharma R&D and manufacturing. India topped the list of major and middle-income nations with the most IP filings in CY2022, according to the World Intellectual Property Organization. Moreover, the government has been coming up with new business and fiscal incentives to promote the growth of the Indian pharma industry. Initiatives such as the Biotechnology Industry Research Assistance Council (BIRAC), Bio-NEST and Biotech Science Clusters encourage pharma R&D and support biotech startups. Furthermore, governmental efforts extend to incentivizing pharma manufacturing. Schemes such as the Production-Linked Incentive (PLI) scheme offer incentives ranging from Rs200 mn to Rs4 bn for the development of bulk drug parks, aiming to spur local formulations and API manufacturing.

Majority of the global CRDMO companies are positive about the long-term prospects of the industry

Exhibit 20: Global CRDMO companies' commentary on industry tailwinds, March fiscal year-end

	Funding environment	China+1/Supply chain diversification	Client audits/RFQs
Indian CRDMOs			
Divis	NA	Divi's has seen some new opportunities coming its way, due to supply chain de-risking. These customers had their pipeline in some other countries, which they are shifting to Divi's.	The company is witnessing increasing demand and engagement with existing and new customers. The number of RFQs and onsite visits from new and existing customers is steadily increasing, with a focus on long term engagement.
Laurus Labs	NA	Due to the diversification of the supply chain, Indian companies would benefit over the long run. However, there would not be any knee-jerk reaction. Instead, collaboration would increase over a period of time.	After the delay in the Biosecure Act, Laurus has not witnessed any decline in RFPs or client audits. It continues to witness an encouraging pace of RFPs.
Neuland Labs	Funding environment also has improved in the US and that has also resulted in more traction.	In the China vs India narrative, there are a little bit more tailwinds towards India, which is also leading for more biotech companies to come and have conversations with the company.	In terms of the macro picture, the company is yet to see significant impact of the Biosecure Act by way of active RFPs or orders, but the company believes that the environment remains highly favourable for it in the medium to long term.
Piramal Pharma	While the overall biotech funding has improved over the previous year, it is just enough to replenish the biotech cash fund, but not enough to accelerate R&D spends.	The company continues to experience an increase in customer inquiries and RFPs driven by the customer needs to diversify the supply chain. However, the customer decision-making remains prolonged. The company expects these tailwinds of improved biotech funding and supply chain diversification to gradually play out over the medium term.	The company continues to see a wider request for proposal processes. There is slowdown in the customer decision making with respect to RFPs.
Sai Life Sciences	Biotech funding will be the key driver. The funding situation has not returned to Covid levels.	Earlier, a lot of molecules came to India from China in later stages of development. Now, Sai is seeing balanced mix of early stage and late stage molecules coming its way. Clients are actively looking for sources outside China. Pharma has made a long-term decision in terms of diversification from China. Sai has added 15+ products as part of supply chain diversification.	There is a growth in number of customer audits.
Suven Pharma (inc. NJ Bio)	NA	The global CDMO landscape continues to be on a transformation path with supply chain derisking efforts by innovators and growing demand for specialized capabilities, driving significant opportunities, especially for the Indian CDMO market.	Customer sentiment has been positive as evidenced by an increased number of RFQs and in-person audits to company's select core sites. RFQs now are coming in from a broader set of customers versus historical trends.
Syngene	The funding environment has been stabilizing. However, the market has not recovered as quickly as expected. The timing of recovery has been delayed by 8-12 weeks.	The changes towards realigning supply chains have been happening since Covid. It would be a more structural change, and take time to come into effect.	The company has witnessed increased RFPs and number of on-site customer visits.
Global CRDMOs			
Charles River	Small and mid-sized biotech clients continued to benefit from a more favorable funding environment through the end of CY2024 compared to the previous two years, and the company expects biotech demand trends will be stable to slightly improved in CY2025E versus past year.	The US Biosecure Act has potential over time, but the benefit should not be overstated.	NA
Fujifilm Diosynth	The lack of funding for biotech after COVID-19 has led to a decline in the utilization rate of small and medium-sized facilities.	NA	NA
Lonza	Lonza sees a positive development from the increased biotech funding in CY2024, which is probably the level where it had been prior to CY2020/21.	NA	Improvements in the biotech funding environment have resulted in an uptick in early stage RFPs.
Siegfried	Many of the smaller innovator companies are struggling with the funding. Now it looks like the situation is getting better, but it is quite difficult to predict when it will improve meaningfully.	Currently the company does not see an impact on its operations in Nantong, China which also produces APIs for exports to the US.	NA
Wuxi Biologics	Biotech funding constraints in prior years contributed to a more measured pace for customers' IND & early-stage project pipelines, influencing CY2024 sales.	The potential for the Biosecure Act to pass is having only a minimal chilling effect on clients.	The company continues to sign foreign clients and is even investing in the US by building a biologics manufacturing facility in Worcester, Massachusetts that will open in CY2027.

Source: Companies, Kotak Institutional Equities

Despite all the tailwinds, a few things need to be ironed out

The Indian CRDMO industry's capabilities and capacities have primarily been developed through bottom-up efforts and opportunistic plays by promoters and management teams of leading companies. Within these, a few Indian CRO and CDMO players have expanded their product offerings through both organic and inorganic routes. Nevertheless, we note that taking share away from China is easier said than done owing to China's scale, its talent pool (there are more than 5X FTEs available in China than in India), large integrated common infrastructure facilities such as bio-hubs and government sops such as tax breaks. Some challenges facing the Indian CRDMO industry include a higher cost of capital, an elongated regulatory approval process and continued dependence on KSMs and intermediates on China and Europe. In addition, there is a need for investing in talent, particularly in biologics and new technologies. While these challenges are unlikely to be addressed in a hurry, we believe there is still tremendous room for a lengthy phase of accelerated growth for Indian CRDMO companies.

While the Indian CRDMO sector has been growing in prominence in small molecules…

Indian CRDMOs have lagged behind on the biologics front due to lack of quality talent in biologics, higher capex requirements for setting up a biologics plant and the prevalence of process patents over product patents in line with Indian law

Over the past 3-4 decades, there has been momentous growth in the global CRDMO space. The industry took off in the late 1990s, when large innovator companies started divesting excess capacities and a lot of biopharma companies started emerging. The initial wave was majorly led by European and US-based CRDMO players. India came into the picture much later and, as such, has lagged behind global peers in terms of capabilities, capacities and relevance. A number of factors, including but not limited to lower management focus, lack of capital, inadequate capacities, lack of IP protection rights and government incentives and limited collaboration between stakeholders, contributed to this. Although India has made strides in recent years, led by investments in capacities and honing of capabilities, especially in small molecules, there still remains a huge scope for growth for Indian players, especially given the highly fragmented nature of the industry.

…India has lagged behind global peers in biologics

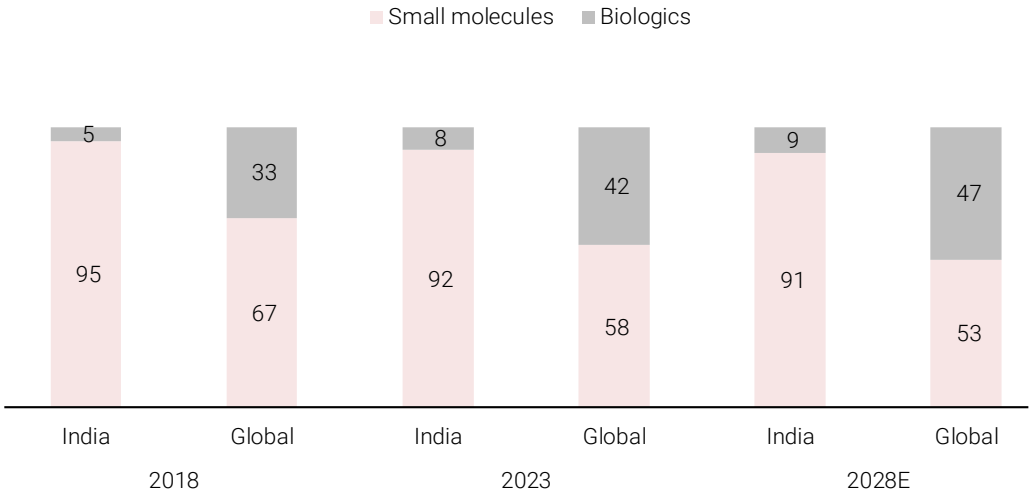
When it comes to molecular expertise, Indian CRDMO firms have managed to get a foothold in the small molecule CRDMO segment, backed by on-time deliveries and strong compliance track records, especially given India has the second highest number of US FDA-approved facilities in the world, behind the US. However, some reasons why Indian companies have lagged behind on the biologics front include:

- **Lack of quality talent in biologics:** Most Indian expats who have studied biology continue to be settled outside India due to the presence of biologics manufacturing companies and employment opportunities in these markets. Meanwhile, in India, a vicious cycle ensued, as there were no significant opportunities to pursue a career in biologics due to underpenetration in the same.
- **High entry barriers:** The capex for setting up a biologics plant is much higher than setting up a small molecule API/formulations plant. Biologics investments tend to have a long gestation period and the outcome of a particular process is subject to extreme volatility based on minor changes in environmental conditions or input materials. Sustenance of such long gestation periods, without material revenue generation, requires a sturdy balance sheet and FCF profile, which has not been easy to manage for most Indian companies. In contrast, entry into chemical synthesis is less capital-intensive and the outcomes of a reaction are much more certain.
- **Prevalence of process patents over product patents according to Indian law:** The Indian law only allowed for process patents and not product patents, which thereby led to Indian companies mainly focusing their efforts on innovating new processes or tweaking existing processes of pharma development. In chemical synthesis, small changes in processes can lead to variations in the end product, unlike biologic compounds, wherein the end product might remain the same, but factors such as yield may vary. Hence, Indian players became proficient in synthetic and medicinal chemistry and chose to move up the value chain and expand their offerings to highly potent APIs (HPAPIs), complex generics and specialty molecules.

Biologics contribute only ~8% to India's CRDMO industry, compared with ~42% share in global CRDMO

Biologics contribute only ~8% to India's CRDMO industry, compared with ~42% share in global CRDMO

Exhibit 21: Global and Indian CRDMO market split by modality, December calendar year-ends, 2018-28E (%)



Source: Frost & Sullivan, Kotak Institutional Equities

3

Benchmarking Indian CRDMOs with their global peers

We have benchmarked various Indian CRDMO companies with their global peers across multiple modalities, capabilities and financial metrics. We highlight several of these capabilities have been added over the past decade. More importantly, Indian companies continue to invest more proactively in newer technologies, thereby narrowing the capability gap versus their global counterparts.

Compared with global peers, Indian CRDMO companies have limited presence in innovation hubs in the US and UK

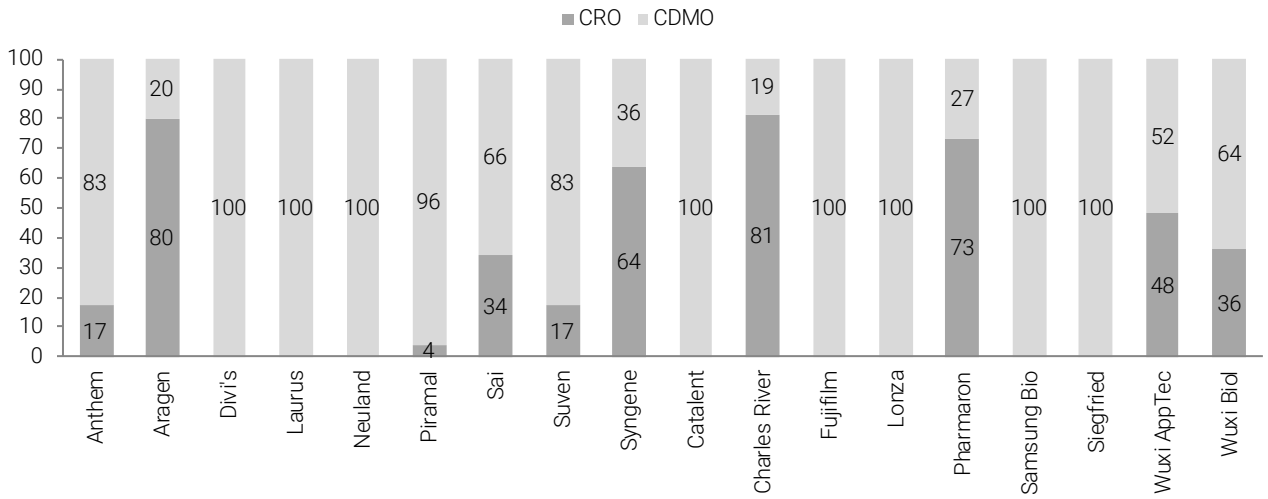
Exhibit 22: Competitive mapping of global CRDMO players

		Purely innovator focused	R&D presence in innovation hubs (US, UK)	No. of discovery programs (#)	No. of customers in top pharma companies by revenue (#)	Dedicated R&D centers with customers
Indian CRDMOs	Anthem Biosciences	✓	×	Not applicable	3+ / Top 10	×
	Aragen Life Sciences	✓	✓	Undisclosed	7/Top 10	×
	Divis	×	×	Not applicable	12+/Top 25	×
	Laurus Labs	×	×	Not applicable	6/Top 10	×
	Neuland Labs	×	×	Not applicable	Undisclosed	×
	Piramal Pharma	×	✓	Undisclosed	15+/Top 25	×
	Sai Life Sciences	✓	✓	200+	18/Top 25	✓
	Suven Pharma (inc. NJ Bio)	✓	✓	Undisclosed	14/Top 20	×
	Syngene	✓	×	Undisclosed	15+/Top 25	✓
Global CRDMOs	Catalent	✓	✓	Not applicable	Undisclosed	×
	Charles River	✓	✓	400+	16/Top 25	×
	Fujifilm Diosynth	✓	✓	Not applicable	Undisclosed	×
	Lonza	✓	✓	Not applicable	Undisclosed	✓
	Pharmaron	✓	✓	750+	20/Top 20	×
	Samsung Biologics	✓	×	Not applicable	17/Top 20	×
	Siegfried	×	✓	Not applicable	Undisclosed	×
	Wuxi AppTec	✓	✓	600+	20/Top 20	×
	Wuxi Biologics	✓	✓	Undisclosed	20/Top 20	×

Source: Companies, Kotak Institutional Equities

Few Indian CRDMOs have an integrated CRO/CDMO offering

Exhibit 23: CRO:CDMO sales mix for global CRDMO players, March fiscal year-ends, 2024 (%)



Notes:

(a) March fiscal year-ends for Indian companies, June fiscal year-ends for Catalent and December calendar year-ends for all other global companies

Source: Companies, Kotak Institutional Equities

Indian CRDMOs have been steadily adding capabilities to build global competitiveness

Exhibit 24: Comparison of capabilities across global CRDMO players

	Indian CRDMOs									Global CDRMOs								
	Anthem Biosciences	Aragen Life Sciences	Divis	Laurus Labs	Neuland Labs	Piramal Pharma	Sai Life Sciences	Suven Pharma (inc. NJ Bio)	Syngene	Catalent	Charles River	Fujifilm Diosynth	Lonza	Pharmaron	Samsung Biologics	Siegfried	Wuxi AppTec	Wuxi Biologics
Scope of operations																		
Discovery																		
Development and manufacturing																		
Sales mix (%)																		
CRDMO as % of overall sales	100	100	45	23	49	58	100	57	100	100	100	100	95	100	66	100	100	100
Facilities																		
India	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	×	×	×	×	×	×	×
US	×	✓	×	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓	✓
UK	×	×	×	×	×	✓	✓	×	×	✓	✓	✓	✓	✓	×	×	×	×
Offerings																		
Intermediates	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓	✓	×	✓	✓	✓
APIs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Formulations	×	✓	×	✓	×	✓	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Differentiated capabilities																		
HP-APIs																		
ADCs																		
Peptides																		
Sterile injectables																		
Biologics																		
Oligonucleotides																		
Cell & gene therapy																		
GLP-1																		
ADC capabilities																		
mAb																		
Payload																		
Linker																		
Conjugation																		
Fill finish																		
Technology																		
Lyophilization																		
Column chromatography																		
Flow-based chemistry																		
High vacuum distillation																		
Fermentation																		
RNA platforms																		
Bio-catalysis																		
Clients																		
Number of clients (#)	500+	400+	NA	300+	500+	500+	280+	100+	450+	1,000+	315+	NA	770+	2,800+	100+	500+	6,000+	570+
Client concentration																		
Top 5 clients revenue share (%)	65.1	NA	37.0	NA	91.0	~30	31.2	NA	40+	NA	NA	NA	NA	NA	NA	NA	30.4	NA
Top 10 clients revenue share (%)	72.4	32.0	NA	45.0	93.0	45.0	46.3	NA	NA	NA	NA	NA	~52	<15	NA	~40	> 40	40
Product concentration																		
Top 5 products	NA	NA	41.0	NA	91.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Top 10 products	NA	NA	NA	NA	98.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	~30	NA	NA
Capacity																		
Existing capacity	271 kL in CM, 142 kL in fermentation	257+ kL, 5 L in fermentation	~14,600 m3	~7,800 m3 + 240 kL in fermentation + 10 bn units	941 kL	5bn+ tablets + 1.4bn capsules + 750+ kL + 104 batches (sterile fill-finish) + 5 ADC dedicated suites	526 kL	2,650 kL	520 L in fermentation + 30kL for large molecules	300L in fermentation + 70 bn+ units		140 kL	23 kL in fermentation	18k vials/ hour	604 kL		41 kL in solid state synthesizern + 12 bn units in sterile injectables	490 kL
Planned capacity expansion	25 kL in CM, 40 kL in fermentation			4,000 kL + 1 bn units		136 batches (sterile fill-finish) in Lexington	150-200 kL		20kL for large molecules (acquired from Stelis)			600 kL			180 kL		60 kL in solid state synthesizer	120 kL

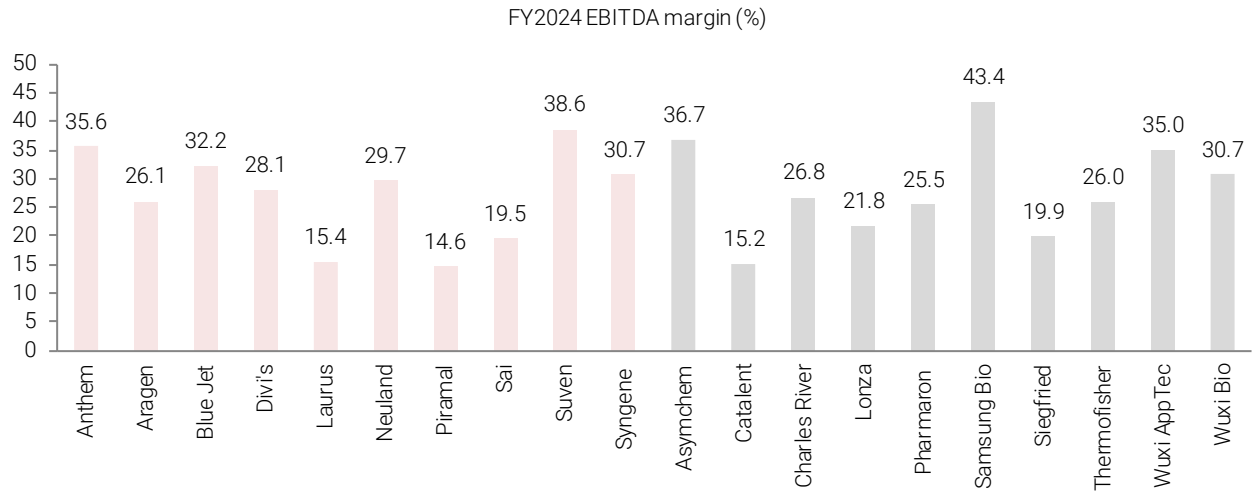
✓ Present
× No presence

Strong presence
Moderate presence
Minimal presence

Source: Companies, Kotak Institutional Equities estimates

Suven Pharma and Anthem Biosciences have best-in-class EBITDA margins among Indian CRDMOs

Exhibit 25: EBITDA margins for CRDMO players, March fiscal year-end, 2024 (%)



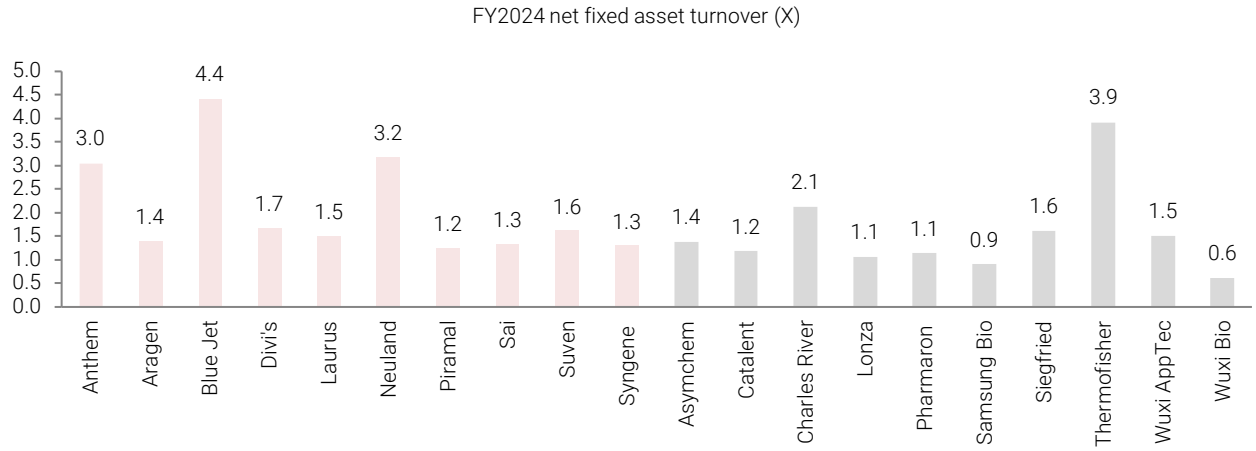
Notes:

(a) March fiscal year-ends for Indian companies, June fiscal year-ends for Catalent and December calendar year-ends for all other global companies

Source: Companies, Kotak Institutional Equities

Blue Jet has the highest net fixed asset turnover among Indian CRDMO companies

Exhibit 26: Net fixed asset turnover for CRDMO players, March fiscal year-end, 2024 (X)



Notes:

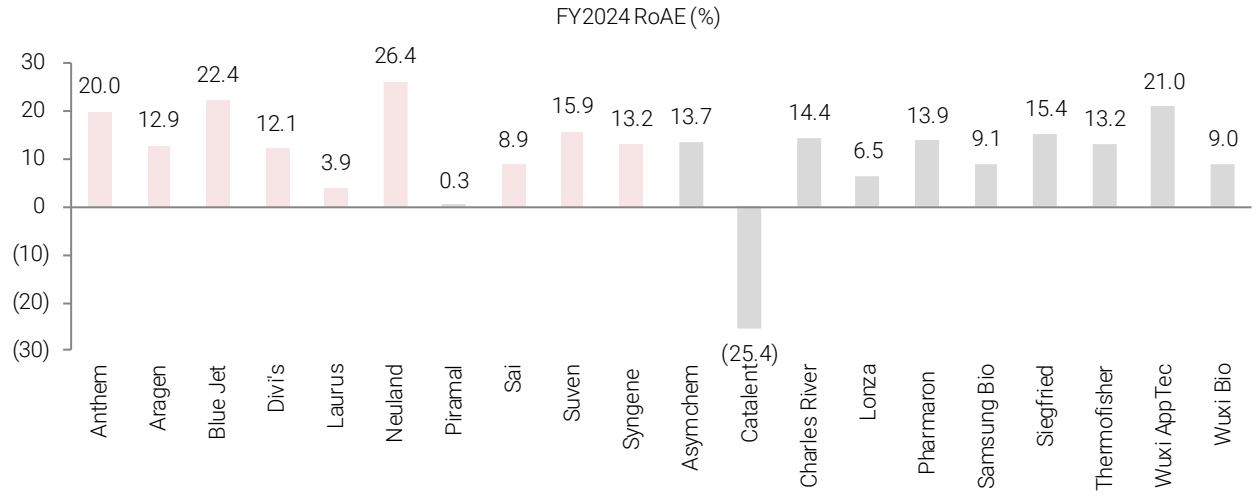
(a) March fiscal year-ends for Indian companies, June fiscal year-ends for Catalent and December calendar year-ends for all other global companies

(b) Net fixed asset turnover = revenue/average net fixed assets (excl. CWIP)

Source: Companies, Kotak Institutional Equities

Owing to ongoing investments and a slower funding environment, RoEs of most global CRDMOs stayed slightly subdued in FY2024

Exhibit 27: RoEs for CRDMO players, March fiscal year-end, 2024 (%)



Notes:

(a) March fiscal year-ends for Indian companies, June fiscal year-ends for Catalent and December calendar year-ends for all other global companies

(b) RoE = PAT/average equity

Source: Companies, Kotak Institutional Equities

4

Increasing R&D outsourcing augurs well for the global CRDMO space

The global pharma and biotech industry is characterized by certain challenges, notably the R&D expertise and associated costs required to develop a portfolio of increasingly complex drugs, the high capex needed to establish and maintain manufacturing units, declining IRR on R&D spends, the need for technical know-how and a trained workforce, among others. Owing to these challenges, global pharma firms have sought to control costs and improve efficiency, and resultantly, the industry has witnessed a trend of increased R&D outsourcing by innovators. As a result, the overall penetration of global innovator R&D outsourcing services increased from 36.7% in CY2018 (<20% two decades ago) to ~42% in CY2024 and is further expected to increase to 46.6% by CY2028E.

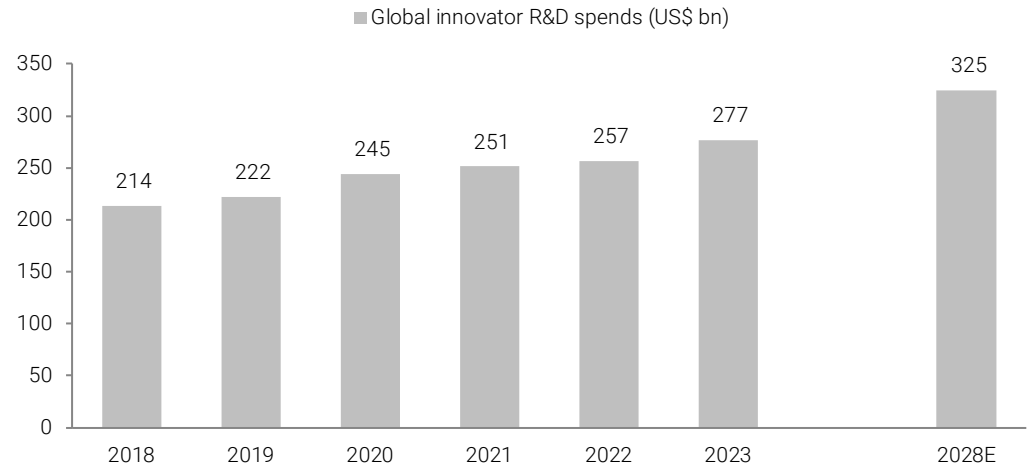
Declining R&D IRR of big pharma and emergence of smaller innovators driving outsourcing

Higher costs of drug development, rising complexity of drug discovery and development processes and declining R&D success rates are key reasons driving R&D outsourcing

Global spending on pharma R&D has increased from ~US$214 bn in CY2018 to ~US$277 bn in CY2023. This increase is attributed to the rising complexity of drug discovery and development processes, requiring significant investments in research infrastructure and advanced technologies. Currently, the average cost to develop and commercialize a new drug exceeds ~US$1 bn per drug, a tenfold increase since the 1970s. We note with increasing competition and shifting market dynamics, patent expirations and generic erosion, R&D is critical for pharma companies to sustain competitive advantage and drive future growth.

Global innovator R&D spending is expected to report a CAGR of 3.3% over CY2023-28E

Exhibit 28: Global innovator R&D expenses, December calendar year-ends, 2018-28E (US$ bn)

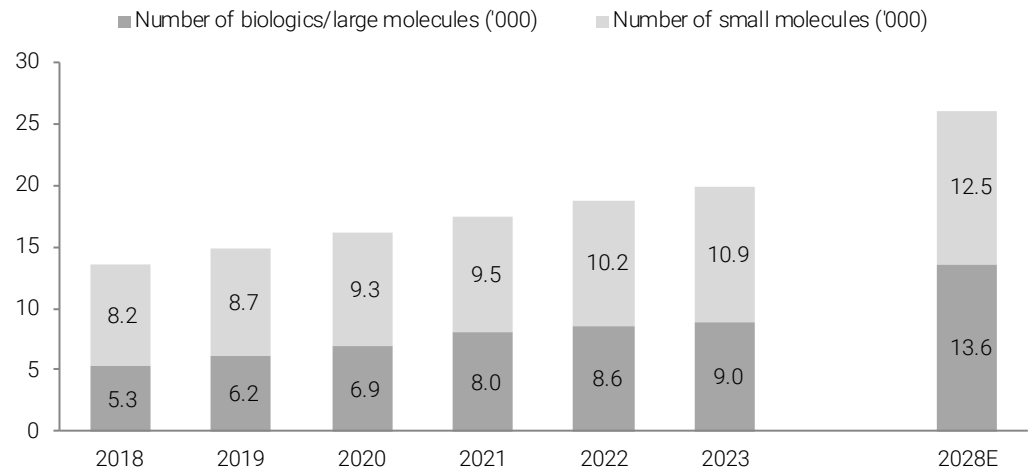


Source: Frost & Sullivan, Kotak Institutional Equities

In CY2023, ~20k molecules were in different stages of development (from pre-clinical to commercial launch). Small molecules currently comprise a larger proportion of the molecules under development. While the R&D pipeline for biologics and large molecules is expected to grow faster, small molecules are still expected to comprise ~48% of the R&D pipeline in CY2028E.

As of CY2023, small molecules comprised ~55% of the global R&D pipeline

Exhibit 29: Global molecule-wise R&D pipeline, December calendar year-ends, 2018-28E ('000)



Source: Frost & Sullivan, Kotak Institutional Equities

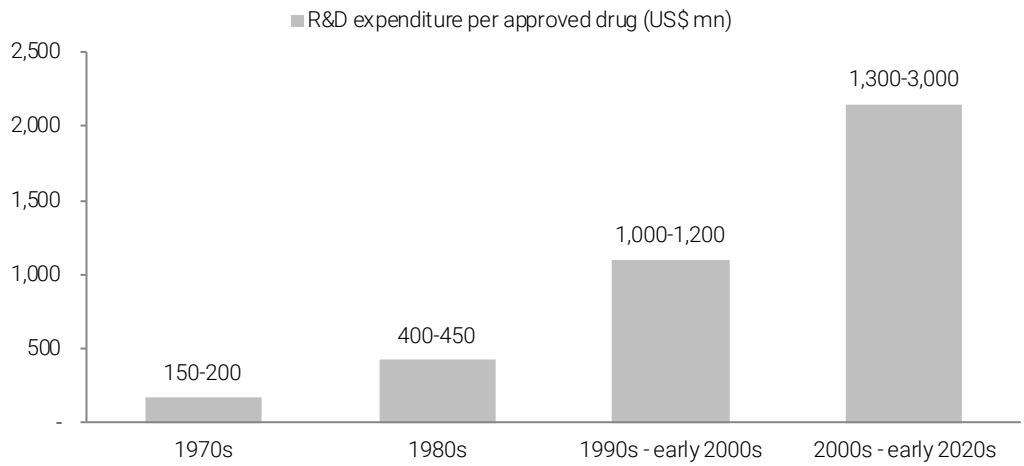
Average cost to develop and commercialize a new drug exceeds ~US$1 bn per drug, a tenfold increase since the 1970s

Surge in R&D expenses and increasing complexity of drug development to boost outsourcing

Drug discovery is a complex and costly process comprising several stages. The average cost to develop and commercialize a new drug today exceeds US$1 bn per approved drug, which signifies a tenfold increase since the 1970s. In addition, R&D success rates have been generally declining, on account of increasing complexity. As a result, we highlight that setting up their own manufacturing facilities to produce commercial and in-pipeline drugs is not as capital efficient for pharma innovators. The pharma innovators have responded to R&D productivity challenges by seeking to improve the RoIs for R&D spending by realizing efficiencies through outsourcing.

The average R&D expenditure per approved drug has increased ~10X since the 1970s

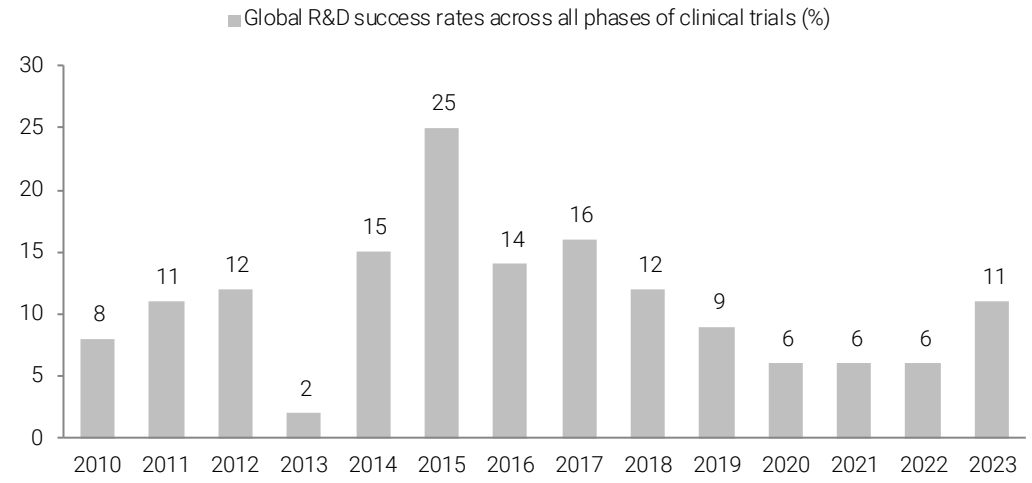
Exhibit 30: R&D expenditure per approved drug, December calendar year-ends, 1970-2023 (US$ mn)



Source: Frost & Sullivan, Kotak Institutional Equities

Global R&D success rates have declined from peak levels of 25%

Exhibit 31: R&D success rates across phases, December calendar year-ends, 2010-23 (%)



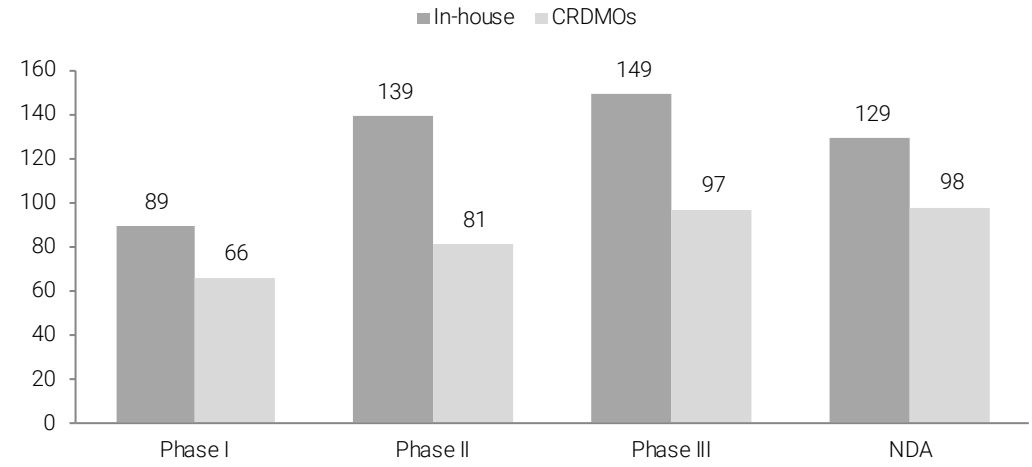
Source: Frost & Sullivan, Kotak Institutional Equities

Apart from cost savings, drug development outsourcing leads to reduced development timelines

Apart from providing cost advantages to the innovator, CRDMOs also help reduce overall development timelines, compared with the time innovators would have required for in-house research, development and manufacturing.

Outsourcing leads to 25-40% average reduction in development timelines for an innovator

Exhibit 32: Length of R&D timeline, December calendar year-end (weeks)



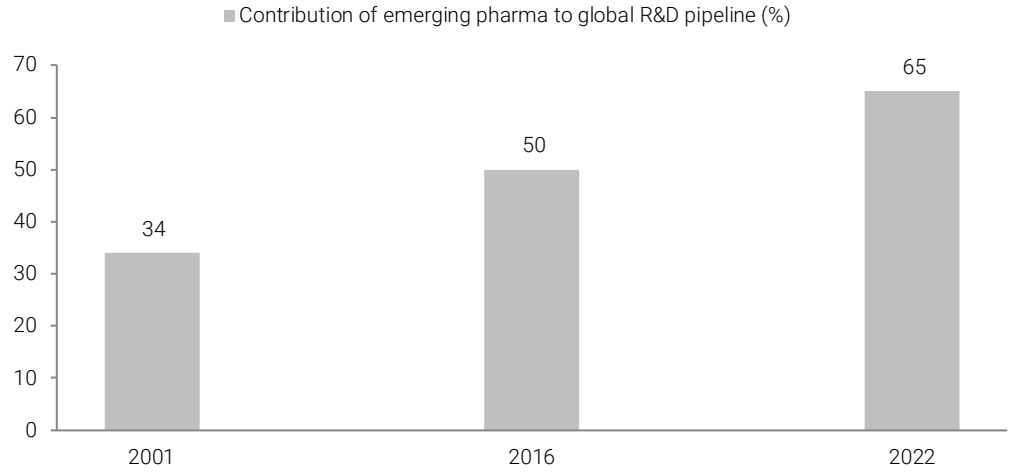
Source: Frost & Sullivan, Kotak Institutional Equities

Emergence of smaller, PE/VC funded virtual innovators has also been a driving factor

The past 15 years has seen the emergence of several PE/VC funded smaller and virtual pharma innovators. Compared to big pharma, these smaller innovator pharma companies are more likely to seek the services of CRDMOs owing to limited access to capital, capabilities and infrastructure. We highlight share of emerging pharma in NCE/NBE development pipeline has risen significantly over the past two decades to stand at 65% in CY2022.

Share of emerging pharma in global development pipeline has risen significantly over the past two decades

Exhibit 33: Contribution of emerging pharma in global development pipeline, December calendar year-ends, 2001-22 (%)



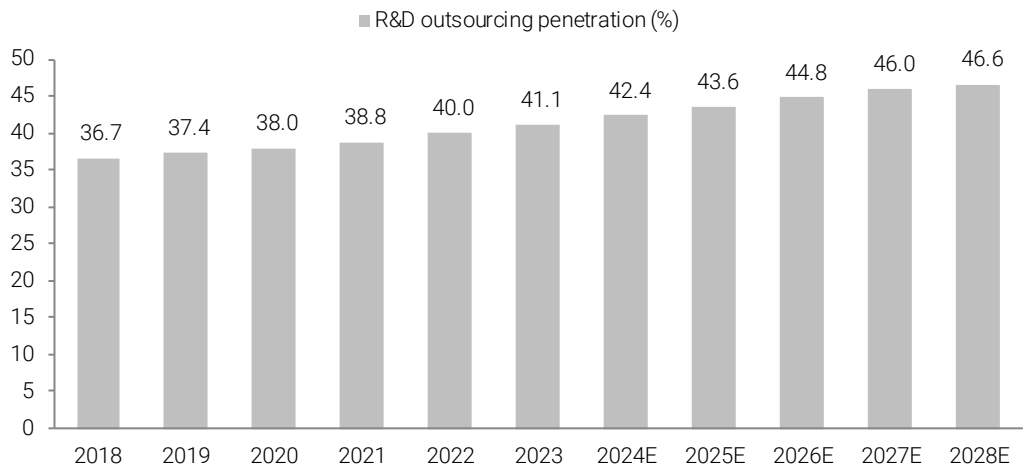
Source: IQVIA, Kotak Institutional Equities

The overall penetration of the global innovator R&D outsourcing services market increased from 36.7% in CY2018 to ~42% in CY2024 and is further expected to increase to 46.6% by CY2028E

The global pharma and biotech industry is characterized by certain challenges, notably the R&D expertise and associated costs that are required to develop a portfolio of increasingly complex drugs, the high capex required to establish and maintain manufacturing units, the need for technical know-how and trained workforce, increasing pricing pressure from payors and governments alike, navigating supply chain disruptions, regulatory compliance and more. Owing to these challenges, global pharma firms have sought to control their costs and improve their efficiency; the industry has witnessed a trend of increased R&D outsourcing by innovators. The overall penetration of the global innovator R&D outsourcing services market increased from 36.7% in CY2018 (less than 20% two decades ago) to ~42% in CY2024 and is further expected to increase to 46.6% by CY2028E.

Global innovator R&D outsourcing penetration is expected to increase to ~47% by CY2028E

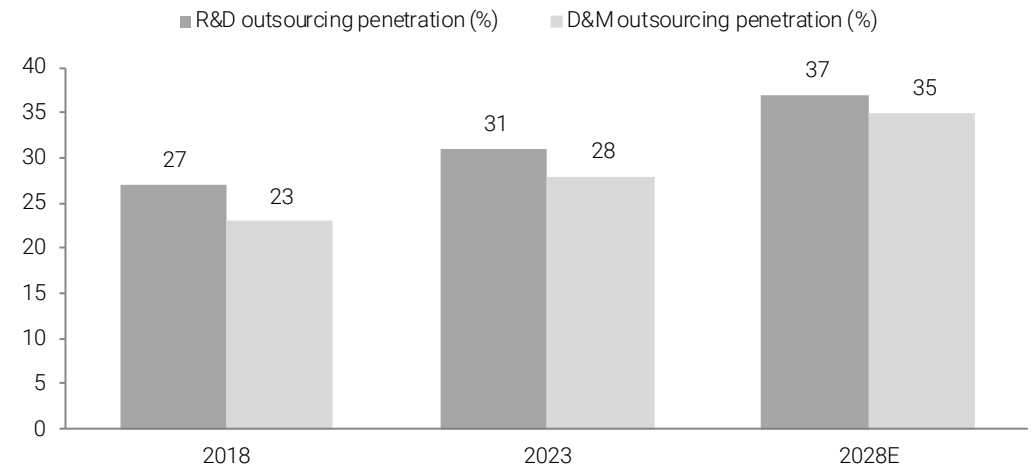
Exhibit 34: Outsourcing penetration in global innovator R&D, December calendar year-ends, 2018-28E (%)



Source: Frost & Sullivan, Kotak Institutional Equities

Outsourcing in R&D and D&M segments is expected to increase meaningfully by CY2028E

Exhibit 35: Outsourcing penetration in global R&D and D&M, December calendar year-ends, 2018-28E (%)



Source: Frost & Sullivan, Kotak Institutional Equities

5

Key risks: Slow funding pick-up, regulatory changes and threat from GCCs

Over the past few quarters, the global biotech funding environment has been seeing a pick-up after a couple of years of slowdown. Nevertheless, the pace of recovery remains a tad slower than initial expectations, with geopolitical uncertainties potentially playing spoilsport vis-à-vis the current expectation of a 50 bps interest rate cut by the US Federal Reserve in CY2025E. As a result, timelines for customer decision-making still remain prolonged, particularly in discovery and early development. Further delay/annulment of the US Biosecure Act could slow the pace of supply chain diversification, even as we have not baked in any upside from it. Finally, an increasing trend of global capability centers (GCCs) by big pharma companies could pose a risk to native CROs.

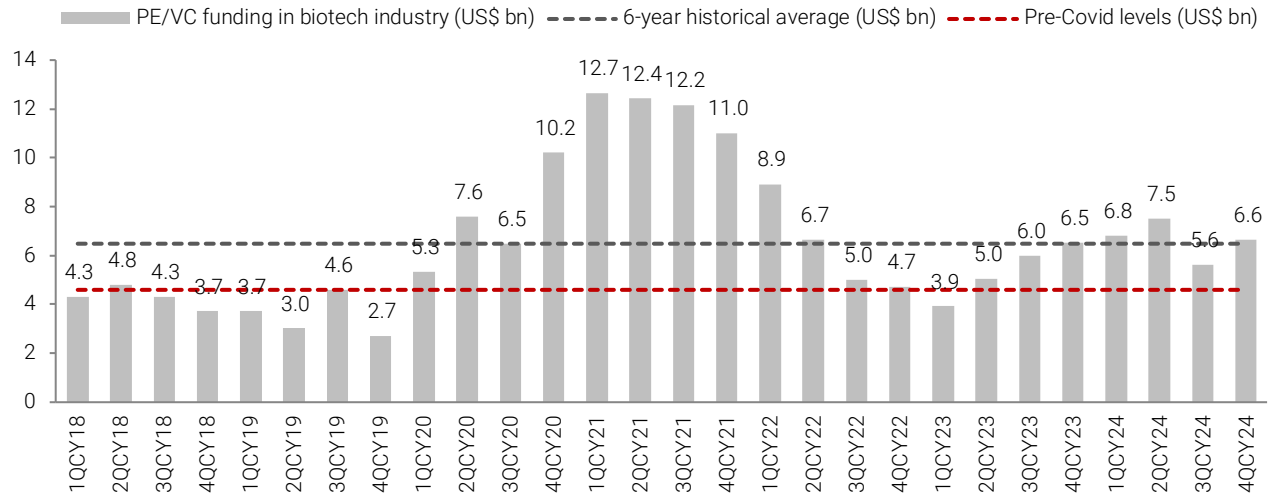
While the biotech funding environment has improved in FY2025, it is still not enough to significantly accelerate R&D spends

Slower-than-expected pick-up in funding environment can delay recovery for CROs

It is estimated that small and mid-sized innovator companies in the US incur an annual cash burn of US$50-70 bn. To fund their R&D and clinical programs, these companies primarily rely on PE/VC funding. The PE/VC funding environment for the global biotech industry was subdued in CY2022 and early CY2023, resulting in a slowdown in incoming projects for global CROs. However, over the past one year, there has been a pick-up in the funding environment and the annual value of deals in the biotech space is at a much higher level compared with the pre-Covid average. We note that, while the quantum of funding was at its peak in CY2021 and fell ~50% in CY2022, over the past few quarters, there has been some recovery in the funding environment (crossed the six-year historical average mark), thereby driving greater outsourcing by innovator pharma companies. Nevertheless, as per our discussions with various companies, the buoyancy in funding is still missing. This could result in slower R&D spends by big pharma and, particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding to further their R&D programs.

The global biotech funding environment has registered an uptick in recent quarters; buoyancy is still missing though

Exhibit 36: PE/VC funding in biotech industry, December calendar year-ends, 2018-24 (US$ bn)

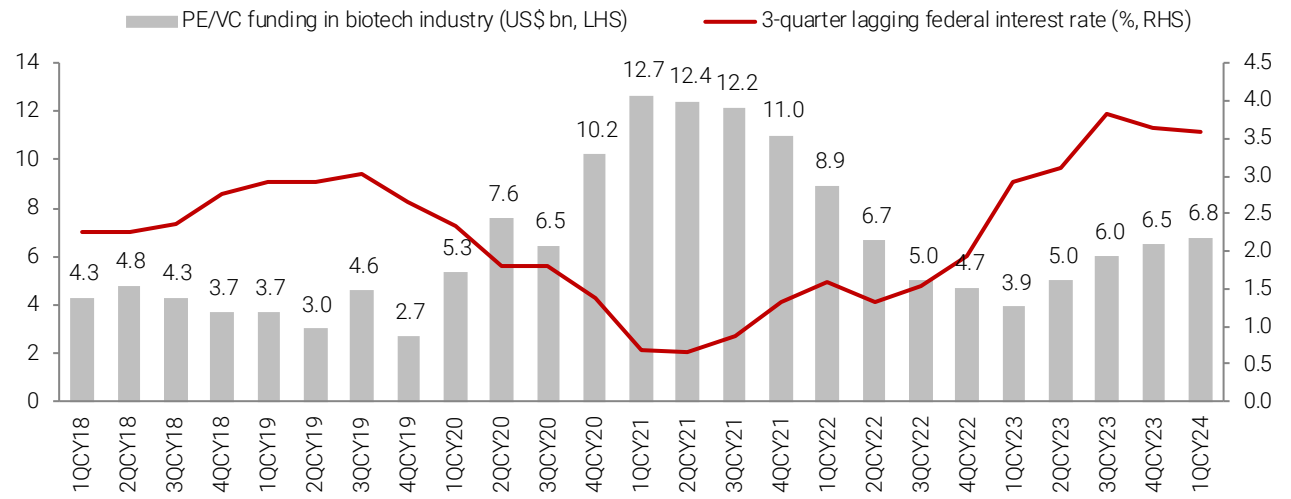


Source: Frost & Sullivan, Bay Bridge Bio, S&P Global, Global Data, Pharma Intelligence Center, Kotak Institutional Equities

The federal interest rate cycle is one of the key determinants of the US biotech funding environment. In our view, the three-quarter lagging federal interest rate serves as a good indicator to ascertain the direction of the quantum of US biotech funding. In CY2021, when federal rates declined sharply, PE/VC funding in several small- and mid-sized pharma innovators picked up meaningfully. In CY2022 and CY2023, the funding environment deteriorated after the Covid pick-up, as the federal rates started to pick up. In CY2024, with anticipation of upcoming rate cuts and a downward trajectory of the federal rates, biotech funding in the US started to gradually improve. An improved funding environment, driven by lower global interest rates, can help drive early-stage discovery and development contracts for CRDMO companies.

In CY2021, the US biotech funding environment was at its peak as the federal interest rates were declining sharply

Exhibit 37: PE/VC funding in biotech industry and federal interest rates, December calendar year-ends, 2018-24 (US$ bn, %)



Source: Bloomberg, Kotak Institutional Equities

While the biotech funding environment has improved in FY2025, it is still not enough to significantly accelerate R&D spends. Moreover, while the funding was up ~40% yoy in CY2024, deal volume growth remained relatively slow, implying that while the aggregate funding value has improved, it is still quite sporadic. In CY2025E, the Federal Reserve is expected to continue its easing cycle, which began in September 2024 with a 50 bps cut. The decision was driven by a slowdown in the US labor market and lower inflationary pressures. Accordingly, the US interest rate outlook is suggestive of a continued trend toward lower Fed rates in CY2025, with the median rate expectation for end-CY2025 being raised to 3.9% from 3.4%. We believe uncertainties on the Fed's policy will stem from nascent adverse risks to growth, even as inflationary risks from tariff policies remain. Moreover, for other DMs, we see a similar trend toward easing policy rates due to moderating inflation and near-trend economic growth.

Lower interest rates and changes in the FDC policy in the US will be key drivers for the US biotech funding environment

Changes in the FDC policy and further clarity on policies of the US government are monitorables

Apart from lower interest rates, there are a couple of other factors that could drive an improvement in the funding environment. Changes in the FDC policy in the US could allow for more exits through M&A and hence could potentially lead to more recycling of capital in the biotech industry. According to the new FDC policy, US companies can avoid criminal prosecution if they voluntarily self-report misconduct discovered at the acquired company within six months of closing, remediate such misconduct within one year of closing, and fully cooperate with any ensuing DOJ investigation. The policy is designed to incentivize acquiring companies to reveal and take actions, in a timely manner, against any misconduct in the target entity that surfaces during an M&A deal. Finally, further details on the policies of the new US government could increase clarity on the viability of new investments.

Further delay/annulment of the US Biosecure Act could slow the pace of supply chain de-risking

Over the past few years, Chinese CRDMOs have been subject to increasing scrutiny by US authorities due to purported linkages with the Chinese Communist Party (CCP). The primary concern in the US is that Chinese CRDMOs will be compelled to submit their data to the Chinese government under China's national security laws. For instance, the National Intelligence Law passed in China in CY2017 states that any organization must assist or cooperate with intelligence work for the CCP. Even China's Data Security Law of CY2021 states that the Chinese government has the power to access and control private data. In some cases, the concern also stems from the fact that CCP would have access to the genetic information of American citizens. In lieu of these concerns, the House Select Committee in the US had introduced the Biosecure Act on January 25, 2024, in an attempt to de-risk sourcing from China.

The Act is aimed at prohibiting contracting by US companies with Chinese biotech providers. A survey published in May 2024 by a pharma trade group, Biotechnology Innovation Organization, found that 79% of the 124 US biotechnology companies surveyed contract with at least one Chinese firm. The original draft of the bill named WuXi AppTec, BGI Group, MGI and Complete Genomics as national security threats; in a later draft in May 2024, the name of WuXi Biologics was also added. According to this draft, WuXi AppTec has sponsored military-civil fusion events in China. The company has also received investments from a 'Military-Civil Integration Selected Hybrid Securities Investment Fund'. The draft also cited that the CEO of WuXi Biologics was previously an adjunct professor at the People's Liberation Army's (PLA) Academy of Military Medical Sciences. However, according to WuXi Biologics, the bill's description of the background of its CEO was misleading. We note WuXi Biologics had been subject to restrictions earlier as well. In February 2022, the US Commerce Department had included two subsidiaries of WuXi Biologics among 33 Chinese companies on its unverified list, thereby placing these subsidiaries under certain import, export and resale restrictions. These restrictions were later lifted in eight months.

The path to law for the Biosecure Act is uncertain heading into CY2025E, as it will have to go through the whole legislative process again

While US innovators do acknowledge the over-reliance on Chinese CRDMOs, they lobbied against the bill, which led to deliberation among several committees and resulted in amendments to the bill. The last amendment of the bill allowed the US pharma companies to reduce their Chinese CRDMO exposure by end-December 2031 and included certain waivers and exceptions. While the bill was successfully passed in the House of Representatives in September 2024, it failed to advance in the Senate, as it was not included in the National Defense Authorization Act (NDAA) in December 2024. The path to law for the Biosecure Act is even more uncertain heading into CY2025E, as it will have to go through the whole legislative process again. Moreover, the support for the bill might not be as strong as it was in CY2024, as Chairman of the House Select Committee on the Strategic Competition between the US and the Chinese Communist Party (the 'Select Committee'), Mike Gallagher, who had introduced the bipartisan Biosecure Act in January 2024, resigned in March 2024. As Republicans take control of the Senate, Senator Paul of Kentucky is chairing the Senate Homeland Security and Governmental Affairs Committee. Previously as a ranking member, he had voted against the Biosecure Act as the only objection when it was approved by the committee in March 2024. At that time, Senator Paul had expressed worries about the bill's potential to disrupt the biopharma supply chain and its covert anti-competition intentions. Owing to these issues, there remains uncertainty on the Biosecure Act.

Client traction remains high, even as Chinese CROs push price discounts

While the passing of this bill would have certainly accelerated the shift away from Chinese CRDMOs, as companies looked to diversify their vendors, we note Indian companies have not seen any slowdown in the momentum of RFPs and client audits over the past few months, despite the delay in passage of the US Biosecure Act. We do highlight that over the past year, Chinese CROs have reduced FTE pricing to protect their turf. We would keep a close eye on the FTE pricing trends in the discovery segment. Nevertheless, with rising scrutiny and supply chain disruptions clouding the Chinese CRDMO industry, we believe there surely remains a high possibility that big pharma companies could increasingly be hesitant to rely solely on Chinese CDMO companies, even if the Biosecure Act is not passed.

GCCs pose a few risks to Indian CROs including increased competition, pricing pressures and competition in talent acquisition

Emergence of several GCCs in India poses a risk for native CRO service providers

GCCs are strategic offshore units established by MNCs to execute a number of strategic functions by leveraging the local talent pool, cost-effective infrastructure and cutting-edge technology. These units often tend to have a positive impact on the local CRO industry in the geography, where GCCs are established. This is because CROs can better position themselves in the clinical research landscape by collaborating with these GCCs and in turn, setting up relationships with MNCs, and leveraging their technological expertise and focusing on specialized services. However, we also note that GCCs pose a few risks to the indigenous CRO industry such as:

- **Increased competition:** GCCs often bring in-house capabilities that were previously outsourced to CROs. This directly increases competition for projects, particularly in areas such as data management, biostatistics and clinical trial monitoring. Companies establishing GCCs are aiming to reduce costs and gain greater control over their research processes, which can lead to a decrease in the volume of work available for CROs.

- **Shift in service demand:** GCCs may handle routine and standardized tasks internally, leaving CROs to focus on more complex and specialized services. This could require CROs to adapt their service offerings and invest in expertise in niche areas. There could be a trend where CROs are used more for very specialized studies, or for when overflow of work happens rather than for the full scope of clinical trials.
- **Pricing pressures:** With increased competition from GCCs, CROs may face pressure to lower their prices to remain competitive. This can impact profit margins and potentially lead to a decline in service quality.
- **Talent acquisition:** GCCs can attract skilled professionals, potentially creating competition for talent with CROs. This can make it more challenging for CROs to recruit and retain qualified staff.
- **Changes in client relationships:** Clients with GCCs may have different expectations and requirements compared with those relying solely on CROs. This could necessitate changes in how CROs manage client relationships.

In recent years, India has emerged as a GCC hub, largely due to the ongoing technological advancements. Among key states, Hyderabad and Bengaluru remain the top choices for setting up GCCs, especially in the pharma sector. India offers a unique mix of a cost-effective ecosystem conducive to innovation, favorable government policies and an enviable pool of highly skilled professionals. These factors have positioned India as the go-to destination for MNCs looking to set up GCCs. We highlight that most of the work in pharma GCCs is centered around computing and data management capabilities, including mapping clinical study data, analyzing the data and report writing. In our view, most GCCs in India do not work on wet labs, as the endeavor is to be asset light and have a centralized infrastructure. While, thus far, the work done by most pharma GCCs in India is relatively genericized and the reliance on Indian CROs for specialized technologies continues, we would keep a close eye on any further investments by big pharma companies on GCCs in India.

Given the B2B nature of the business, CRDMOs will be directly shielded from the tariffs and would have a slightly higher ability to pass on tariffs to their clients

Reciprocal tariffs on India could pose an indirect risk for Indian CRDMO companies

We note that given the B2B nature of the business, CRDMO companies will be directly shielded from the tariffs and would have a slightly higher ability (compared with B2C formulation companies) to pass on tariffs to their clients; however, there remains an indirect exposure to US tariffs for these companies as well. Moreover, passing on higher costs to clients will lead to higher quoted prices for services, eventually resulting in Indian CRDMOs becoming less competitive. We note that generic CRDMO companies would be more impacted due to these tariffs, compared with innovator-focused CRDMOs. Among our coverage companies, PPL, Syngene and Sai have facilities in the US, thereby reducing the extent of potential impact of tariffs for these companies.

Among our API/CRDMO coverage companies, Syngene and Gland have the highest EBITDA contributions from the US

Exhibit 38: US sales and EBITDA contribution for API/CRDMO companies under our coverage, March fiscal year-ends, 2027E (US$ mn, %)

	FY2027E total sales (US$ mn)	FY2027E US sales (US$ mn)	US FY2027E sales as % of overall sales	FY2027E EBITDA (US$ mn)	FY2027E EBITDA margin (%)	US FY2027E EBITDA contribution (%)
Alivus Life Sciences	366	82	22	108	29.6	25-30
Concord Biotech	195	44	23	80	40.8	25-30
Blue Jet Healthcare	190	8	4	72	37.8	5-10
Divis Laboratories	1,477	253	17	533	36.1	20-25
Gland Pharma	873	454	52	219	25.1	50-55
Laurus Labs	803	321	40	185	23.1	45-50
Piramal Pharma	1,337	510	35-40	257	19.2	45-50
Sai Life Sciences	269	60	35-40	75	27.8	45-50
Syngene	585	365	60-65	172	29.4	60-65

Notes:

(1) Assuming 40% of the business is US for Laurus Labs (61% total export contribution)

(2) Indirect supplies to the US (through partners) can be much higher than indicated above

Source: Companies, Kotak Institutional Equities estimates

6

Valuation: Initiate coverage on PPL, Sai and Syngene

We initiate coverage on PPL and Syngene with a BUY rating and on Sai with a REDUCE rating. Our DCF-based FVs for PPL, Sai and Syngene are Rs300, Rs700 and Rs875, respectively. Within these, at current valuations, our pecking order is Syngene, PPL, followed by Sai. In our view, Syngene offers a healthy blend of best-in-class small molecule expertise in discovery and attractive valuations. On the other hand, PPL's diversified presence across CRDMO with certain niche capabilities holds it in good stead. While we believe Sai is well poised to deliver a strong earnings trajectory, we are cognizant of the relatively higher valuations.

Our FV of Rs300 for PPL implies ~21/16/20X 2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver robust 13%/23%/170% revenue/EBITDA/PAT CAGRs over FY2024-28E

Initiate on PPL with BUY; ~37% upside from CMP

We initiate coverage on PPL with a BUY rating and a DCF-based FV of Rs300, offering a ~37% upside from the CMP. Our FV implies a 21/16/20X 2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver robust 13%/23%/170% revenue/EBITDA/PAT CAGRs over FY2024-28E, driven by a ramp-up in CRDMO sales, led by its robust pipeline. As sales in overseas facilities pick up, we expect operating leverage to kick in, resulting in significant improvement in EBITDA margins. We expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoAEs and RoICs to ~10/9% to address long-standing investor concerns around debt, FCF burn and low return ratios for PPL.

PPL's diversified presence of CRDMO facilities with niche capabilities, backward integration in key products in the Complex Hospital Generics (CHG) business and fast-growing power brands in India Consumer Healthcare (ICH) instill confidence in the long-term business potential. We expect PPL to report a 13% sales CAGR over FY2024-28E, led by 13/11/13% sales CAGRs in CRDMO/CHG/ICH business. We expect growth in the CRDMO segment to be driven by higher integrated projects and differentiated offerings, coupled with increasing utilization rates at the recently expanded overseas facilities. Through a mix of organic and inorganic forays, PPL has built strong capabilities in niche technologies such as ADCs, HPAPIs, peptides, sterile injectables and hormonal products. PPL's growth in innovation-related work over the past three years demonstrates the underlying strength of the business. With a strong pipeline of 150+ molecules in the development phase, we expect ~14-15 new molecules (potential four blockbuster molecules) to commercialize over the next five years. Accordingly, we bake in robust ~29/20% sales CAGRs for on-patent commercial manufacturing/innovation-related work over FY2024-28E. We bake in a ~630 bps EBITDA margin expansion over FY2024-28E, largely led by operating leverage in CRDMO and improving profitability in the ICH business.

We refrain from using P/E as a metric for valuing all three companies, given the capital-intensive nature of the business, which might lead to a near-to-medium term PAT not being a true reflection of future earnings potential. In PPL's case, another major reason for not using P/E as a metric is the very high effective tax rate (~90% in FY2024). While PPL's Indian CRDMO facilities are running at healthy utilizations, most overseas facilities are running at lower utilizations, thereby making losses. This is resulting in higher tax rates, as PPL is unable to offset overseas losses with domestic profits. While we expect the tax rate to reduce gradually as the overseas facilities scale up, it will still remain elevated over the medium term (KIE: ~42% tax rate in FY2028E).

We initiate coverage on PPL with a BUY rating and FV of Rs300

Exhibit 39: PPL—DCF valuation, March fiscal year-ends, 2024-50E (Rs mn, %)

	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2032E	FY2034E	FY2036E	FY2038E	FY2040E	FY2042E	FY2044E	FY2046E	FY2048E	FY2050E
Free cash flow profile																	
Net revenues	**81,712**	**92,457**	**103,723**	**117,014**	**132,008**	**149,829**	**169,681**	**216,186**	**273,003**	**341,690**	**423,846**	**521,044**	**633,329**	**755,910**	**885,775**	**1,018,863**	**1,150,194**
%yoy growth	*15.4*	*13.2*	*12.2*	*12.8*	*12.8*	*13.5*	*13.3*	*12.8*	*12.3*	*11.8*	*11.3*	*10.8*	*10.0*	*9.0*	*8.0*	*7.0*	*6.0*
Pre-Ind AS-116 EBITDA	**11,714**	**14,312**	**17,753**	**22,241**	**27,379**	**32,573**	**38,586**	**51,323**	**67,542**	**87,952**	**113,338**	**144,539**	**176,954**	**212,715**	**251,031**	**290,786**	**330,569**
Pre-Ind AS-116 EBITDA margin (%)	*14.3*	*15.5*	*17.1*	*19.0*	*20.7*	*21.7*	*22.7*	*23.7*	*24.7*	*25.7*	*26.7*	*27.7*	*27.9*	*28.1*	*28.3*	*28.5*	*28.7*
Gross block	111,369	117,369	124,369	133,269	143,169	154,519	165,549	192,064	225,618	267,702	320,016	384,464	463,055	557,266	668,152	796,272	941,565
Depreciation & amortisation	(7,406)	(8,216)	(8,706)	(9,329)	(10,022)	(10,816)	(11,588)	(13,444)	(15,793)	(18,739)	(22,401)	(26,913)	(32,414)	(39,009)	(46,771)	(55,739)	(65,910)
%gross block	*(6.6)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*
EBIT	4,308	6,096	9,047	12,912	17,357	21,757	26,998	37,879	51,748	69,213	90,936	117,627	144,540	173,707	204,261	235,047	264,660
EBIT margin (%)	*5.3*	*6.6*	*8.7*	*11.0*	*13.1*	*14.5*	*15.9*	*17.5*	*19.0*	*20.3*	*21.5*	*22.6*	*22.8*	*23.0*	*23.1*	*23.1*	*23.0*
NOPAT	**428**	**720**	**3,167**	**6,137**	**10,074**	**14,795**	**18,898**	**27,273**	**38,708**	**51,771**	**68,020**	**87,985**	**108,116**	**129,933**	**152,787**	**175,815**	**197,965**
Tax rate (%)	*(90.1)*	*(88.2)*	*(65.0)*	*(52.5)*	*(42.0)*	*(32.0)*	*(30.0)*	*(28.0)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*
Capex	(7,120)	(7,000)	(8,000)	(9,000)	(10,000)	(11,350)	(11,029)	(14,052)	(17,745)	(22,210)	(27,550)	(33,868)	(41,166)	(49,134)	(57,575)	(66,226)	(74,763)
%sales	*(8.7)*	*(7.6)*	*(7.7)*	*(7.7)*	*(7.6)*	*(7.6)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*
Working capital	26,166	29,607	33,215	37,471	42,273	47,980	54,337	69,229	87,423	109,419	135,728	166,853	202,810	242,064	283,651	326,269	368,326
%sales	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*
Change in working capital	(2,037)	(3,441)	(3,608)	(4,256)	(4,801)	(5,707)	(6,357)	(7,829)	(9,541)	(11,505)	(13,725)	(16,196)	(18,437)	(19,987)	(21,011)	(21,345)	(20,849)
Free cash flow to firm	**(1,324)**	**(1,506)**	**266**	**2,210**	**5,295**	**8,554**	**13,100**	**18,837**	**27,215**	**36,796**	**49,146**	**64,834**	**80,926**	**99,820**	**120,971**	**143,984**	**168,264**
Discount factor	-	-	-	1.00	2.00	3.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	24.00
Discounted free cash flow to firm	**-**	**-**	**-**	**1,973**	**4,221**	**6,089**	**8,325**	**9,543**	**10,992**	**11,847**	**12,615**	**13,266**	**13,201**	**12,981**	**12,541**	**11,899**	**11,086**

Asset valuation	
WACC (%)	**12.0**
Terminal growth rate (%)	*5.5*
Terminal value	**179,927**
Enterprise value	**439,124**
Net debt	41,736
Equity value	**397,388**
Minority interest	-
Equity value attributable to parent	**397,388**
Number of shares (mn)	1,323
Fair value per share (Rs)	**300**

Source: Company, Kotak Institutional Equities estimates

Our FV implies 21/16/20X 2027E EV/EBITDA multiples for CRDMO/CHG/ICH segments of PPL

Exhibit 40: PPL—implied EV/EBITDA valuation, March fiscal year-ends, 2027E (Rs mn, %)

	March 2027E EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)
CRDMO	11,955	21	255,845
CHG (Complex Hospital Generics)	9,543	16	152,682
ICH (Indian Consumer Healthcare)	992	20	19,842
Enterprise value	**22,490**	**19**	**428,370**
Net debt			41,736
Equity value			**386,634**
Minority interest			0
Equity value attributable to core business			**386,634**
Number of shares (mn)			1,323
FV per share for core business (Rs)			**292**
	PAT (Rs mn)	**Multiple (X)**	
Allergan JV	1,654		
PPL's share (49% stake)	**811**	**12**	**9,727**
Value from Allergen JV per share			7
FV per share (Rs)			**300**

Source: Company, Kotak Institutional Equities estimates

Initiate on Sai Life Sciences with REDUCE; ~5% downside from CMP

Our FV implies a ~23X FY2027E EV/EBITDA multiple for Sai Life Sciences. We expect Sai to report 17/29/41% revenue, EBITDA and PAT CAGRs over FY2024-28E

We initiate coverage on Sai Life Sciences with a REDUCE rating and a DCF-based FV of Rs700, offering a ~5% downside from CMP. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Sai. Driven by recovery in the funding environment and improved utilizations across its Indian and overseas facilities due to a higher commercial mix of molecules, we expect Sai to report 17/29/41% revenue, EBITDA and PAT CAGRs over FY2024-28E. Sai is one of India's leading CROs, with ~34% of its revenues attributable to research and discovery operations. The balance ~66% of Sai's revenues come from its CDMO business, which is largely centered around small molecule development and manufacturing. Sai's discovery model is supported by a robust team of 1,100+ scientists, which has enabled it to successfully complete 300+ discovery programs. While FY2024 was a muted year for Sai given the muted biotech funding environment, we expect a recovery in funding and improved utilizations of its Hyderabad and Boston facilities, higher biology sales mix and continued scientist additions to drive a robust ~18% discovery sales CAGR over FY2024-28E. On the chemistry, manufacturing and control (CMC) front, Sai is on track to add capacities at its flagship Bidar facility, which involves an amidite block and a HPAPI block. Within its portfolio, Sai has a total of ~170 products, of which 38 are commercial and 12 are in Phase-III trials. Aided by a higher commercial mix of molecules and ramp-up of the newly added capacities, we forecast a healthy ~16% CMC sales CAGR over FY2024-28E. We also expect a higher commercial mix, a higher biology sales mix in discovery and better capacity utilizations across facilities to drive robust 29%/39% EBITDA/EPS CAGRs for Sai over FY2024-28E.

Our DCF model bakes in 10-year sales/EBITDA CAGRs of ~16%/22% for Sai

Exhibit 41: Sai—DCF valuation, March fiscal year-ends, 2024-50E (Rs mn, %)

	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2032E	FY2034E	FY2036E	FY2038E	FY2040E	FY2042E	FY2044E	FY2046E	FY2048E	FY2050E
Free cash flow profile																	
Net revenues	**14,652**	**16,425**	**19,548**	**23,511**	**27,352**	**31,756**	**36,805**	**49,120**	**64,764**	**84,352**	**108,520**	**137,895**	**172,589**	**211,020**	**251,977**	**293,767**	**334,291**
%yoy growth	*20.4*	*12.1*	*19.0*	*20.3*	*16.3*	*16.1*	*15.9*	*15.4*	*14.7*	*14.0*	*13.3*	*12.6*	*11.6*	*10.3*	*9.0*	*7.7*	*6.4*
Pre-Ind AS-116 EBITDA	**2,160**	**3,113**	**4,172**	**5,965**	**7,483**	**9,209**	**10,913**	**15,055**	**20,304**	**27,035**	**35,540**	**46,126**	**58,939**	**73,118**	**88,066**	**103,553**	**118,840**
Pre-Ind AS-116 EBITDA margin (%)	*14.7*	*19.0*	*21.3*	*25.4*	*27.4*	*29.0*	*29.7*	*30.7*	*31.4*	*32.1*	*32.8*	*33.5*	*34.2*	*34.7*	*35.0*	*35.3*	*35.6*
Gross block	16,794	21,894	28,994	35,094	41,194	46,751	52,934	67,158	83,656	102,039	121,676	142,877	167,978	198,832	235,874	279,296	330,400
Depreciation & amortisation	(1,194)	(1,423)	(1,885)	(2,281)	(2,678)	(3,039)	(3,441)	(4,365)	(5,438)	(6,633)	(7,909)	(9,287)	(10,919)	(12,924)	(15,332)	(18,154)	(21,476)
%gross block	*(7.1)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*
EBIT	966	1,690	2,287	3,683	4,805	6,170	7,472	10,690	14,866	20,402	27,631	36,839	48,020	60,194	72,734	85,399	97,364
EBIT margin (%)	*6.6*	*10.3*	*11.7*	*15.7*	*17.6*	*19.4*	*20.3*	*21.8*	*23.0*	*24.2*	*25.5*	*26.7*	*27.8*	*28.5*	*28.9*	*29.1*	*29.1*
NOPAT	**732**	**1,269**	**1,719**	**2,762**	**3,604**	**4,615**	**5,589**	**7,996**	**11,120**	**15,261**	**20,668**	**27,556**	**35,919**	**45,025**	**54,405**	**63,878**	**72,829**
Tax rate (%)	*(24.2)*	*(24.9)*	*(24.9)*	*(25.0)*	*(25.0)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*
Capex	(1,817)	(4,500)	(6,500)	(5,500)	(5,500)	(5,557)	(6,183)	(7,368)	(8,419)	(9,279)	(9,767)	(11,032)	(13,807)	(16,882)	(20,158)	(23,501)	(26,743)
%sales	*(12.4)*	*(27.4)*	*(33.3)*	*(23.4)*	*(20.1)*	*(17.5)*	*(16.8)*	*(15.0)*	*(13.0)*	*(11.0)*	*(9.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(8.0)*
Working capital	5,211	5,842	6,545	7,872	9,159	9,527	11,042	14,736	19,429	25,306	32,556	41,369	51,777	63,306	75,593	88,130	100,287
%sales	*35.6*	*35.6*	*33.5*	*33.5*	*33.5*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*
Change in working capital	766	(631)	(703)	(1,327)	(1,286)	(368)	(1,515)	(1,961)	(2,483)	(3,098)	(3,809)	(4,613)	(5,361)	(5,886)	(6,210)	(6,263)	(5,988)
Free cash flow to firm	**876**	**(2,439)**	**(3,600)**	**(1,784)**	**(504)**	**1,729**	**1,332**	**3,032**	**5,655**	**9,517**	**15,001**	**21,198**	**27,670**	**35,182**	**43,369**	**52,268**	**61,573**
Discount factor				1.00	2.00	3.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	24.00
Discounted free cash flow to firm				**(1,596)**	**(404)**	**1,239**	**854**	**1,557**	**2,326**	**3,134**	**3,957**	**4,477**	**4,680**	**4,766**	**4,705**	**4,541**	**4,284**

Asset valuation	
WACC (%)	**11.7**
Terminal growth rate (%)	*5.5*
Terminal value	**72,349**
Enterprise value	**148,215**
Net debt	2,913
Equity value	**145,302**
Minority interest	–
Equity value attributable to parent	**145,302**
Number of shares (mn)	208
Fair value per share (Rs)	**699**

Source: Company, Kotak Institutional Equities estimates

Initiate on Syngene with BUY; ~22% upside from CMP

Our FV implies a ~23X FY2027E EV/EBITDA multiple for Syngene. We expect Syngene to deliver healthy 14%/15%/19% overall sales/EBITDA/EPS CAGRs over FY2024-28E

We initiate coverage on Syngene with a BUY rating and a DCF-based FV of Rs875, offering a ~22% upside from the CMP. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Syngene. In our view, Syngene offers a healthy blend of best-in-class small molecule expertise in discovery and attractive valuations. Syngene is one of India's prominent CRDMO players, with ~5,656 scientists and a robust client base of 400+. Compared with Indian peers, Syngene's USP lies in its integrated offering, which consists of ~60% from CRO and ~40% from CDMO. The company offers a broad spectrum of capabilities, ranging across ADCs, HPAPIs, oligopeptides, CAR-T and others. Its 'follow-the-molecule' strategy allows it to be present throughout the lifecycle of a molecule, as evident from the 18-20 active integrated projects under its 'SynVent' platform. While dedicated centers would continue to be a stable revenue source, we expect discovery growth to ramp up, led by higher productivity of scientists and alleviation of the US biotech funding environment. Driven primarily by better capacity utilization in its CDMO business and operating leverage, we expect Syngene to deliver healthy 14%/15%/19% overall sales/EBITDA/EPS CAGRs over FY2024-28E. Led by robust FCF generation of ~Rs26.3 bn over FY2024-28E, we expect return ratios for Syngene to stay healthy at 16.9% RoAE and 22.0% RoIC in FY2028E.

Our DCF model bakes in 10-year sales/EBITDA CAGRs of ~17%/18% for Syngene

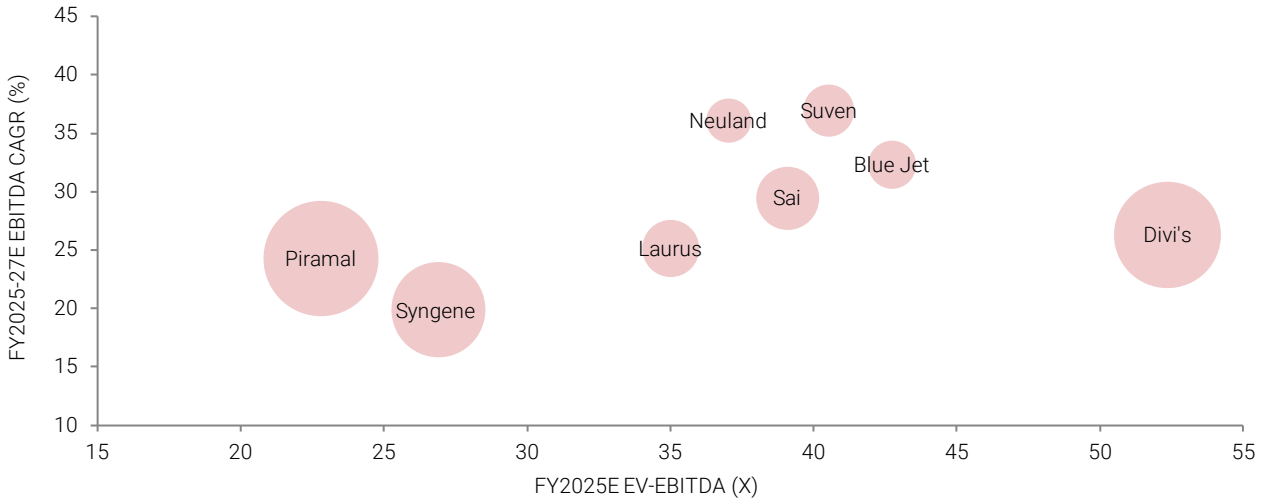
Exhibit 42: Syngene—DCF valuation, March fiscal year-ends, 2024-50E (Rs mn, %)

	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2038E	2040E	2042E	2044E	2046E	2048E	2050E
Free cash flow profile																
Net revenues	**34,886**	**37,565**	**43,482**	**51,190**	**59,908**	**83,556**	**114,428**	**153,443**	**202,046**	**261,428**	**332,340**	**413,355**	**502,204**	**595,842**	**690,166**	**780,226**
%yoy growth	*9.3*	*7.7*	*15.8*	*17.7*	*17.0*	*17.9*	*16.7*	*15.5*	*14.5*	*13.5*	*12.5*	*11.2*	*9.9*	*8.6*	*7.3*	*6.0*
Pre-Ind AS-116 EBITDA	**10,335**	**9,893**	**11,583**	**14,221**	**16,973**	**23,939**	**33,127**	**44,882**	**59,705**	**78,036**	**100,201**	**125,867**	**154,428**	**185,009**	**216,367**	**246,942**
Pre-Ind AS-116 EBITDA margin (%)	*29.6*	*26.3*	*26.6*	*27.8*	*28.3*	*28.7*	*29.0*	*29.3*	*29.6*	*29.9*	*30.2*	*30.5*	*30.8*	*31.1*	*31.4*	*31.7*
Gross block	49,474	67,570	74,070	81,070	88,820	107,354	132,852	167,208	212,628	271,640	346,970	441,179	556,280	693,620	853,625	1,035,580
Depreciation & amortisation	(4,259)	(4,514)	(5,777)	(6,323)	(6,928)	(7,515)	(9,300)	(11,705)	(14,884)	(19,015)	(24,288)	(30,883)	(38,940)	(48,553)	(59,754)	(72,491)
%gross block	*(8.6)*	*(6.7)*	*(7.8)*	*(7.8)*	*(7.8)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*
EBIT	6,076	5,379	5,806	7,898	10,045	16,424	23,827	33,178	44,821	59,021	75,913	94,984	115,488	136,456	156,613	174,451
EBIT margin (%)	*17.4*	*14.3*	*13.4*	*15.4*	*16.8*	*19.7*	*20.8*	*21.6*	*22.2*	*22.6*	*22.8*	*23.0*	*23.0*	*22.9*	*22.7*	*22.4*
NOPAT	**4,992**	**4,087**	**4,351**	**5,909**	**7,500**	**12,252**	**17,775**	**24,751**	**33,436**	**44,030**	**56,631**	**70,858**	**86,154**	**101,796**	**116,834**	**130,140**
Tax rate (%)	*(17.8)*	*(24.0)*	*(25.1)*	*(25.2)*	*(25.3)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*
Capex	(4,920)	(5,000)	(5,500)	(6,000)	(6,750)	(10,027)	(13,731)	(18,413)	(24,246)	(31,371)	(39,881)	(49,603)	(60,264)	(71,501)	(82,820)	(93,627)
%sales	*(14.1)*	*(13.3)*	*(12.6)*	*(11.7)*	*(11.3)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*
Working capital	(1,242)	(1,337)	(1,548)	(1,822)	(2,133)	(3,008)	(4,119)	(5,524)	(7,274)	(9,411)	(11,964)	(14,881)	(18,079)	(21,450)	(24,846)	(28,088)
%sales	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*
Change in working capital	1,319	95	211	274	310	456	589	741	921	1,119	1,329	1,499	1,629	1,699	1,690	1,590
Free cash flow to firm	**5,650**	**3,696**	**4,839**	**6,507**	**7,988**	**10,196**	**13,933**	**18,783**	**24,996**	**32,793**	**42,367**	**53,637**	**66,458**	**80,547**	**95,458**	**110,594**
Discount factor				1.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	24.00
Discounted free cash flow to firm				**5,836**	**6,425**	**6,597**	**7,251**	**7,863**	**8,416**	**8,881**	**9,230**	**9,399**	**9,367**	**9,132**	**8,705**	**8,112**
Asset valuation																
WACC (%)	**11.5**															
Sum of discounted free cash flows	**197,265**															
Terminal growth rate (%)	*5.5*															
Terminal value	**142,638**															
Enterprise value	**339,903**															
Net debt	(11,889)															
Equity value	**351,792**															
Minority interest	-															
Equity value attributable to parent	**351,792**															
Number of shares (mn)	402															
Fair value per share (Rs)	**875**															

Source: Company, Kotak Institutional Equities estimates

PPL and Syngene are trading at a relatively higher discount to domestic peers

Exhibit 43: EV/EBITDA versus EBITDA CAGR for Indian CRDMOs, March fiscal year-ends, 2024-27E (%, X)



Notes:

(1) We have used Bloomberg estimates for Suven and Neuland; for the rest of the companies, we have used KIE estimates.

(2) Size of the bubble indicates the relative size of FY2024 CRDMO revenues for these companies.

Source: Companies, Kotak Institutional Equities estimates

Most Indian CRDMOs continue to trade at a premium to their global counterparts

Exhibit 44: Valuations for global CRDMO companies, March fiscal year-ends, 2024-27E

	Country	EV (US$ mn)	PER (X)				EV/Sales (X)				EV/EBITDA (X)			
			2024	2025E	2026E	2027E	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
Global CRDMO valuations														
Asymchem Laboratories Tian-H	China	2,779	NA	18.7	14.6	11.8	2.6	3.4	2.9	2.5	7.1	15.1	11.6	9.4
Hangzhou Tigermed Consulti-A	China	6,759	23.0	40.9	31.6	26.1	6.6	7.2	6.5	5.8	20.8	30.1	25.0	21.6
Joinn Laboratories China	China	1,643	40.4	94.4	44.3	31.7	5.1	5.8	5.5	4.5	24.0	74.7	34.6	20.6
Pharmaron Beijing	China	6,699	30.1	26.7	25.9	22.2	4.2	3.9	3.5	3.1	16.2	17.0	14.6	13.0
Wuxi Apptec	China	25,112	20.5	16.8	15.1	13.2	4.6	4.3	3.8	3.4	14.0	11.5	10.2	9.0
Wuxi Biologics Cayman	China	13,787	32.1	30.7	25.6	22.3	5.9	5.5	4.9	4.3	19.4	17.0	14.5	12.5
Blue Jet Healthcare	India	1,789	95.8	54.2	38.6	33.2	21.5	15.2	10.7	9.2	66.8	42.8	28.8	24.4
Concord Biotech	India	1,999	56.4	50.7	40.1	32.1	16.8	14.9	12.0	10.0	39.6	36.2	29.5	24.6
Divi's Laboratories	India	17,906	98.0	72.4	58.4	45.4	19.5	16.4	14.3	11.9	69.5	52.4	42.3	32.9
Gland Pharma	India	2,797	34.2	35.3	26.3	21.1	4.2	4.1	3.5	3.1	18.0	18.2	15.0	12.5
Jubilant Pharmova	India	1,902	183.7	21.3	26.5	19.1	2.4	2.2	2.1	1.8	18.0	14.1	12.3	10.0
Laurus Labs	India	4,246	208.0	107.3	67.4	52.3	7.2	6.7	5.8	5.2	46.7	35.0	26.5	22.4
Neuland Laboratories	India	1,776	50.9	58.0	34.5	25.0	10.0	9.8	7.4	5.8	32.9	37.0	23.1	17.2
Piramal Pharma	India	3,899	1,625.2	560.1	117.9	53.8	4.1	3.6	3.2	2.8	27.6	22.8	18.5	14.7
Sai Life Sciences	India	1,890	168.3	101.3	81.1	58.1	11.0	9.8	8.3	6.9	55.6	39.1	32.1	24.3
Suven Pharmaceuticals	India	3,425	99.6	86.2	63.4	46.8	28.3	13.7	8.4	6.9	72.2	40.5	25.1	19.6
Syngene International	India	3,341	55.8	62.2	57.6	43.4	8.2	7.6	6.6	5.6	25.5	26.9	22.6	18.1
Celltrion	South Korea	29,106	90.4	37.1	26.2	19.2	12.0	9.5	7.9	7.2	46.9	23.7	18.0	14.7
Samsung Biologics	South Korea	52,414	70.8	59.6	48.1	41.5	16.9	14.0	12.0	10.5	40.1	34.8	29.1	25.5
Lonza Group Ag	Switzerland	49,952	64.8	34.2	28.8	24.1	6.7	5.7	5.2	4.6	27.5	20.0	17.3	14.9
Charles River Laboratories	United States	11,240	841.5	18.0	16.4	14.7	2.8	2.9	2.8	2.6	17.1	11.8	11.3	10.2
Iqvia Holdings	United States	45,313	24.7	15.8	14.1	12.7	2.9	2.8	2.7	2.5	13.0	11.9	11.1	10.3
Labcorp Holdings	United States	25,481	26.5	14.7	13.3	11.9	2.0	1.8	1.7	1.7	13.1	10.7	10.1	9.4
Thermo Fisher Scientific	United States	224,790	31.6	22.5	20.3	18.1	5.2	5.1	4.8	4.5	20.8	19.7	18.2	16.7

Notes:

(1) We have used KIE estimates for companies under our coverage; for the rest, we have used Bloomberg estimates.

(2) 2024-27 March fiscal year-ends for Indian companies, 2023-26 December calendar year-ends for global companies.

Source: Bloomberg, Kotak Institutional Equities estimates

7

Several tailwinds continue to drive the global CRDMO industry

In CY2023, the global CRDMO industry (including generics CDMO) stood at ~US$197 bn and is expected to report a ~9% CAGR over the next five years. Among key regions, the US is the dominant geography for CRDMOs, followed by the EU. Within Asia, China and India are the largest CRDMO markets. The Indian CRDMO market (including generics CDMO) stood at ~US$7 bn in CY2023. We highlight that owing to several macro-led factors, the India CRDMO market is expected to report a healthy ~15% CAGR over CY2023-28E.

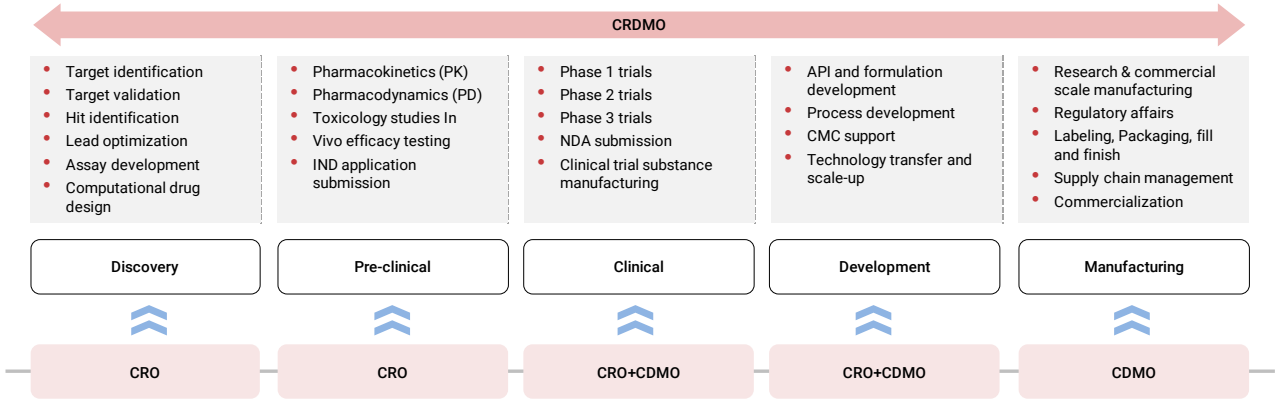
CRDMOs are integrated contract service organizations that provide end-to-end services, spanning the entire drug discovery, development and manufacturing lifecycle

Detailing the nuances of the CRDMO industry

The CRDMO industry primarily comprises three key types of service providers, namely Contract Research Development and Manufacturing Organizations (CRDMOs), Contract Research Organizations (CROs) and Contract Development and Manufacturing Organizations (CDMOs). CRDMOs are integrated contract service organizations that provide end-to-end services, spanning the entire drug discovery, development and manufacturing lifecycle. They provide pharma innovators with economically viable and tailored solutions for the various challenges they face across the value chain. By leveraging their expertise, infrastructure and resources, pharma innovators can accelerate the drug development process, reduce costs and access specialized capabilities that may not be available in-house. CROs specialize in offering various scientific functions of the discovery, preclinical and clinical stages of pharma R&D. CDMOs provide commercialization manufacturing and process/formulation development to support the preclinical and clinical stages (also known as CMC services).

The CRDMO value chain comprises various steps, ranging from the discovery stage to commercial manufacturing of molecules

Exhibit 45: CRDMO industry operating model, December calendar year-end



Source: Frost & Sullivan, Kotak Institutional Equities

The pharma R&D value chain comprises the following stages: discovery, followed by development (pre-clinical and clinical—Phase-I, II and III) and the approval of the new drug. Once the drug is approved, commercial manufacturing would start. The success rate for developing a new drug from drug discovery to approval is extremely low and can be lower than 0.01%.

Drug discovery phase

The drug discovery phase constitutes the processes from target identification to target validation to lead generation and lead optimization. During this stage, thousands of compounds are narrowed down to a few hundred with promising potential. Basic research on the physiological target and development of hypothetical mechanisms of action, which could potentially bring about the desired outcome, is undertaken. Researchers then look for a lead compound—a promising molecule that could influence the target in line with the projected hypotheses and potentially become a medicine.

Development and clinical supplies phase

Development and clinical supplies phases encompass the following sub-phases:

- **Pre-clinical development**: This includes exhaustive laboratory and animal experimentation of the preclinical drug candidates for safety and therapeutic effect to determine whether a compound is suitable for human testing. The process may take several years and the data generated during this stage is a critical part of the dossier for regulatory bodies to receive approvals for conducting clinical trials.

Development and clinical supplies phases include pre-clinical development, clinical trials, drug substance development and clinical supplies/drug product development

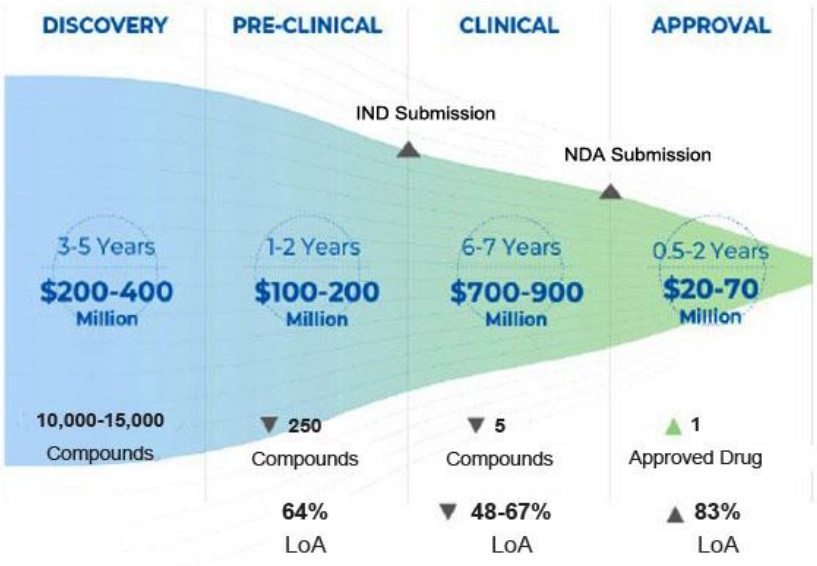
- **Clinical trials**: In clinical trials, promising drug candidates are presented to regulatory authorities for permission to conduct human clinical trials via 'Investigational New Drug Applications'. Once approved, these drug candidates are referred to as Investigational New Drugs ('IND'). INDs proceed to clinical trials, which are studies in humans to determine the safety, efficacy and suitable drug dosage of potential drug candidates.
- **Drug substance development**: This process covers early-stage and late-stage process development and optimization. Small quantities of drug substance are manufactured under non-GMP conditions for toxicology evaluation and under GMP conditions for initial clinical studies. Depending on the outcome of these studies, larger quantities of drug substance are manufactured for late-stage clinical programs. In this stage, there is increasing emphasis on developing a robust, scalable, safe and efficient manufacturing process, which can be used for subsequent commercialization of the drug.
- **Clinical supplies/drug product development**: This phase mainly covers early-stage and late-stage formulation development and manufacture. As the molecule moves further along the development cycle, the formulation becomes increasingly nuanced in line with the data being generated through the trials. The key formulation types are oral solid dosage forms (tablets, capsules, drug-in-capsule), oral liquid dosage forms (solutions and suspensions), injectable dosage forms (solutions and lyophilized) and modified release oral dosage forms (functionally coated mini-tablets, drug-layered beads and matrix tablet formulations).

Commercial manufacturing

Once the drug is approved by respective authorities, commercial manufacturing is started. Manufacturing facilities must be carefully designed so that the commercialized product can be consistently and efficiently produced at the highest level of quality. High standards to ensure safety and quality in the manufacturing process are to be used. Companies must adhere to US FDA or all other relevant regulations for manufacturing.

Success rate for developing a new drug from drug discovery to approval is extremely low and can be even lower than 0.01%

Exhibit 46: Global pharma R&D process



TOTAL	Biologic	Small Molecules
Cost (USD Billion)	1.5-2	1-1.5
Time for Development	10-15 Years	12-15 Years
Probability of Success	18%	9%

Notes:

(a) LoA—likelihood of approval; LoA for Phase-I is 48%; LoA for Phase-II is 25%, LoA for Phase-III is 67%

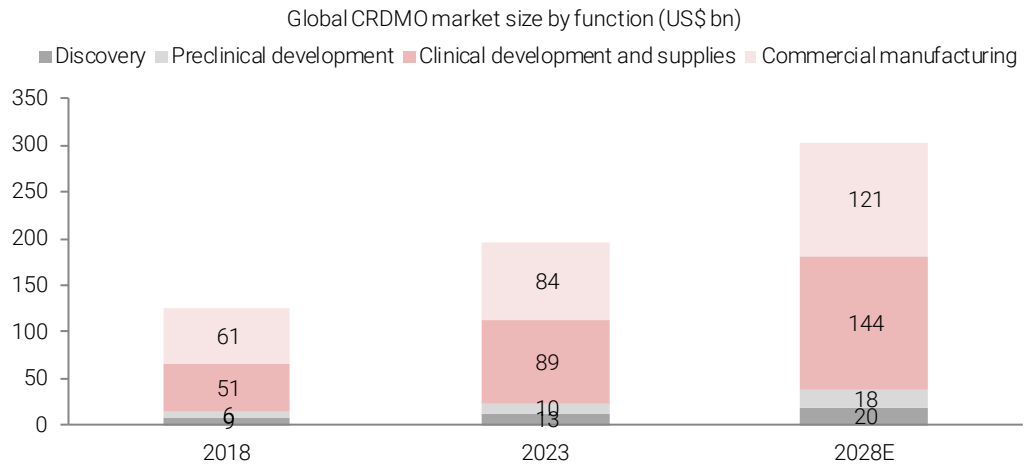
(b) Probability of success—success probability of a drug moving from Phase-I to approval.

Source: Frost & Sullivan, Kotak Institutional Equities

Although cost of development of biologics is higher, success rate for developing biologics is higher than small molecules

As of CY2023, development and manufacturing services comprised 85%+ of the global CRDMO market

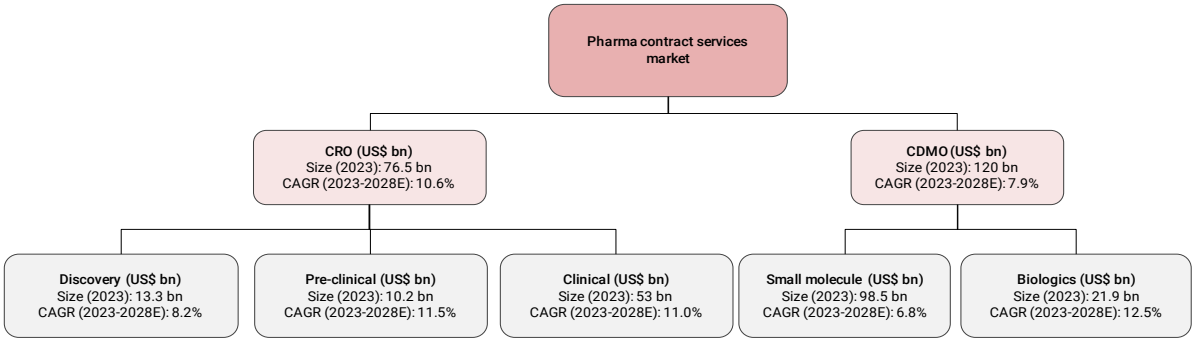
Exhibit 47: Global CRDMO industry split by function, December calendar year-ends, 2018-28E (US$ bn)



Source: Frost & Sullivan, Kotak Institutional Equities

Within the global contract services market, biologics CDMO is poised to grow the fastest over the next five years

Exhibit 48: Global CRDMO industry growth profile, December calendar year-ends, 2023-28E (US$ bn)



Notes:

(1) All market sizes in this exhibit include the generics market as well.

Source: Evaluate Pharma, Frost & Sullivan, Kotak Institutional Equities

Recombinant antibodies and other mAbs comprise bulk of the global biologics market

Exhibit 49: Traditional and new generation therapies in biologics, December calendar year-end, 2024

Notes:

(a) % in the bubble represents CAGR between 2023 and 2028E.

(b) Bubble size represents the growth potential between 2023 and 2028E.

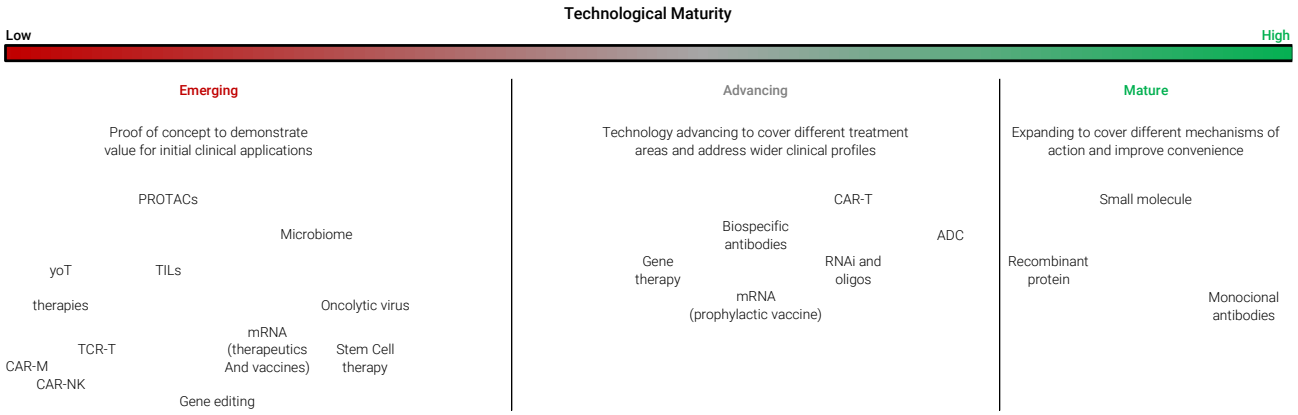
(c) Molecular weight in Dalton (Da): Small molecules (>1000 Da), Oligonucleotides (~15,000 Da), Protein & Peptides therapeutics (~16,000 Da), xRNA.

(d) Therapies (~7,000-20,000 Da), recombinant antibodies (~50,000 Da), monoclonal antibodies (~150,000 Da), antibody-drug conjugates (~150,000 Da).

Source: Evaluate Pharma, Frost & Sullivan, Kotak Institutional Equities

A majority of incremental R&D spends have been going into advancing and emerging technologies

Exhibit 50: Various technologies and their relative global R&D pipeline



	Other emerging modalities	Stem cell therapy	Oncolytic virus	Biospecific antibodies	mRNA vaccine	Gene therapy	RNAi/ oligos	CAR-T	ADC	mAb	Recombinant protein	Small molecule
Marketed products	0	66	4	3	8	17	18	19	42	140+	500+	37,000+
Global pipeline (early-stage activities)	300+ (99%)	NA	252 (92%)	333 (92%)	76 (97%)	713 (94%)	537 (92%)	682 (96%)	577 (85%)	3,300+ (82%)	NA	14,000+ (81%)

Source: Evaluate Pharma, BCG, Kotak Institutional Equities

Global CRDMO companies are investing heavily in developing newer and more efficient technologies

Exhibit 51: Emerging technologies in global CRDMO, December calendar year-end, 2024

	Process description	Advantages	Applications	Key product details
Technology platforms				
Biotransformation	Biosynthesis/biotransformation is a process that uses enzymes as catalysts to replace heavy metals or other chemical catalysts when synthesizing drugs.	Biosynthesis/biotransformation provides a faster, cost-efficient and more environmentally friendly CRDMO solution as compared to the traditional chemical synthesis process, resulting in a milder reaction process that is more environment-friendly, safer, and cost-efficient as it combines multi-step catalytic reactions into one, significantly reducing manufacturing waste and costs. The molecules produced by biosynthesis/biotransformation are considered natural and safe. The reactions are typically carried out in a milder temperature range (4-60 degree celsius), leading to a lower amount of energy reauired for the reaction, compared to traditional chemical synthesis.	Green Chemistry, Organic Synthesis, Asymmetric Synthesis and Drug Modification	Sitagliptin (Januvia): ~US$2.4 bn, Atorvastatin (Lipitor): ~US$1.6 bn, Monetlukast (Singulair): ~US$452 mn
Flow Chemistry/ Continuous Manufacturing	Flow Chemistry or Continuous Manufacturing is a technique where chemical reactions are carried out in a continuous flow system (uninterrupted production line), rather than in batches.	This method offers several advantages, including improved control, efficiency, and safety. Flow processes can produce higher yields, and be safer, cleaner, and cheaper to set up and operate leading to higher operational efficiency. Flow chemistry solutions offer precise control over critical reaction parameters, namely stoichiometry, mixing, temperature, and reaction time.	Peptide and oligonucleotide synthesis	Ribociclib (Kisqali): ~US$2.1 bn, Celecoxib (Celebrex): ~US$364 mn
Fermentation	Fermentation is a biological process that involves the conversion of organic compounds into other products by the action of microorganisms.	This method enables the production of large quantities of specific compounds in a relatively short time, making it a cost-effective method to produce specific drugs with better operational efficiency.	Monoclonal Antibodies, Recombinant proteins, Microbial vaccines	Ceftriaxone (Rocephin): ~US$443 mn, Minocycline (Arestin, Monocycline): ~US$156 mn
Metal-Mediated Chemistry	Metal-mediated chemistry is an important tool in organic synthesis, involving the use of metal catalysts to facilitate chemical reactions.	Metal ions can enhance the toxicity of certain drugs by producing Fenton reactions. These drugs can be used to treat a variety of ailments, including diabetes, ulcers, rheumatoid arthritis, and inflammatory diseases.	Chiral Catalysis, Catalytic hydrogenation and oxidation, Reduction and carbon bond formation	Valsartan (Diovan): ~US$674 mn, Ostelimivir (Kewei, Tamiflu): ~US$370 mn, Sertraline (Zoloft): ~US$292 mn, Losartan (Cozaar): ~US$368 min
Recombinant DNA	Recombinant DNA technology involves using enzymes and various laboratory techniques to manipulate and isolate DNA segments of interest.	Recombinant DNA technology can produce proteins and antibodies with a high degree of uniformity and specificity.	Production of Insulin, Recombinant Proteins, Human Growth Hormone, Gene therapy	Adalimumab (Humira): ~US$14 bn, Entrectinib: ~US$4.5 bn, Trastuzumab (Herceptin): ~US$1.8 bn, Insulin Glargine (Lantus): ~US$1.5 bn
Electrochemistry	Electrochemistry is a technique that uses electricity to perform chemical reactions like oxidation and reduction. It has applications in medicinal chemistry labs, early development for the synthesis of intermediates, and synthesis of impurities.	Electrochemistry can make the process of synthesizing small molecules more sustainable and efficient. Electrochemistry can be used to create molecules that are difficult or impossible to make using traditional chemistry. It can also replace hazardous or waste-generating reagents in the synthesis of active pharmaceutical ingredients.	APIs and intermediates	NA
Photochemistry	Photochemistry utilizes light, often in the visible or ultraviolet spectrum, to activate a substrate or catalyst, which then facilitates a reaction.	Light as a reagent aligns with strategies for green chemistry, reducing reliance on traditional reagents and minimizing the use of hazardous substances.	APIs and intermediates	NA

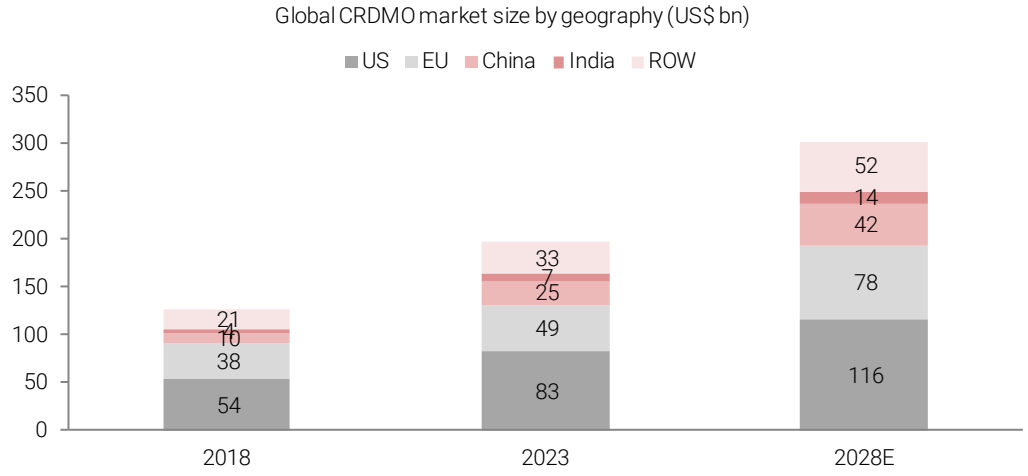
Source: Frost & Sullivan, Kotak Institutional Equities

In CY2023, the global CRDMO industry (including generics CDMO) stood at ~US$197 bn and is expected to report a ~9% CAGR over the next five years. Among key regions, the US is the dominant geography for CRDMOs, followed by the EU. Within Asia, China and India are the largest CRDMO markets. The Indian CRDMO market (including generics CDMO) stood at ~US$7 bn in CY2023. We highlight that owing to several macro tailwinds, the India CRDMO market's CAGR at ~15% over CY2023-28E is expected to be faster than these other markets.

Owing to several macro tailwinds, the India CRDMO market's CAGR at ~15% over CY2023-28E is expected to be faster than these other markets

As of CY2023, Indian CRDMOs contributed to only ~4% of the global CRDMO market (including generics)

Exhibit 52: Global CRDMO industry split by geography, December calendar year-ends, 2018-28E (US$ bn)

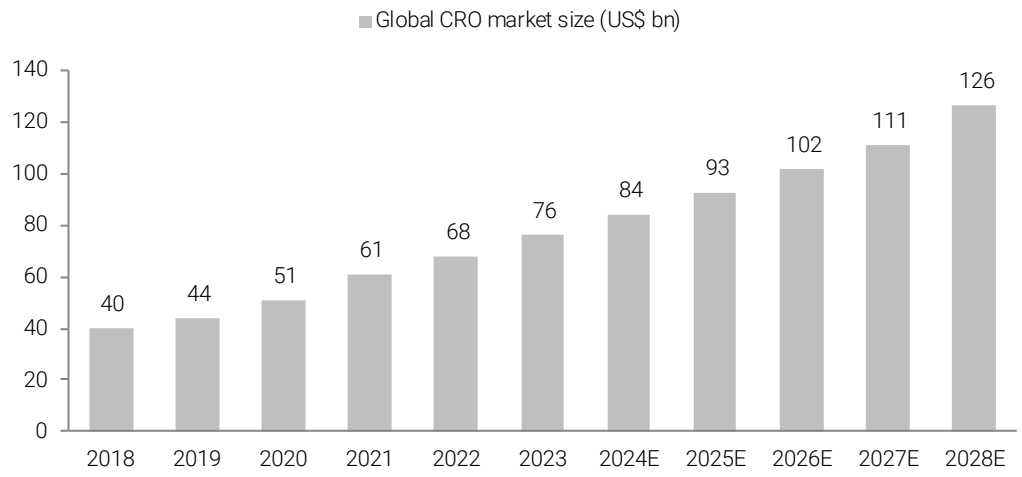


Source: Frost & Sullivan, Kotak Institutional Equities

The global CRO market size increased from ~US$40 bn in CY2018 to ~US$76 bn in CY2023, reporting a ~14% CAGR over CY2018-23. The industry is expected to grow at low double digits to reach ~US$126 bn in CY2028E, primarily driven by increasing outsourcing, improving technological capabilities and global expertise.

The global CRO industry is expected to increase at a CAGR of ~11% over CY2023-28E

Exhibit 53: Global CRO industry, December calendar year-ends, 2018-28E (US$ bn)



Source: Frost & Sullivan, Kotak Institutional Equities

Compared with the 14% CAGR for the global CRO industry, growth for the global CDMO market has been in mid-single digits over CY2018-23. The industry is expected to report an ~8% CAGR over the next five years and increase to ~US$176 bn in CY2028E.

The global CRO industry is expected to increase at a CAGR of ~11% over CY2023-28E, faster than the expected CAGR of 8% for global CDMO industry over the same period

The global CDMO industry is expected to report a CAGR of ~8% over CY2023-28E

Exhibit 54: Global CDMO industry, December calendar year-ends, 2018-28E (US$ bn)

Source: Frost & Sullivan, Kotak Institutional Equities

Amid market uncertainties and growing demand, CRDMO tie-ups are undergoing a transformation

The nature of relationships between CRDMOs and innovator pharma companies is constantly evolving with the change in market dynamics. Historically, pharma has often concentrated on selling high-volume products and used contracts with CRDMOs to leverage increased manufacturing capacity. However, as mass-distribution blockbuster drugs faded and precision medicine, specialty indications and more R&D in complicated treatments took the center stage, pharma sponsors have started to view CRDMOs as strategic partners rather than vendors. Pharma innovators increasingly leverage cost efficiencies, specialist knowledge, latest manufacturing technologies and other benefits from CRDMOs. In addition, the growing pipeline of complex products and the increased focus on efficiency and innovation have further driven the global outsourcing of research and manufacturing tasks to CRDMOs. We expect the reliance on CRDMOs to grow further, as they continue to offer innovators commercially feasible solutions for a range of drug development and manufacturing services such as pharma formulation, analytical development, process optimization and scale-up manufacturing. Strong technical know-how and R&D infrastructure capabilities, availability of skilled scientific talent and quality manufacturing with a clean track record of regulatory compliance are some of the key success factors for a CRDMO.

CRDMO tie-ups evolving into a 'relationship of equals'

We highlight that in the past, most outsourcing partnerships were centered around utilizing both the capabilities of the CRDMO and the core capabilities of the innovator. However, of late, innovators are more willing to enter into these contracts with these CRDMO companies as a strategic partner, viz., a relationship of equals. Both parties are responsible for bringing their own competencies, knowledge and capabilities to the table and optimizing a balanced working partnership. Given the reliance of the pharma industry on outsourcing has only increased, with the frequency of CRDMO agreements rising, such balanced partnerships with a sharing of risk would be the cornerstone of further growth for both CRDMO service providers and innovators alike. We note that while the establishment of a true risk-sharing model is only easier said than done, optimization of the penalty-based CRDMO contract towards a bonus-penalty-based contract would serve as a step in the right direction. Moreover, when two companies truly share risk, the essence lies in the cultural and organizational fits of both parties. Globally, there has been a shift toward this collaborative risk-sharing model, as biopharma companies are now more likely to share the installation and development costs with the outsourcing service provider. This would also aid

CRDMOs, especially the smaller ones, who would be otherwise left empty-handed, especially in early-stage projects, if an innovator decides to halt the project midway.

Increased complexity of drug development, need for speed and efficiency, seamless project management, enhanced quality control and reduced tech-transfer times, are driving demand for integrated offerings.

Vendors have been providing integrated solutions across the entire R&D value chain

CROs can help significantly lower drug development costs, facilitate a more seamless and timely entry into new markets with varying regulatory requirements, avoid the expense and labor of managing capital-intensive infrastructure and allow pharma sponsors to concentrate on their core skills, while proactively mitigating any development risks. CROs have elevated their role and often emerged as co-innovators led by the expansion of small and frequently virtual biotech companies with lean teams, which rely heavily on an outsourcing partner for drug discovery and development needs. By utilizing their extensive range of services, CROs can help lower drug development costs by ~30%, when compared with in-house research.

We highlight several factors, including increased complexity of drug development, need for speed and efficiency, seamless project management, enhanced quality control and reduced tech-transfer times, are driving demand for integrated offerings. Modern drug development involves increasingly complex molecules such as biologics, cell and gene therapies, and antibody-drug conjugates (ADCs). These require specialized expertise and capabilities that are often best provided by integrated CDMOs. Pharma companies are under pressure to accelerate drug development timelines and bring therapies to market faster. Integrated CRDMOs can streamline the process by providing a single point of contact and seamless transitions between discovery, development and manufacturing stages. Integrated CRDMOs can minimize the time and resources required for technology transfer between different stages of development as a single project manager oversees all stages of the drug development process, ensuring efficient coordination. Moreover, a unified quality system across stages of development ensures consistent quality and compliance, as working with a single integrated provider can reduce the risk of delays and disruptions caused by miscommunication or incompatible processes between multiple vendors. This pursuit of integrated offerings by a single entity is also due to the requirement for innovative treatments, along with higher RoIs from development projects.

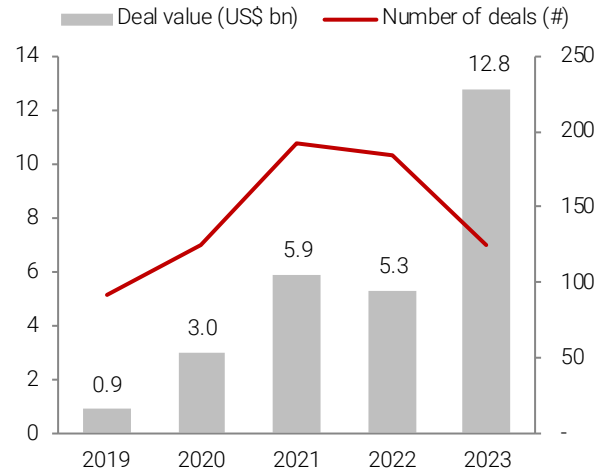
With AI potentially driving higher steps in DMPK/biology studies, it can be an enabler

Usage of AI leads to a rise in drug complexity, thereby driving more steps in chemical synthesis. Thus, any saving in computational chemistry is being shifted to DMPK and biology studies

The emergence of AI/Gen AI surely has the potential to reshape the drug discovery and development process, especially the earlier stages, offering immense scope to optimize the discovery operations of CRO/CDMO companies. Companies have been investing in a host of AI tools to streamline their discovery processes, accelerate development timelines and save costs, which has led to tremendous growth in the use of AI within the biopharma industry. Several global CRDMO companies have highlighted the growing usage of AI in their daily operations and guided toward dedicating a portion of their budgets for further enhancing their AI/ML capabilities. We highlight that traditional drug discovery is a notoriously cumbersome process. Given the abundance of data available to most CRDMO companies, AI serves as an effective tool to address the various intricacies of the drug discovery and development processes. From designing new molecules to identifying novel biological targets, AI is playing a pivotal role in lowering the design time and ensuring quality control, thus reducing the time for the drug to get an approval and reach the market. AI is also used to examine the enormous data sets available in research publications and dossier filings to validate or discard hypotheses. It also serves as a predictive analytic tool by processing biomedical and clinical data, and consequently aiding in predicting patient responses to clinical trials. While AI usage can significantly reduce the search horizon for new drug candidates and better initial designs of molecules, it also leads to a rise in drug complexity, thereby driving more steps in chemical synthesis. Thus, any saving in computational chemistry is being shifted to DMPK and biology studies.

There have been several large deals wherein pharma companies have acquired AI-based innovator companies

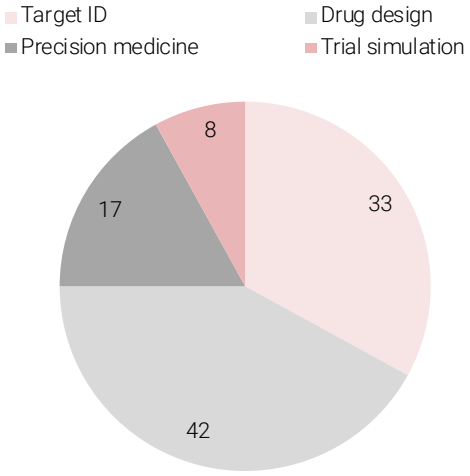
Exhibit 55: AI/ML-related deals and values in pharma industry, December calendar year-ends, 2019-23 (US$ bn, #)



Source: IQVIA, Kotak Institutional Equities

Within research, AI/ML's role is majorly prominent in target identification and drug design

Exhibit 56: Percentage role of AI/ML type in pipeline products with known AI platform use in research stage over CY2019-23



Source: IQVIA, Kotak Institutional Equities

The increasing preference for integrated offerings has led to a rise in M&A in the global CRDMO space as companies look to add niche capabilities and capacities

M&As help skip a few years in the evolution journey of a CRDMO and hence, play a vital role

The increasing preference for integrated offerings and the paradigm shifts to establish strategic tie-ups instead of a mere vendor-client agreement have led to a rise in M&A in the global CRDMO space. In addition, with AI&ML gradually making inroads into the research activities of CROs and technical capabilities gaining significance, more innovator companies are revisiting their notions of CRDMO partnerships. Although a bulk of these big pharma companies choose to enter into partnerships and outsource their research, development and manufacturing activities, some prefer a more direct approach by acquiring entities, which possess the desired capabilities and technologies. Even for a CRDMO, M&As play a critical role in adding capabilities and capacities, and help skip at least a few years in their evolution journey. A relevant example of such a strategy can be Wuxi AppTec. Over the past 15 years, Wuxi AppTec has added multiple capabilities and capacities in areas of small molecule development and manufacturing, drug delivery and protein crystallography services, gene therapy and CRISPR solutions, biologics capacities and more through a series of acquisitions and investments across the globe.

M&A activity remains elevated in the global CRDMO space

Exhibit 57: List of key acquisitions in the CRDMO space, December calendar year-end, 2024

	Target	Acquirer	Consideration (US$ bn)	Capabilities/capacities/technologies acquired
List of key deals in the biotech CRDMO space				
December-24	NJ Bio	Suven Pharma	0.1	Linker and bio-conjugation capabilities in ADCs
July-24	Carmot	Roche	2.7	Development platform for metabolic diseases
July-24	Nerio	Boehringer	1.3	Innovative preclinical program for immuno-oncology portfolio
July-24	BIOVECTRA	Agilent	0.9	Small molecule and biologics manufacturing capacities
July-24	Olink	Thermo Fisher	3.1	Next-generation proteomics solutions
June-24	Sapala Organics	Suven Pharma	0.0	Oligonucleotide drugs and nucleic acid building blocks
May-24	Proteologix	J&J	0.9	Bispecific antibody platform for immune-mediated diseases
May-24	Mariana	Novartis	1.8	Development platform for radioligand therapies (RLTs) to treat cancers
April-24	Alpine	Vertex	4.9	Discovery and development platform for innovative, protein-based immunotherapies
April-24	ProfoundBio	Genmab	1.8	Development platform for next-generation ADCs and ADC technologies for the treatment of certain cancers, including ovarian cancer and other FRα-expressing solid tumors
March-24	Cardior	Novo	1.1	Discovery and development of therapies that target RNA to prevent, repair and reverse diseases of the heart
March-24	Fusion	AstraZeneca	2.4	Development platform for next-generation radioconjugates (RCs)
March-24	Amolyt	AstraZeneca	1.1	Development platform for treatments of rare endocrine diseases
February-24	MorphoSys	Novartis	2.9	Development platform for oncology medicines
February-24	Catalent	Novo	16.5	Three drug product manufacturing facilties
February-24	Cohance	Suven Pharma	NA	ADC platform + APIs
January-24	Harpoon	Merck	0.7	Portfolio of novel T-cell engagers and Tri-specific T cell Activating Construct (TriTAC) platform
January-24	Ambryx	J&J	2.0	Synthetic biology technology platform to design and develop next-generation ADCs
July-23	Stellis facility	Syngene	0.1	Biologics manufacturing facility
December-21	Yapan Bio	Piramal Pharma	0.0	Biologics/vaccines
June-21	Aldevron	Danaher	9.6	High-quality plasmid DNA, mRNA, and proteins
March-21	Hemmo Pharma	Piramal Pharma	0.1	Peptide APIs manufacturing
November-20	Richcore Lifesciences	Laurus Labs	0.0	Advanced R&D and manufacturing facilities for biotech products
June-20	G&W Laboratories	Piramal Pharma	0.0	Oral dosage form capabilities in North America
February-20	MaSTherCell	Catalent	0.3	Cell therapy
February-20	MedPass International	ICON	NA	Medical device CRO, regulatory and reimbursement consultancy
February-20	Model Ansers	Paraxel	NA	PK and PD modelling, simulation and analysis services
May-19	Paragon Bioservices	Catalent	1.2	Gene therapy
May-19	MediNova	ICON	NA	Clinical research site
May-19	Vibalogics	Ampersand Capital	NA	CDMO
May-19	Just Biotherapeutics	Evotec	0.1	Molecule to Manufacturing
March-19	Brammer Bio	Thermo Fisher	1.7	Viral Vector manufacturing for gene and cell therapy
March-19	GHO Capital	Sterling	NA	API CDMO
February-19	Citoxlab	Charles River	0.5	Non-Clinical CRO
February-19	Molecular MD	ICON	NA	Molecular diagnostic testing and immunohistochemistry
January-19	Protenium	Elligo Health Research	NA	Clinical Research for therapeutic areas
December-18	CCA Clinical Research	Atlantic Research	NA	CRO
November-18	Cato Research	JLL Partners/ Water Street	NA	CRO
November-18	BioAgilytix Labs	Cobepa	0.3	Large Molecule, Bioanalysis Lab services
November-18	Avista Pharma	Cambrex	0.3	CDMO
October-18	Octane	Lonza	0.1	Cell therapy
August-18	Juniper Pharmaceuticals	Catalent	0.1	Therapeutics for women health
August-18	Kinapse	Syneos Health	0.2	Life Sciences consulting
July-18	Halo Pharma	Cambrex	0.4	CDMO
July-18	AMPAC	SK Biotek	0.5	Small molecule API
June-18	Helomics	Precision Therapeutics	NA	Precision - Life Science, devoted to cancer.
March-18	Accelovance	Linical	NA	CRO
February-18	MPI Research	Charles River	0.8	Non-Clinical CRO
January-18	Concept Life Sciences	Spectris	0.2	Drug Discovery and Development
January-18	KWS BioTest	Charles River	0.0	Specialises in vitro and vivo testing services in immunology
December-17	Crown Bioscience	JSR Corporation	0.4	CRO
September-17	Cook Pharmica	Catalent	1.0	CDMO
September-17	Therapure Biopharma	3SBio	0.3	CDMO
August-17	Albany Molecular	Carlyle Group and GTCR	0.9	CRO
August-17	inVentive Health	INC Research	NA	CRO. Now Syneos Health
August-17	Symphony Health	PRA Health	0.5	GP services
August-17	Brains On-Line	Charles River	0.0	Micro dialysis in CNS, vivo efficacy and pharmacokinetics testing
August-17	Patheon	Thermo Fisher	7.2	CDMO
August-17	Aptuit	Evotec	0.3	CDMO
July-17	Capsugel	Lonza	5.5	CDMO
July-17	Micro-Macinazione	Lonza	NA	CMO in micronization. Sales ~ CHF 20 million in 2016
June-17	Paraxel	Pamplona Capital	5.0	CRO
June-17	Alphora Research	Eurofins	0.3	CRAMS for complex and niche small molecule API
March-17	AppTec Lab Services	Wuxi PharmaTech	0.2	contract testing, R&D, biologics manufacturing
February-17	CMC Biologics	AGC Asahi Glass	0.5	mAbs, coagulation factors and therapeutic proteins
October-16	Cyprotex	Evotec	0.7	CRO
September-16	Pharmatek Labs	Catalent	NA	CDMO
August-16	InterHealth Nutraceuticals	Lonza	0.3	Specialty nutritional ingredients
August-16	BioClinica	Cinven	1.4	Specialised technology-enabled services supporting clinical trials
August-16	Ash Stevens	Piramal	0.1	HP APIs and ADC payload capabilities
May-16	IMS Health	Quintiles	NA	IMS - data gathering and analysis; Quintiles - clinical applications
May-16	Synexus	PPD	0.3	Site Network Org. developments in clinical trails
May-16	Euticals	AMRI	0.4	API maker
January-16	WIL Research	Charles River	0.6	CDMO
November-15	Corporate Translations	RWS Holdings	0.1	Life Sciences translation and linguistic validation provider
September-15	Kinesis Pharma	Venn Life Sciences	0.0	Drug development consultancy offering CRO
August-15	Wuxi PharmaTech	Wuxi Life Science	3.3	Laboratory and manufacturing services
July-15	Chiltern	Lab Corp	1.2	CRO
July-15	Celsis International	Charles River	0.2	Rapid bacterial detection/microbial screening
June-15	Gadea	AMRI	0.2	API development and manufacturing
February-15	Covance	Lab Corp	5.6	CRO
November-14	Lusomedicamenta	Recipharm	0.1	CDMO
October-14	Corvette	Recipharm	NA	CRO
July-14	Penn Pharma Service	PCI Pharma Services	0.2	Drug development, clinical trial supply and manufacturing services
July-14	Phlexglobal	Bridgepoint	0.4	Document management solutions to the clinical research market
June-14	Oso Biopharmaceutical	AMRI	0.1	CMO
May-14	Medaxial	Covance	NA	Market access/HEOR consultancy
March-14	Aptiv Solutions	ICON	0.1	Clinical CRO focused on adaptive & device trials
February-14	Medpace	Cinven	0.9	Full- Service CRO
December-12	Banner PharmaCaps	Patheon	0.3	Specialty pharma doing R&D of gelatin-based dosage forms.
June-12	Decision Resources Group	Piramal	0.6	Research, predictive analytics and consulting services
December-11	BeijingWits	ICON	NA	CRO

Source: Companies, Kotak Institutional Equities

A traditional ADC drug utilizes the antibody to bind to the tumor-specific antigen, delivers the payload to the target cancer cell and then releases the payload to cause cancer cell death

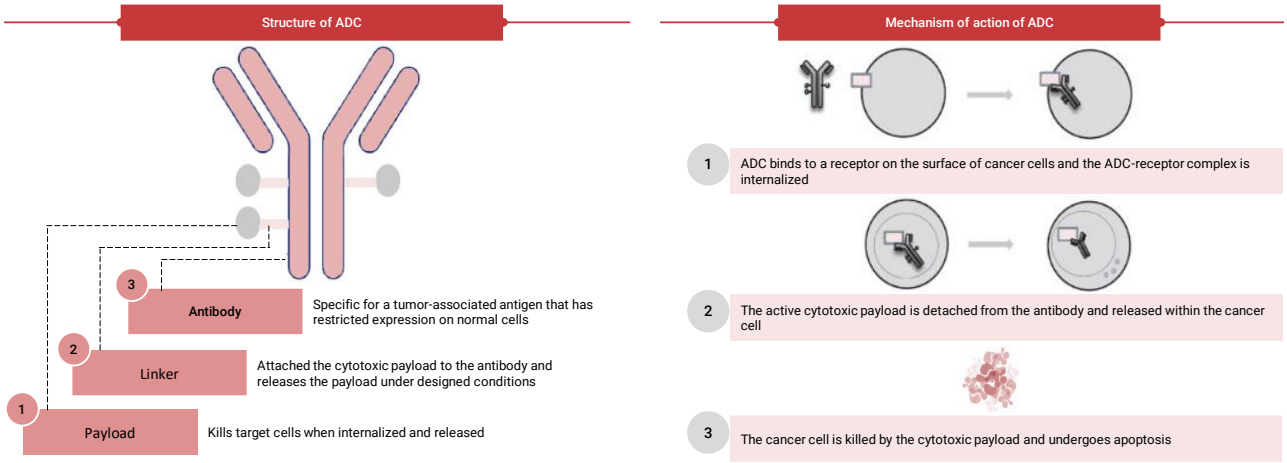
Some recent interesting deals include Suven Pharma's acquisition of NJ Bio for linker and bioconjugation capabilities in ADCs, or Novo Holdings' acquisition of US CDMO giant, Catalent, following which Novo de-listed Catalent and plans to utilize the three acquired drug product manufacturing facilities for captive purposes. In the past, Thermo Fisher had acquired Patheon in CY2017 for ~US$7.2 bn, while Danaher acquired Aldevron for ~US$9.6 bn in CY2021.

Among various emerging therapeutic areas, ADCs offer promising CRDMO prospects

Antibody drug conjugates (ADCs) are an innovative biologics drug modality composed of a biologic component (i.e., the antibody) attached to a small molecule drug (i.e., the cytotoxic payload) through a specifically designed linker. A traditional ADC drug utilizes the antibody to bind to the tumor-specific antigen, delivers the payload to the target cancer cell and then releases the payload to cause cancer cell death. An ADC combines the target selective antibody and highly active cell-killing toxic drug; it has demonstrated the potential of significantly improving the therapeutic window, which is the dose range of a drug that provides safe and effective therapy, compared with current standard-of-care therapies.

A single ADC comprises an antibody, a payload and a linker

Exhibit 58: Mechanism of ADCs

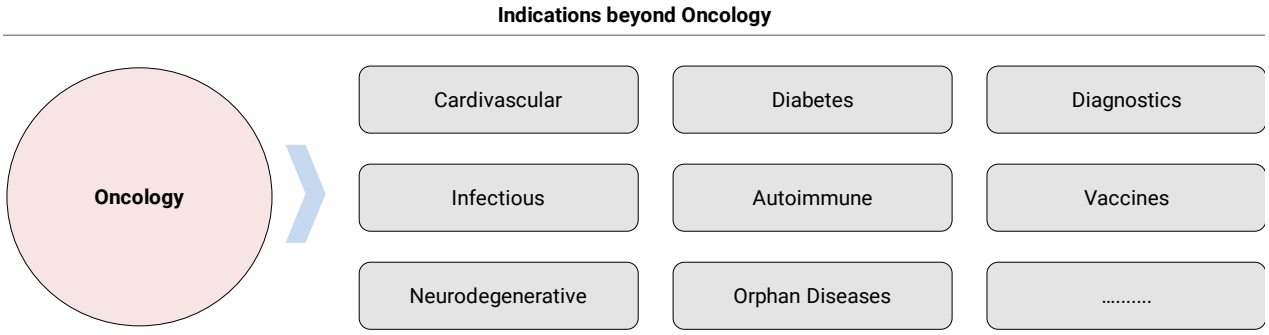


Source: Frost & Sullivan, Kotak Institutional Equities

The mechanism of action of ADCs has the potential to synergize with other treatment modalities, resulting in enhanced tumor cell eradication. Therefore, ADCs are being actively studied in preclinical activities and clinical trials in combination with other anticancer agents, including chemotherapy, molecularly targeted drugs, and immunotherapy in recent years. With extensive efforts currently underway, we believe ADC-based combination therapies hold promising prospects in the future. For example, the combination of ADC and immunotherapy has the potential to become the primary approach in immunotherapy. As per Frost & Sullivan, nearly half of the current combination therapies involving immunotherapy and chemotherapy could be replaced by immunotherapy combined with ADC.

Beyond the traditional cytotoxins, 7+ types of payloads with novel mechanisms are being incorporated into ADC designs

Exhibit 59: ADCs—various indications



Source: Frost & Sullivan, Kotak Institutional Equities

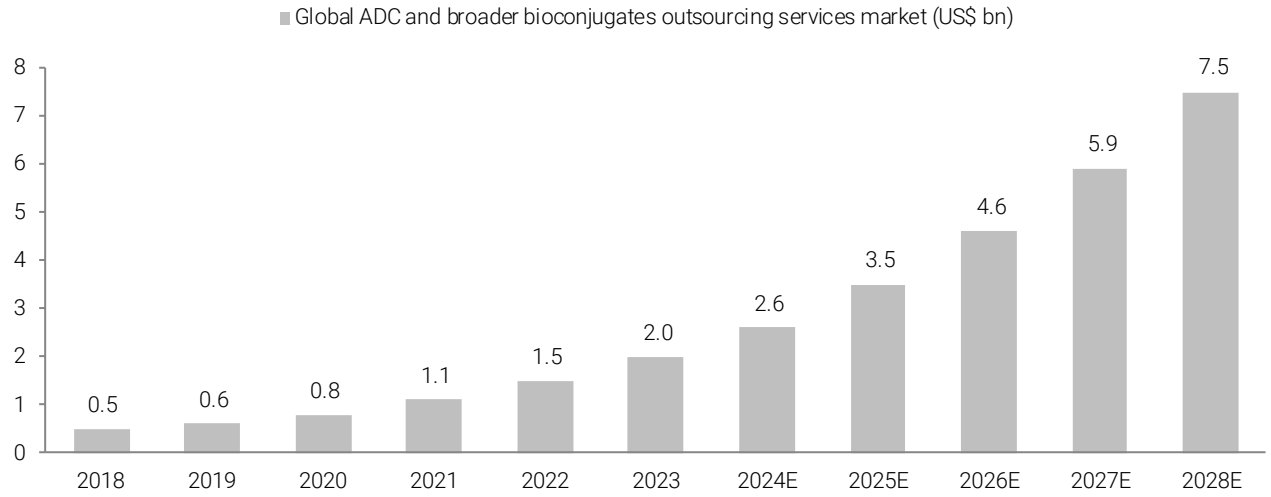
Global ADC and broader bioconjugates outsourcing services market is expected to report a robust CAGR of ~28% over CY2023-30E

Global CRDMO players enjoy a dominant market share in the ADC outsourcing market

We note the CRDMO mix within the development of ADCs is higher than most other modalities. The global market for ADCs and broader bioconjugates outsourcing services reached a value of US$1.5 bn in CY2022, registering a CAGR of ~35% over CY2018-22. This growth outpaced the overall biologics outsourcing services market, which had a CAGR of ~22% over the same period. It is expected that the global ADC and broader bioconjugates outsourcing services market will expand significantly to reach US$11.0 bn by CY2030E, reporting a CAGR of ~28% over CY2023-30E.

Global ADC and broader bioconjugates outsourcing market is expected to report a ~28% CAGR over CY2023-30E

Exhibit 60: Global ADC and broader bioconjugates outsourcing market size, December calendar year-ends, 2018-30E (US$ bn)



Source: Frost & Sullivan Analysis, Kotak Institutional Equities

Lonza, Wuxi XDC and Merck are global leaders in the ADC outsourcing services market

Exhibit 61: Top ADC outsourcing players, December calendar year-end, 2023 (US$ bn, %)

	Geographical presence				
	mAb	Payload-linker	Conjugation	Revenues (US$ mn)	Market share (%)
Top ADC outsourcing players					
Lonza	Tuas (Singapore) / Slough (UK)	Visp (Switzerland)	Visp (Switzerland)	319	21.4
Wuxi XDC	Shanghai (China), Wuxi (China)	Changzhou (China), Wuxi (China)	Wuxi (China)	146	9.8
Merck	Martillac (France)	Madison, Wisconsin (US)	St. Louis, Missouri (US)	108	7.2
Company A	NA	France	France	90	6.0
Mustang Bio	Worcester (US)	Ireland, Chicago (US)	Chicago (US), Worcester (US)	83	5.6
Company B	Latina (Italy)	Latina (Italy)	Latina (Italy)	78	5.2
Company C	Wisconsin (US)	NA	California (US)	75	5.0
Piramal	NA	India and US	Grangemouth (UK)	72	4.9
Fujifilm Diosynth	Teesside (UK) / North Carolina (USA)	NA	NA	70	4.7
Company D	NA	NA	NA	67	4.3

Source: Frost & Sullivan Analysis, Companies, Kotak Institutional Equities

In our view, as the global ADC market continues to grow, CRDMO companies currently providing payloads/payload-linkers components or antibody components for ADC would expand their capabilities to provide full-spectrum ADC CRDMO services. However, it takes great efforts for biologics-focused outsourcing service providers to master chemical drug capabilities and expertise for payload-linkers, and vice versa. In addition, with years of cultivation of client relationships and collaboration, market-leading players have established a solid and loyal client base. Accordingly, CRDMO companies currently focusing on providing only payload-linker components or antibody components for ADC could be needed to re-establish their credentials and expertise.

Key factors driving outsourcing in ADC services include interdisciplinary capabilities and expertise in biologics and small molecules, requirement of specialized facilities for different components and conjugation processes, handling of toxic compounds

ADCs and bioconjugates have grown popular due to their efficacy and specificity

The following reasons present key success factors that contribute to the dynamic and competitive ADC and broader bioconjugates outsourcing services market:

- **Research, development and manufacturing expertise across modalities:** The development of ADCs requires interdisciplinary capabilities and expertise in biologics and small molecules, which requires seamless coordination among different steps of development. To advance an ADC project from DNA synthesis to IND, the industry timeline typically ranges from 24 to 30 months, involving different outsourcing service providers. Companies with integrated comprehensive capabilities dedicated to ADC development enjoy unparalleled advantages by saving time and costs while ensuring superior quality control.
- **Facilities with integrated capabilities**: As ADC and broader bioconjugates development and manufacturing require specialized facilities for different components and conjugation processes, suppliers with integrated capabilities in biologics and small molecule across the supply chain from discovery to manufacturing are key in ADC and broader bioconjugates outsourcing services. Companies operating facilities with integrated capabilities can effectively reduce logistical challenges, shorten ADC production time with assured quality and reduced cost.
- **Comprehensive technical capabilities and capacity to support diversified needs**: Players with an integrated and comprehensive technology toolbox, characterized by extensive experience in a myriad of bioconjugates and their components, conjugation technologies, and scale-up capabilities can effectively deliver quality results efficiently for the discovery and development process. Moreover, world-class laboratories and GMP manufacturing facilities are necessary to handle highly toxic compounds safely, including but not limited to, the facilities designed to handle Occupational Exposure Band 5 substances, ranging from milligrams to kilograms.
- **Highly regulated process requiring a proven quality track record**: The strict and complex quality assurance standards mandated by regulatory bodies, coupled with the protracted approval process, have elevated barriers to entry for new entrants in the market. Customers, especially global-leading pharma companies, would prefer to partner with outsourcing players that possess GMP quality track records and advanced quality control systems. Only the most exceptional players are able to achieve a proven track record in meeting customer specifications and applicable regulatory standards and, as a result, to secure long-term contracts with existing clients and attract new ones.

The R&D of ADCs requires extensive biological, chemical and manufacturing know-how and capabilities that span across biologics, small molecules and bioprocessing. The increasing development and manufacturing needs for ADCs are expected to demand more outsourcing services from ADC CRDMOs, with fully integrated comprehensive capabilities that enable the rapid advancement of ADC candidates.

The R&D of ADCs requires extensive biological, chemical and manufacturing know-how and capabilities that span across biologics, small molecules and bioprocessing, leading to higher R&D outsourcing in ADCs

Exponential prospects for the ADC outsourcing market, led by increased demand and innovation

With the rise in R&D investments in the global ADC market, we expect the demand for outsourcing services for ADC and other bioconjugates development to continue to grow. Outsourcing service providers, with integrated comprehensive capabilities that are able to accelerate development timelines and ensure high quality for clients, have rapidly gained market share in the past three years and are expected to continue to lead the outsourcing services market growth.

- **Continuous innovation and increasing R&D spending in ADC and broader bioconjugates**: The continuous innovation in conjugation technology and ADC drug development is expected to further drive the high demand for outsourcing services. Other than ADC, broader bioconjugate drugs with novel carriers and payload-linkers targeting expanding therapeutic areas require continuous support from outsourcing service providers, especially those with integrated comprehensive service capabilities that can provide efficient and reliable solutions.
- **Increasing demand for efficient supply chain management:** The complicated discovery, development and manufacturing process requires interdisciplinary expertise in biologics and small molecule compounds. The ability to efficiently manage the complex supply chain to ensure smooth transition between steps with assured quality is increasingly important for pharma companies. Outsourcing service providers with strong capabilities in supply chain management, especially those with strategically located facilities within geographical proximity, are expected to benefit from the increasing demand.
- **Continuous technology improvement**: As the industry evolves and expands from ADCs to broader bioconjugates, outsourcing service providers with innovative technologies focused on developing conjugation technology for novel linkers, new carriers and payloads would be in increasing demand. Leading players with cutting-edge technologies and proprietary conjugation platforms can provide customers with various choices in the fast-growing bioconjugates development process, which is critical for biotech companies in their discovery and development process.

kotak Institutional Equities

Piramal Pharma (PIRPHARM)

Pharmaceuticals

BUY

CMP(₹): **219** Fair Value(₹): **300** Sector View: **Neutral** NIFTY-50: **23,658** **March 24, 2025**

Turning over a new leaf

After a decade of investments, PPL has metamorphosed into a formidable CRDMO player with niche capabilities, backed by an onshore setup. PPL's leadership in key products within the high-entry-barrier CHG segment, aided by backward integration, also lends comfort. We expect higher growth in innovation and differentiated projects, led by better utilizations in recently expanded overseas facilities, share gains, as well as new CHG launches and improved ICH profitability to drive a ~630 bps EBITDA margin expansion over FY2024-28E for PPL. Initiate with BUY with a DCF-based FV of Rs300.

Initiate with a BUY rating; FV at Rs300 provides ~37% upside

We initiate coverage on PPL with a BUY rating and a DCF-based FV of Rs300, offering a ~37% upside from CMP. Our FV implies 21/16/20X FY2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver stellar ~13/23/170% revenue/EBITDA/PAT CAGRs over FY2024-28E, driven by ramp-up in CRDMO sales, led by a robust pipeline, higher utilizations at the overseas facilities, and higher focus and faster decision-making post the demerger with Piramal Enterprises in FY2023. Over the past decade, PPL has added capabilities through 15+ M&As, involving a mix of capability/facility acquisitions in CRDMO, complex product portfolios in CHG and brands in ICH. While this has historically led to a significant drag on the balance sheet, we expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoEs/RoICs to ~10/9% to address long-standing investor concerns around debt, FCF burn and low return ratios. We also note PPL's senior executives are being evaluated on profitability metrics, rather than on just sales growth.

A harmonious fusion of diverse elements to drive ongoing turnaround

We expect PPL's diversified presence of CRDMO facilities with niche capabilities, backward integration in key products in the Complex Hospital Generics (CHG) business, and fast-growing power brands in India Consumer Healthcare (ICH) to drive a 13% overall sales CAGR over FY2024-28E, led by 13/11/13% sales CAGR in CRDMO/CHG/ICH. We expect growth in CRDMO to be driven by higher integrated projects and differentiated offerings (up from <20% six years back to 44%; to rise further) coupled with increasing utilization rates at the recently expanded overseas facilities. Over the past decade, PPL has built strong capabilities in niche technologies such as ADCs, HPAPIs, peptides, sterile injectables and hormonal products. With a strong pipeline of 150+ molecules in the development phase, we expect 14-15 new molecules (potential 4 blockbuster molecules) to commercialize over the next 5 years.

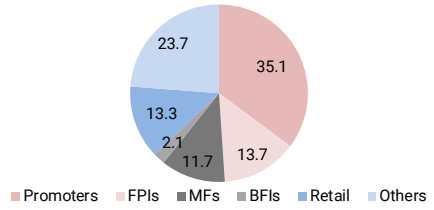
Key risks: High debt, product concentration and M&A integration issues

Key risks for PPL include elevated debt levels (2.8X FY2025E net debt-EBITDA), high product concentration (Sevoflurane/Rimegepant Sulphate contribute ~17/8% to consolidated sales and ~30/10% to FY2025E EBITDA), M&A integration issues and delayed ICH uptick.

Company data and valuation summary

Stock data	
CMP(Rs)/FV(Rs)/Rating	219/300/BUY
52-week range (Rs) (high-low)	308-117
Mcap (bn) (Rs/US$)	290/3.4
ADTV-3M (mn) (Rs/US$)	1,644/19.2

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	5	(14)	81
Rel. to Nifty	(0)	(14)	74
Rel. to MSCI India	1	(10)	75

Forecasts/Valuations	2025E	2026E	2027E
EPS (Rs)	0.4	1.9	4.1
EPS growth (%)	114.9	375.1	119.1
P/E (X)	560.1	117.9	53.8
P/B (X)	3.6	3.5	3.3
EV/EBITDA (X)	22.8	18.5	14.7
RoE (%)	0.7	3.0	6.4
Div. yield (%)	0.0	0.0	0.0
Sales (Rs bn)	92	104	117
EBITDA (Rs bn)	15	18	22
Net profits (Rs bn)	0.5	2.5	5.4

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of March 24, 2025

Full sector coverage on KINSITE

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We expect PPL to report a ~23% EBITDA CAGR over FY2024-28E, with an improved ~10% RoE in FY2028E

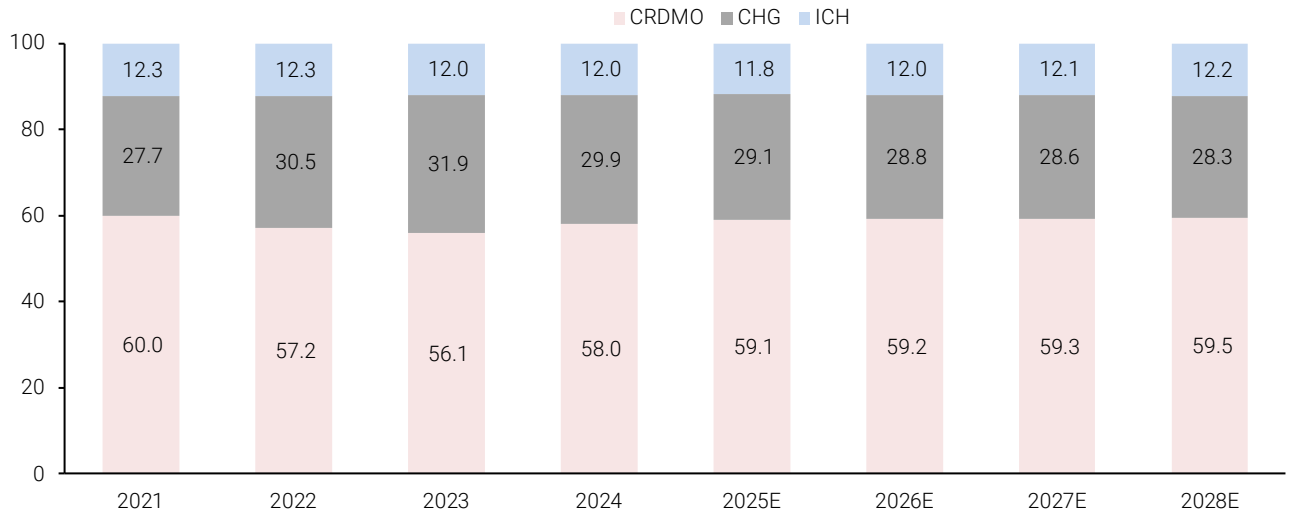
Exhibit 1: Financial snapshot, March fiscal year-ends, 2021-28E (Rs mn, %)

	Net revenues		EBITDA			EPS (reported)		RoIC	RoE	P/E	EV/EBITDA
	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	Growth (%)	(Rs mn)	Growth (%)	(%)	(%)	(X)	(X)
2021	63,149		14,280	22.6		7.0		9.7	14.6	31.3	23.2
2022	65,591	3.9	9,497	14.5	(33.5)	3.2	(55.0)	3.2	6.3	69.5	34.8
2023	70,816	8.0	6,282	8.9	(33.8)	(1.6)	(149.6)	(0.8)	(2.6)	(140.2)	52.6
2024	81,712	15.4	11,963	14.6	90.4	0.1	(108.6)	0.4	0.3	1,625.2	27.6
2025E	92,457	13.2	14,563	15.8	21.7	0.4	190.1	0.7	0.7	560.1	22.8
2026E	103,723	12.2	18,001	17.4	23.6	1.9	375.1	3.1	3.0	117.9	18.5
2027E	117,014	12.8	22,490	19.2	24.9	4.1	119.1	5.7	6.4	53.8	14.7
2028E	132,008	12.8	27,629	20.9	22.8	7.2	76.1	8.9	10.3	30.6	12.0

Source: Company, Kotak Institutional Equities estimates

We expect CRDMO contribution to PPL's overall sales to increase to ~60% in FY2028E

Exhibit 2: PPL's sales mix, March fiscal year-ends, 2021-28 (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 11-13% sales CAGRs for PPL's three major business segments over FY2024-28E

Exhibit 3: Business segments, March fiscal year-ends, 2021-28E (Rs mn, %)

	Units	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Overall									
CRDMO business	Rs mn	36,160	37,519	40,158	47,498	54,711	61,446	69,508	78,687
yoy growth	%		*3.8*	*7.0*	*18.3*	*15.2*	*12.3*	*13.1*	*13.2*
CHG business	Rs mn	16,690	20,021	22,859	24,489	26,989	29,913	33,483	37,362
yoy growth	%		*20.0*	*14.2*	*7.1*	*10.2*	*10.8*	*11.9*	*11.6*
ICH business	Rs mn	7,410	8,064	8,588	9,847	10,907	12,514	14,173	16,108
yoy growth	%		*8.8*	*6.5*	*14.7*	*10.8*	*14.7*	*13.3*	*13.7*
Net revenues	**Rs mn**	**63,149**	**65,591**	**70,816**	**81,713**	**92,457**	**103,723**	**117,014**	**132,008**
yoy growth	%		*3.9*	*8.0*	*15.4*	*13.1*	*12.2*	*12.8*	*12.8*
EBITDA	**Rs mn**	**14,280**	**9,497**	**6,282**	**11,963**	**14,563**	**18,001**	**22,490**	**27,629**
EBITDA margin	%	*22.6*	*14.5*	*8.9*	*14.6*	*15.8*	*17.4*	*19.2*	*20.9*
CRDMO business									
Discovery revenues	Rs mn	1,446	1,501	2,008	1,900	2,090	2,445	2,934	3,374
yoy growth	%		*3.8*	*33.8*	*(5.4)*	*10.0*	*17.0*	*20.0*	*15.0*
Development revenues	Rs mn	9,402	9,755	12,047	12,349	14,144	15,812	17,526	19,491
yoy growth	%		*3.8*	*23.5*	*2.5*	*14.5*	*11.8*	*10.8*	*11.2*
On-patent commercial manufacturing	Rs mn	3,774	4,173	4,016	9,500	13,271	16,596	21,123	26,496
yoy growth	%		*10.6*	*(3.8)*	*136.6*	*39.7*	*25.1*	*27.3*	*25.4*
Other commercial manufacturing	Rs mn	21,538	22,091	22,087	23,749	25,206	26,592	27,925	29,326
yoy growth	%		*2.6*	*(0.0)*	*7.5*	*6.1*	*5.5*	*5.0*	*5.0*
Net revenues	**Rs mn**	**36,160**	**37,519**	**40,158**	**47,498**	**54,711**	**61,446**	**69,508**	**78,687**
EBITDA	**Rs mn**	**8,700**	**4,210**	**402**	**4,761**	**7,003**	**9,033**	**11,955**	**15,344**
EBITDA margin	%	24.1	11.2	1.0	10.0	12.8	14.7	17.2	19.5
CHG business									
Inhalation anesthesia revenues	Rs mn	9,013	11,612	14,687	16,408	18,194	20,284	22,964	25,862
yoy growth	%		*28.8*	*26.5*	*11.7*	*10.9*	*11.5*	*13.2*	*12.6*
Intrathecal therapy revenues	Rs mn	3,505	3,203	3,486	3,673	4,030	4,416	4,758	5,132
yoy growth	%		*(8.6)*	*8.8*	*5.4*	*9.7*	*9.6*	*7.7*	*7.9*
Injectable anesthesia & pain management revenues	Rs mn	3,672	3,404	2,572	2,449	2,571	2,777	3,082	3,421
yoy growth	%		*(7.3)*	*(24.4)*	*(4.8)*	*5.0*	*8.0*	*11.0*	*11.0*
Other product revenues	Rs mn	501	1,802	2,114	1,959	2,194	2,435	2,679	2,947
yoy growth	%		*259.9*	*17.3*	*(7.4)*	*12.0*	*11.0*	*10.0*	*10.0*
Net revenues	**Rs mn**	**16,690**	**20,021**	**22,859**	**24,489**	**26,989**	**29,913**	**33,483**	**37,362**
EBITDA	**Rs mn**	**5,357**	**5,406**	**5,838**	**7,101**	**7,287**	**8,405**	**9,543**	**10,835**
EBITDA margin	%	32.1	27.0	25.5	29.0	27.0	28.1	28.5	29.0
ICH business									
Power brands revenues	Rs mn	1,940	2,680	3,700	4,480	5,272	6,315	7,416	8,743
yoy growth	%		*38.1*	*38.1*	*21.1*	*17.7*	*19.8*	*17.4*	*17.9*
Other brands revenues	Rs mn	5,470	5,384	4,888	5,367	5,635	6,199	6,757	7,365
yoy growth	%		*(1.6)*	*(9.2)*	*9.8*	*5.0*	*10.0*	*9.0*	*9.0*
Net revenues	**Rs mn**	**7,410**	**8,064**	**8,588**	**9,847**	**10,907**	**12,514**	**14,173**	**16,108**
EBITDA	**Rs mn**	**222**	**(119)**	**43**	**100**	**273**	**563**	**992**	**1,450**
EBITDA margin	%	3.0	(1.5)	0.5	1.0	2.5	4.5	7.0	9.0

Source: Company, Kotak Institutional Equities estimates

We forecast 13% and 23% overall sales and EBITDA CAGRs, respectively, for PPL over FY2024-28E

Exhibit 4: Consolidated summary financials, March fiscal year-ends, 2021-28E (Rs mn)

	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss								
Net revenues	**63,149**	**65,591**	**70,816**	**81,712**	**92,457**	**103,723**	**117,014**	**132,008**
Gross profit	**42,558**	**41,079**	**43,783**	**52,172**	**59,542**	**67,316**	**76,410**	**86,465**
EBITDA	**14,280**	**9,497**	**6,282**	**11,963**	**14,563**	**18,001**	**22,490**	**27,629**
Depreciation & amortisation	(5,450)	(5,862)	(6,767)	(7,406)	(8,216)	(8,706)	(9,329)	(10,022)
EBIT	**8,829**	**3,635**	**(484)**	**4,557**	**6,347**	**9,295**	**13,161**	**17,607**
Interest expense	(1,635)	(1,983)	(3,442)	(4,485)	(4,552)	(4,286)	(4,179)	(4,076)
Profit before tax	**9,491**	**4,850**	**(1,201)**	**1,793**	**4,382**	**7,021**	**11,330**	**16,342**
Tax & deferred tax	(1,140)	(1,090)	(663)	(1,615)	(3,865)	(4,563)	(5,945)	(6,857)
Net income (reported)	**8,350**	**3,760**	**(1,865)**	**178**	**517**	**2,458**	**5,385**	**9,485**
EPS (reported) (Rs)	**7.0**	**3.2**	**(1.6)**	**0.1**	**0.4**	**1.9**	**4.1**	**7.2**
Balance sheet								
Fixed assets (incl. goodwill)	55,184	63,433	69,885	70,555	69,715	69,385	69,433	69,787
Cash & equivalents	4,056	3,290	3,076	2,192	1,975	2,353	1,131	2,640
Inventories	12,320	13,888	16,814	21,759	24,620	27,620	31,159	35,152
Total assets	**108,998**	**127,970**	**145,226**	**153,118**	**158,455**	**162,307**	**169,625**	**181,488**
Borrowings	29,102	40,233	55,048	45,589	47,589	46,089	44,589	43,089
Total liabilities	**52,948**	**61,004**	**77,491**	**74,004**	**78,823**	**80,218**	**82,150**	**84,528**
Shareholders' equity	**56,050**	**66,966**	**67,735**	**79,114**	**79,631**	**82,089**	**87,475**	**96,960**
Total liabilities and equity	**108,998**	**127,970**	**145,226**	**153,118**	**158,455**	**162,307**	**169,625**	**181,488**
Cash flow statement								
Operating cash flow before working capital changes	**12,172**	**10,587**	**7,860**	**12,388**	**10,698**	**13,438**	**16,545**	**20,772**
Changes in working capital	(6,196)	(2,923)	(2,950)	(2,343)	(3,441)	(3,608)	(4,256)	(4,801)
Capex	(6,022)	(8,895)	(9,647)	(7,120)	(7,000)	(8,000)	(9,000)	(10,000)
Acquisitions (including intangibles)	(37,100)	(8,925)	(203)	-	-	-	-	-
Others	(1,677)	(301)	(3,534)	2,780	2,179	4,500	1,349	1,311
Free cash flow to firm	**(36,738)**	**(9,702)**	**(4,613)**	**2,896**	**1,899**	**2,834**	**4,558**	**7,636**
Ratios								
EBITDA margin (%)	**22.6**	**14.5**	**8.9**	**14.6**	**15.8**	**17.4**	**19.2**	**20.9**
RoAE (%)	14.6	6.3	(2.6)	0.3	0.7	3.0	6.4	10.3
RoCE (%)	**9.2**	**3.1**	**(0.7)**	**0.4**	**0.7**	**2.9**	**5.5**	**8.5**
RoIC (%)	**9.7**	**3.2**	**(0.8)**	**0.4**	**0.7**	**3.1**	**5.7**	**8.9**
Net debt / EBITDA (X)	**1.8**	**3.2**	**6.7**	**3.6**	**2.8**	**2.3**	**1.8**	**1.4**

Source: Company, Kotak Institutional Equities estimates

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Valuation: Initiate coverage on PPL with a BUY rating

We initiate coverage on PPL with a BUY rating and a DCF-based FV of Rs300, offering a ~46% upside from CMP. Our FV implies 21/16/20X FY2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver stellar ~13/23/170% revenue/EBITDA/PAT CAGRs over FY2024-28E, driven by ramp-up in CRDMO sales, led by a robust pipeline, higher utilizations at the overseas facilities and higher focus and faster decision making, post the demerger with Piramal Enterprises in FY2023. Over the past decade, PPL has added capabilities through 15+ M&As, involving a mix of capability/facility acquisitions in CRDMO, complex product portfolios in CHG and brands in ICH. While this has historically led to a significant drag on the balance sheet, we expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoEs/RoICs to ~10/9% to address longstanding investor concerns around debt, FCF burn and low return ratios.

Our FV implies a ~21/16/20X 2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH

We expect PPL to offer ~37% upside from CMP

We initiate coverage on PPL with a BUY rating and a DCF-based FV of Rs300, offering a ~37% upside from CMP. Our FV implies a 21/16/20X 2027E EV/EBITDA multiples for the three segments of CRDMO/CHG/ICH. We expect PPL to deliver robust 13%, 23% and 170% revenue, EBITDA and PAT CAGRs, respectively, over FY2024-28E, driven by ramp-up in CRDMO sales, led by its robust pipeline. As sales in overseas facilities pick up, we expect operating leverage to kick in, resulting in significant improvement in EBITDA margins. We expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoAEs and RoICs to ~10/9% to address longstanding investor concerns around debt, FCF burn and low return ratios for PPL.

PPL's diversified presence of CRDMO facilities with niche capabilities, backward integration in key products in the Complex Hospital Generics (CHG) business, and fast-growing power brands in India Consumer Healthcare (ICH) instill confidence in the long-term business potential. We expect PPL to report 13% sales CAGR over FY2024-28E, led by 13/11/13% sales CAGR in CRDMO/CHG/ICH business. We expect growth in the CRDMO segment to be driven by higher integrated projects and differentiated offerings coupled with increasing utilization rates at the recently expanded overseas facilities. Through a mix of organic and inorganic forays, PPL has built strong capabilities in niche technologies such as ADCs, HPAPIs, peptides, sterile injectables and hormonal products. PPL's growth in innovation-related work, over the past three years, demonstrates the underlying strength of the business. With a strong pipeline of 150+ molecules in development phase, we expect ~14-15 new molecules (potential 4 blockbuster molecules) to commercialize over the next 5 years. Accordingly, we bake in a robust ~29/20% sales CAGR for on-patent commercial manufacturing/innovation-related work over FY2024-28E. We bake in ~630 bps EBITDA margin expansion over FY2024-28E, largely led by operating leverage in CRDMO and improving profitability in the ICH business.

We refrain from using P/E as a metric for valuing all the three companies, given the capital-intensive nature of the business, which might lead to near to medium term PAT not be a true reflection of future earnings potential. In PPL's case, another major reason for not using P/E as a metric is the very high effective tax rate (~90% in FY2024). While PPL's Indian CRDMO facilities are running at healthy utilizations, most of its overseas facilities are running at lower utilizations, thereby making losses. This is resulting in higher tax rates as PPL is unable to offset the overseas losses with the domestic profits. While we expect the tax rate to come down gradually as the overseas facilities scale up, it will still remain elevated over the medium term (KIE: ~42% tax rate in FY2028E).

We initiate coverage on PPL with BUY rating and FV of Rs300

Exhibit 5: PPL –DCF valuation, March fiscal year-ends, 2024-50E (Rs mn, %)

	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2032E	FY2034E	FY2036E	FY2038E	FY2040E	FY2042E	FY2044E	FY2046E	FY2048E	FY2050E
Free cash flow profile																	
Net revenues	**81,712**	**92,457**	**103,723**	**117,014**	**132,008**	**149,829**	**169,681**	**216,186**	**273,003**	**341,690**	**423,846**	**521,044**	**633,329**	**755,910**	**885,775**	**1,018,863**	**1,150,194**
%yoy growth	*15.4*	*13.2*	*12.2*	*12.8*	*12.8*	*13.5*	*13.3*	*12.8*	*12.3*	*11.8*	*11.3*	*10.8*	*10.0*	*9.0*	*8.0*	*7.0*	*6.0*
Pre-Ind AS-116 EBITDA	**11,714**	**14,312**	**17,753**	**22,241**	**27,379**	**32,573**	**38,586**	**51,323**	**67,542**	**87,952**	**113,338**	**144,539**	**176,954**	**212,715**	**251,031**	**290,786**	**330,569**
Pre-Ind AS-116 EBITDA margin (%)	*14.3*	*15.5*	*17.1*	*19.0*	*20.7*	*21.7*	*22.7*	*23.7*	*24.7*	*25.7*	*26.7*	*27.7*	*27.9*	*28.1*	*28.3*	*28.5*	*28.7*
Gross block	111,369	117,369	124,369	133,269	143,169	154,519	165,549	192,064	225,618	267,702	320,016	384,464	463,055	557,266	668,152	796,272	941,565
Depreciation & amortisation	(7,406)	(8,216)	(8,706)	(9,329)	(10,022)	(10,816)	(11,588)	(13,444)	(15,793)	(18,739)	(22,401)	(26,913)	(32,414)	(39,009)	(46,771)	(55,739)	(65,910)
%gross block	*(6.6)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*
EBIT	4,308	6,096	9,047	12,912	17,357	21,757	26,998	37,879	51,748	69,213	90,936	117,627	144,540	173,707	204,261	235,047	264,660
EBIT margin (%)	*5.3*	*6.6*	*8.7*	*11.0*	*13.1*	*14.5*	*15.9*	*17.5*	*19.0*	*20.3*	*21.5*	*22.6*	*22.8*	*23.0*	*23.1*	*23.1*	*23.0*
NOPAT	**428**	**720**	**3,167**	**6,137**	**10,074**	**14,795**	**18,898**	**27,273**	**38,708**	**51,771**	**68,020**	**87,985**	**108,116**	**129,933**	**152,787**	**175,815**	**197,965**
Tax rate (%)	*(90.1)*	*(88.2)*	*(65.0)*	*(52.5)*	*(42.0)*	*(32.0)*	*(30.0)*	*(28.0)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*
Capex	(7,120)	(7,000)	(8,000)	(9,000)	(10,000)	(11,350)	(11,029)	(14,052)	(17,745)	(22,210)	(27,550)	(33,868)	(41,166)	(49,134)	(57,575)	(66,226)	(74,763)
%sales	*(8.7)*	*(7.6)*	*(7.7)*	*(7.7)*	*(7.6)*	*(7.6)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*
Working capital	26,166	29,607	33,215	37,471	42,273	47,980	54,337	69,229	87,423	109,419	135,728	166,853	202,810	242,064	283,651	326,269	368,326
%sales	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*	*32.0*
Change in working capital	(2,037)	(3,441)	(3,608)	(4,256)	(4,801)	(5,707)	(6,357)	(7,829)	(9,541)	(11,505)	(13,725)	(16,196)	(18,437)	(19,987)	(21,011)	(21,345)	(20,849)
Free cash flow to firm	**(1,324)**	**(1,506)**	**266**	**2,210**	**5,295**	**8,554**	**13,100**	**18,837**	**27,215**	**36,796**	**49,146**	**64,834**	**80,926**	**99,820**	**120,971**	**143,984**	**168,264**
Discount factor	-	-	-	1.00	2.00	3.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	24.00
Discounted free cash flow to firm	**-**	**-**	**-**	**1,973**	**4,221**	**6,089**	**8,325**	**9,543**	**10,992**	**11,847**	**12,615**	**13,266**	**13,201**	**12,981**	**12,541**	**11,899**	**11,086**

Asset valuation	
WACC (%)	**12.0**
Terminal growth rate (%)	*5.5*
Terminal value	**179,927**
Enterprise value	**439,124**
Net debt	41,736
Equity value	**397,388**
Minority interest	-
Equity value attributable to parent	**397,388**
Number of shares (mn)	1,323
Fair value per share (Rs)	**300**

Source: Company, Kotak Institutional Equities estimates

Our FV implies a 21/16/20X 2027E EV/EBITDA multiples for CRDMO/CHG/ICH segments of PPL

Exhibit 6: PPL – Implied EV/EBITDA valuation, March fiscal year-end, 2027E (Rs mn, %)

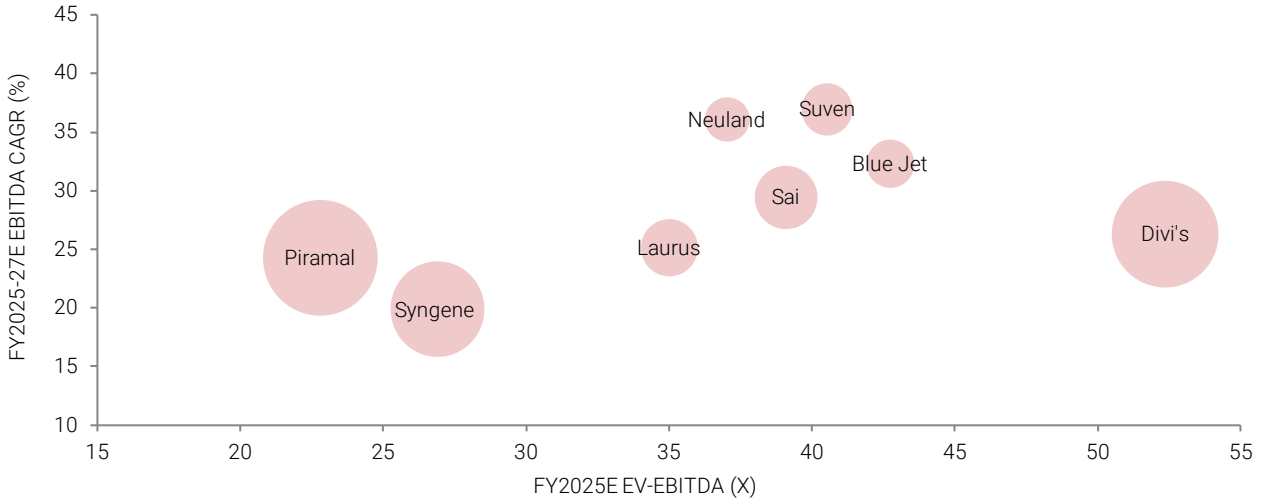
	March 2027E EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)
CRDMO	11,955	21	255,845
CHG (Complex Hospital Generics)	9,543	16	152,682
ICH (Indian Consumer Healthcare)	992	20	19,842
Enterprise value	**22,490**	**19**	**428,370**
Net debt			41,736
Equity value			**386,634**
Minority interest			0
Equity value attributable to core business			**386,634**
Number of shares (mn)			1,323
FV per share for core business (Rs)			**292**
	PAT (Rs mn)	**Multiple (X)**	
Allergan JV	1,654		
PPL's share (49% stake)	**811**	**12**	**9,727**
Value from Allergen JV per share			7
FV per share (Rs)			**300**

Source: Company, Kotak Institutional Equities estimates

At CMP, PPL's valuations are relatively cheaper than Syngene and Sai

PPL is trading at a relatively lower multiple, compared to its domestic peers

Exhibit 7: EV/EBITDA vs EBITDA CAGR for Indian CRDMOs, March fiscal-year ends, 2025-27E (%, X)



Notes:

(a) We have used Bloomberg estimates for Suven and Neuland; for rest of the companies, we have used KIE estimates.

(b) Size of the bubble indicates relative size of CRDMO revenues for these companies.

Source: Companies, Kotak Institutional Equities estimates

Most Indian CRDMOs continue to trade at a premium to their global counterparts

Exhibit 8: Valuations for Global CRDMO companies, March fiscal-year ends, 2024-27E

		EV	PER (X)				EV/Sales (X)				EV/EBITDA (X)			
	Country	(US$ mn)	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
Global CRDMO valuations														
Asymchem Laboratories Tian-H	China	2,779	NA	18.7	14.6	11.8	2.6	3.4	2.9	2.5	7.1	15.1	11.6	9.4
Hangzhou Tigermed Consulti-A	China	6,759	23.0	40.9	31.6	26.1	6.6	7.2	6.5	5.8	20.8	30.1	25.0	21.6
Joinn Laboratories China	China	1,643	40.4	94.4	44.3	31.7	5.1	5.8	5.5	4.5	24.0	74.7	34.6	20.6
Pharmaron Beijing	China	6,699	30.1	26.7	25.9	22.2	4.2	3.9	3.5	3.1	16.2	17.0	14.6	13.0
Wuxi Apptec	China	25,112	20.5	16.8	15.1	13.2	4.6	4.3	3.8	3.4	14.0	11.5	10.2	9.0
Wuxi Biologics Cayman	China	13,787	32.1	30.7	25.6	22.3	5.9	5.5	4.9	4.3	19.4	17.0	14.5	12.5
Blue Jet Healthcare	India	1,789	95.8	54.2	38.6	33.2	21.5	15.2	10.7	9.2	66.8	42.8	28.8	24.4
Concord Biotech	India	1,999	56.4	50.7	40.1	32.1	16.8	14.9	12.0	10.0	39.6	36.2	29.5	24.6
Divi's Laboratories	India	17,906	98.0	72.4	58.4	45.4	19.5	16.4	14.3	11.9	69.5	52.4	42.3	32.9
Gland Pharma	India	2,797	34.2	35.3	26.3	21.1	4.2	4.1	3.5	3.1	18.0	18.2	15.0	12.5
Jubilant Pharmova	India	1,902	183.7	21.3	26.5	19.1	2.4	2.2	2.1	1.8	18.0	14.1	12.3	10.0
Laurus Labs	India	4,246	208.0	107.3	67.4	52.3	7.2	6.7	5.8	5.2	46.7	35.0	26.5	22.4
Neuland Laboratories	India	1,776	50.9	58.0	34.5	25.0	10.0	9.8	7.4	5.8	32.9	37.0	23.1	17.2
Piramal Pharma	India	3,899	1,625.2	560.1	117.9	53.8	4.1	3.6	3.2	2.8	27.6	22.8	18.5	14.7
Sai Life Sciences	India	1,890	168.3	101.3	81.1	58.1	11.0	9.8	8.3	6.9	55.6	39.1	32.1	24.3
Suven Pharmaceuticals	India	3,425	99.6	86.2	63.4	46.8	28.3	13.7	8.4	6.9	72.2	40.5	25.1	19.6
Syngene International	India	3,341	55.8	62.2	57.6	43.4	8.2	7.6	6.6	5.6	25.5	26.9	22.6	18.1
Celltrion	South Korea	29,106	90.4	37.1	26.2	19.2	12.0	9.5	7.9	7.2	46.9	23.7	18.0	14.7
Samsung Biologics	South Korea	52,414	70.8	59.6	48.1	41.5	16.9	14.0	12.0	10.5	40.1	34.8	29.1	25.5
Lonza Group Ag	Switzerland	49,952	64.8	34.2	28.8	24.1	6.7	5.7	5.2	4.6	27.5	20.0	17.3	14.9
Charles River Laboratories	United States	11,240	841.5	18.0	16.4	14.7	2.8	2.9	2.8	2.6	17.1	11.8	11.3	10.2
Iqvia Holdings	United States	45,313	24.7	15.8	14.1	12.7	2.9	2.8	2.7	2.5	13.0	11.9	11.1	10.3
Labcorp Holdings	United States	25,481	26.5	14.7	13.3	11.9	2.0	1.8	1.7	1.7	13.1	10.7	10.1	9.4
Thermo Fisher Scientific	United States	224,790	31.6	22.5	20.3	18.1	5.2	5.1	4.8	4.5	20.8	19.7	18.2	16.7

Notes:

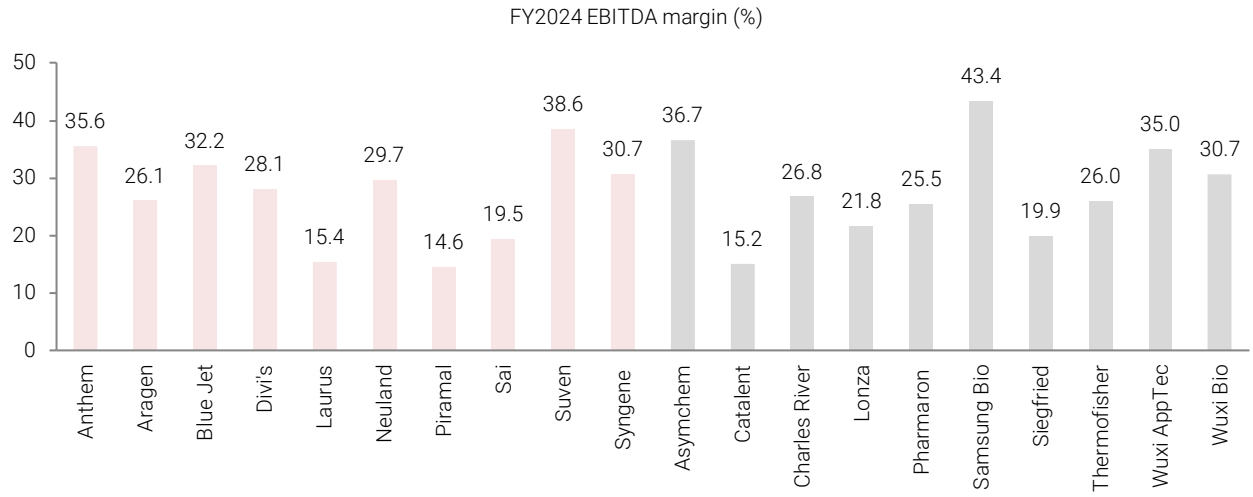
(a) We have used KIE estimates for companies under our coverage; for the rest, we have used Bloomberg estimates.

(b) 2024-27 March fiscal year-ends for Indian companies, 2023-26 December calendar year-ends for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

Owing to losses at overseas facilities, PPL's FY2024 EBITDA margins were lower than its Indian CRDMO peers

Exhibit 9: Global CRDMO EBITDA margins comps, March fiscal year-end, 2024 (%)



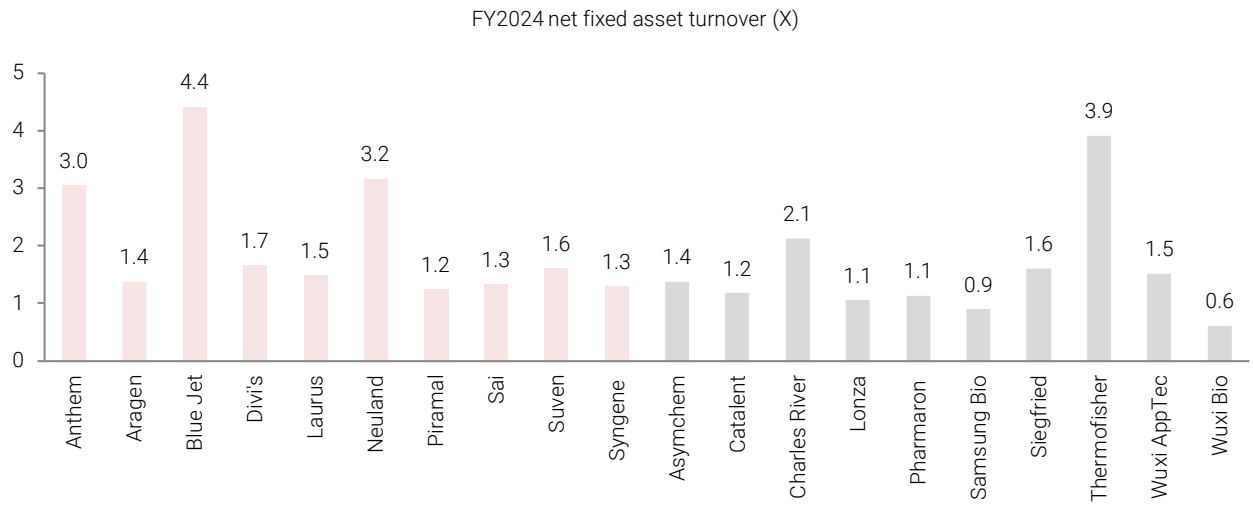
Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

PPL's FY2024 net fixed asset turnover lagged its Indian CRDMO peers, due to underutilization at overseas facilities

Exhibit 10: Global CRDMO net fixed asset turnover comps, March fiscal year-end, 2024 (X)



Notes:

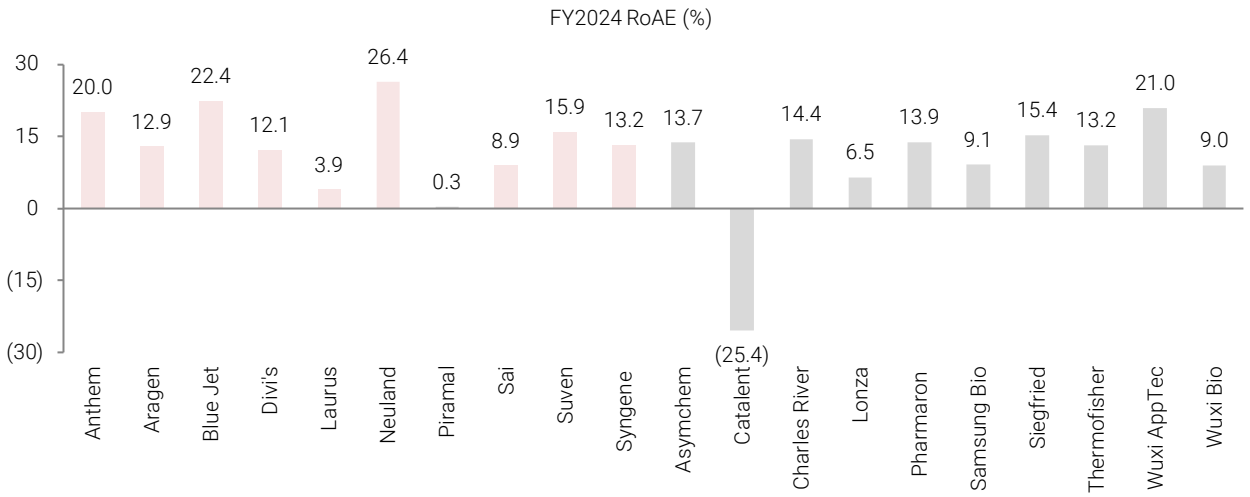
(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) Net fixed asset turnover = Revenue/average net fixed assets (excl. CWIP).

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

While PPL's FY2024 RoE was subdued, we expect its ROE to improve to ~10% in FY2028E

Exhibit 11: Global CRDMO RoAE comps, March fiscal year-end, 2024 (%)



Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) RoAE = PAT/average equity.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

2

Advancing CRDMO capabilities to unlock potential

We expect PPL to report 13% overall sales CAGR over FY2024-28E, led by 13/11/13% sales CAGRs in CRDMO/CHG/ICH segments over the same period. We expect robust traction in differentiated offerings and higher utilizations in recently expanded overseas facilities to drive healthy growth in CRDMO business. We bake in ~630 bps EBITDA margin expansion over FY2024-28E, largely led by operating leverage in CRDMO (driven by higher utilizations in overseas facilities), and improving profitability in ICH business.

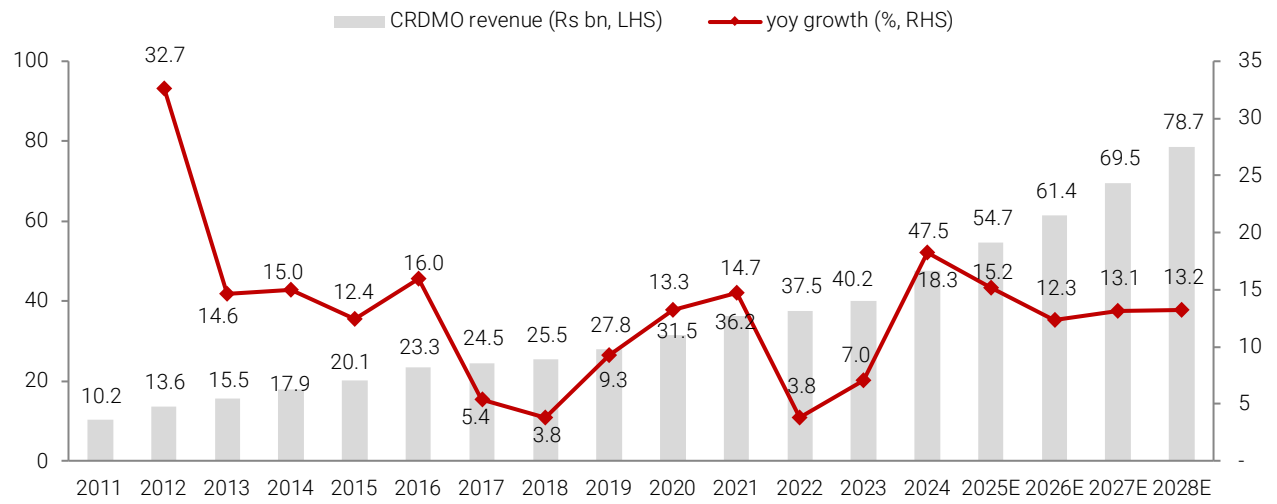
PPL's CRDMO segment comprises drug discovery (~4% CRDMO sales), development (~26% of CRDMO sales), and commercial manufacturing (~70% of CRDMO sales)

PPL's end-to-end presence across the CRDMO value chain provides a compelling offering

Having started off predominantly as a CMO, PPL now operates across the complete CRDMO value chain, originating from drug discovery, moving through drug development to commercial manufacturing, providing end-to-end offerings across the lifecycle of a molecule. PPL's CRDMO business comprises drug discovery (~4% of FY2024 CRDMO sales), development (~26% of FY2024 CRDMO sales), and commercial manufacturing (70% of FY2024 CRDMO sales). Commercial manufacturing includes commercial manufacturing for products under patent, which are ~29% of commercial manufacturing sales, while the rest is generics (supplies to customers, including innovators, for off-patent products, own API supplies and supplies of vitamins and minerals ingredients and premixes for human nutrition and animal nutrition). Being present across the value chain provides PPL multiple entry points with the clients, resulting in a consistently higher-than-industry average win-rate. Typically, PPL is also the primary supplier for majority of its contracts.

We expect PPL to report ~13% sales CAGR for CRDMO over FY2024-28E

Exhibit 12: PPL – CRDMO revenues, March fiscal year-ends, 2011-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities

We expect PPL to report 20% sales CAGR for innovation-related work over FY2024-28E

Over time, through a mix of organic and inorganic developments, PPL has built capabilities across the value chain.

- **Discovery services:** Within discovery, PPL provides a comprehensive range of services, including synthetic chemistry, in-vitro biology services, DMPK (in-vitro ADME/ in-vivo PK), non-GMP-kilo-lab and analytical support services. However, despite being in the space for a long time (acquired capability in CY2011), drug discovery still remains a sub-scale operation for PPL, contributing only ~4% to the CRDMO sales in FY2024. The company primarily uses its discovery services as a funnel for its pre-clinical and Phase-I projects and does not plan to separately focus on growing its discovery services business.

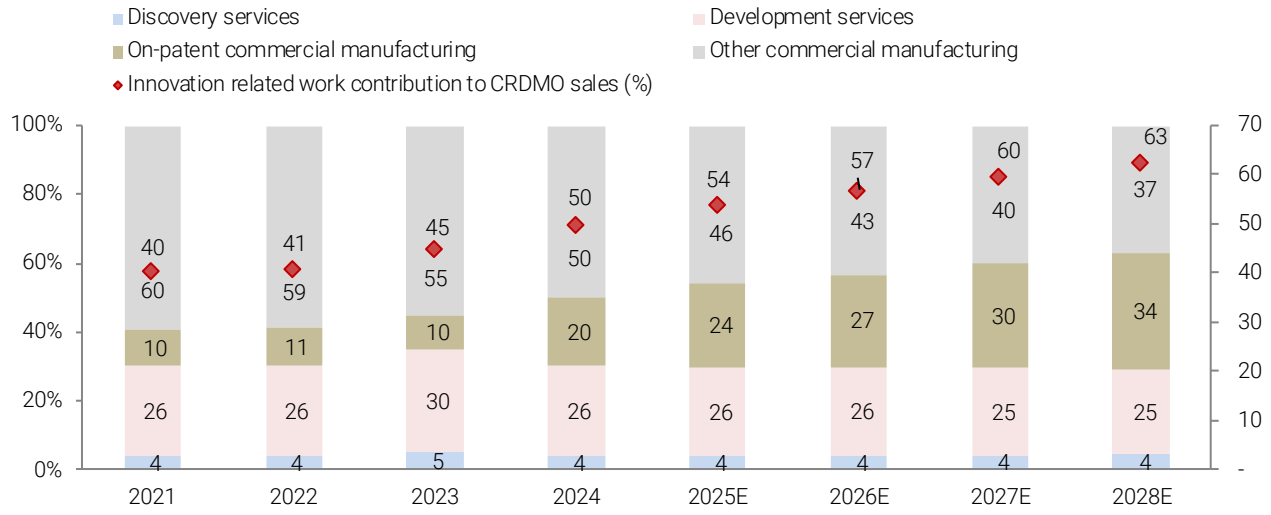
We bake in a robust ~29/20% sales CAGR for on-patent commercial manufacturing/innovation-related work over FY2024-28E

- **Development services**: In development services, PPL has capabilities for clinical development of both APIs and formulations, across dosage forms. PPL provides various services including route scouting, process and analytical development, pre-GMP scale-up, and pre-formulation studies and analytical development.
- **Commercial manufacturing**: Within commercial manufacturing, PPL produces both patented and generic products for clients. Besides, PPL also has its own 50+ DMFs and 65+ formulations, which it supplies majorly to regulated markets. Over the past few years, PPL has been focusing on growing the contribution of innovation-related work for clients, which includes drug discovery, development services and commercial manufacturing for under-patent products, as these services offer better operating margins.

PPL has been keen on growing its innovation-related work (discovery, development and on-patent manufacturing), with major focus on development and on-patent commercial manufacturing, as innovation-related work provides higher operating margins as compared to generics manufacturing. Driven by selective capacity addition across facilities, along with addition of new capabilities, PPL reported a robust ~18% sales CAGR from innovation-related work over FY2021-24. This has led to higher contribution from innovation-related work, thereby increasing innovation-related work's contribution by ~960 bps over FY2021-24.

We expect innovation-related work's (discovery, development and on-patent manufacturing) share to increase to ~63% by FY2028E

Exhibit 13: PPL - CRDMO sales mix, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities estimates

Over time, through a mix of organic and inorganic forays, PPL has built strong capabilities in specialized technologies such as ADCs (antibody drug conjugates), HPAPIs, peptides, sterile injectables and hormonal products. In our view, PPL's presence in niche capabilities strengthens its right to win in the growing Indian CRDMO industry. Also, PPL has a dedicated business development team of 65-70 people (majority of them being based outside India). The company has also hired 5-6 industry veterans in specialized capabilities.

PPL's growth in innovation-related work, despite the subdued US biotech funding environment, over the past few years, demonstrates the underlying strength of the business. With a strong pipeline of 150+ molecules in development phase, we expect 14-15 new molecules to commercialize over the next 5 years, driving significant growth in on-patent commercial manufacturing revenues. Accordingly, we bake in a robust ~29/20% sales CAGR for on-patent commercial manufacturing/innovation-related work over FY2024-28E.

Overseas presence provides PPL a strong competitive edge

With this global network of facilities, PPL provides flexibility to clients according to their specific requirements

PPL has 15 CRDMO facilities spanning across India (9), US (3), UK (2) and Canada (1) with different technical capabilities. PPL has strategically acquired five of these overseas facilities over the past 14 years to augment its capabilities and build its presence near clients' locations. Being present in regulated markets provides proximity to customers and markets, while manufacturing infrastructure in India provides cost benefits. This provides a long-term competitive edge to PPL in the CRDMO space as this allows PPL to tap customers who are reluctant to source from India or other emerging markets. Although PPL's operating margin profile is impacted due to this strategy, since it cannot fully benefit from India's cost advantage, it enables the company to collaborate closely with the clients and makes them eligible for future high-value contracts.

PPL's operating strategy for its CRDMO operations has been clear since 2003, as management has always believed that outsourcing in pharma will be majorly driven by two factors, i.e., cost advantage and geographical sourcing. Since then, PPL's entire strategy and M&A activities have been driven by the mentality that either the prospective clients would want cost savings or they would have preference of sourcing from specific geographical locations. Following this strategy, management has acquired capacities in overseas locations with niche capabilities.

PPL has 15 CRDMO facilities across the globe

Exhibit 14: PPL – CRDMO facilities

Facility	Country	Function	Capabilities	Capacity	Accreditation
Ahmedabad PDS	India	Discovery	R&D	Pre-GMP scale-up lab with 50-200L capacity	India, US and Canada
Ahmedabad PPDS	India	Development	Formulations	NA	MPA Sweden, Fimea Finland, and USFDA
Rabale	India	Development	R&D-API	NA	NA
Digwal	India	Development & commercial manufacturing	APIs	750 kL with 245 reactors	USFDA, EDQM, AIFA, and KFDA
Ennore	India	Development & commercial manufacturing	APIs	200+ MT	WHO GMP and India FDA
Turbhe	India	Development & commercial manufacturing	Peptide APIs	Reactor volume of 4,500L	USFDA, EDQM, AIFA and KFDA
Sellersville	USA	Development & commercial manufacturing	Formulations	2.5bn tablets and 1.4bn capsules per year	USFDA and EMA certified
Morpeth	UK	Development & commercial manufacturing	APIs and formulations	3 bn tablets per year	USFDA and MHRA
Riverview	USA	Development & commercial manufacturing	HP APIs, payload for ADCs	Reactor volumes up to 50L, with potential to deliver batches of up to 2kg	USFDA, Health Canada, PMDA Japan, COFEPRIS Mexico, MFDS Korea, TGA Australia, and Russian Ministry of Health
Aurora	Canada	Development & commercial manufacturing	APIs, linker for ADCs	18 reactors with capacity ranging from 200-4,000L	USFDA, Health Canada, and PMDA Japan
Grangemouth	UK	Development & commercial manufacturing	ADCs (Conjugation)	5 dedicated GMP suites	USFDA, UK MHRA, Japan PMDA and Brazil ANVISA
Lexington	USA	Development & commercial manufacturing	Sterile fill-finish	104 batches	USFDA, PMDA, TFDA and Saudi Food and Drug Authority
Hyderabad (Yapan Bio, 33% stake)	India	Development & commercial manufacturing	Vaccines and biologics, mABs for ADCs	NA	NA
Mahad	India	Commercial manufacturing	Vitamins and minerals premixes	NA	NA
Pithampur	India	Commercial manufacturing	Formulations	NA	USFDA, EU GMP, Brazil Anvisa, TGA Australia, and FIMEA Finland

Source: Company, Kotak Institutional Equities

Overseas presence has also allowed PPL to capture China+1 demand, along with customers seeking supply chain diversification in the wake of Covid-19 pandemic. Moreover, having different capabilities at different locations allows PPL to cross-sell and solve for customer requirements. With this global network of facilities, PPL provides flexibility to clients according to their specific requirements. This helps the company reduce complexity for its clients, as clients do not have to deal with multiple CDMOs to fulfill their needs. As of today, PPL has completed 125+ integrated projects (involving more than one site). Out of its Top 20 customers, 16 are sourcing products from at least two of PPL's facilities. Currently, 31 out of the Top 50 customers are engaging with PPL for integrated projects, and PPL received 40%+ of its new orders for integrated projects in FY2024.

We note integrated offerings help the company get higher share of the total value chain. Margins might be modestly better in integrated projects, however, the average ticket size is generally higher in integrated projects. In addition, integrated projects also lead to higher stickiness in revenues.

Over the past two years, PPL has expanded its capacities at Grangemouth, UK and Riverview, US facilities by ~30-40%, majorly to cater to growing demand in its niche capabilities. This has led to lower utilization levels at this facilities, as new capacity will take time to scale up to optimum levels. Apart from these, its oral solid facility at Sellersville is also running at lower utilizations, leading to losses in this facility. On the other hand, with Novo Nordisk acquiring Catalent, with an intention to use it solely for its captive GLP-1 production, PPL believes that there exists a supply-demand gap for injectables manufacturing in the market. Therefore, PPL has announced strategic investment of ~US$80 mn to expand its sterile fill-finish facility in Lexington. This will more than double the current capacity of this plant (from 104 batches to ~240 batches) and is expected to commercialize by the end of FY2027E.

We expect the recently expanded overseas facilities to ramp up steadily over the next three-four years, and bake in a gross fixed asset turnover of ~0.9X by FY2028E

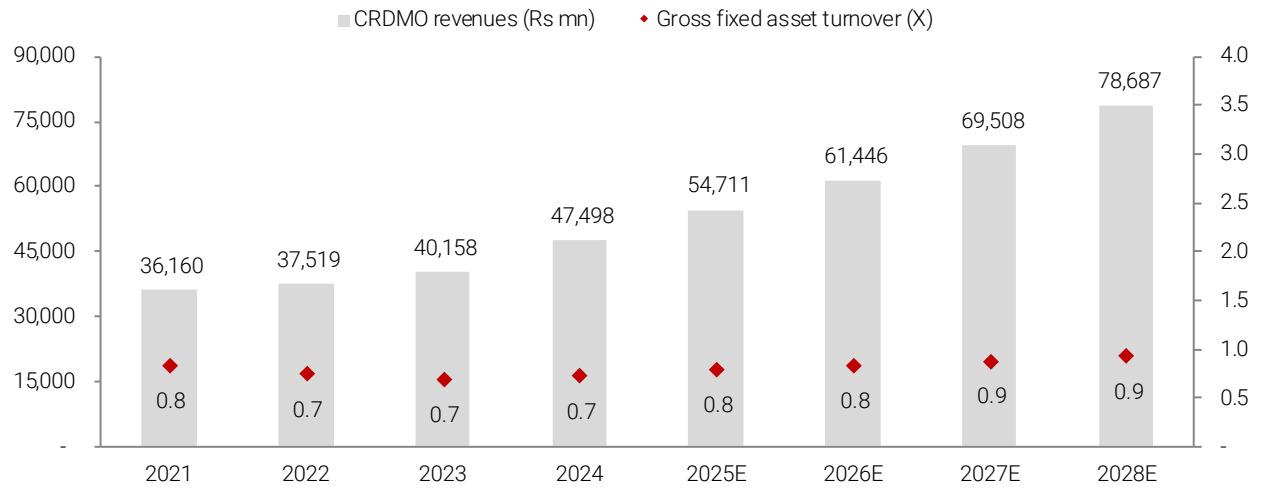
We expect utilization rates at overseas facilities to improve

In India, PPL's facilities are operating at higher utilizations of 65-70%, thereby generating healthy operating margins. These facilities majorly cater to high volume commercial projects, which have lower gross margins. PPL has strategically planned its production such that low-margin products are developed in India and high-margin products are developed in overseas facilities, in order to cover for higher cost of overseas operations. Currently, most overseas facilities are making losses, and running at much lower capacity utilizations of ~40-45% (combined for overseas facilities), on account of new capacity addition in Grangemouth and Riverview, and lower demand for the oral solid facility in Sellersville.

In our view, PPL's CRDMO business is generating gross fixed asset turnover of ~0.7X (much lower than industry average of ~1-1.5X) on the current capacity, implying an ample scope for expansion. We expect the recently expanded overseas facilities to ramp up steadily over the next three-four years, led by healthy growth in differentiated offerings, and bake in a gross fixed asset turnover of ~0.9X by FY2028E.

We expect gross fixed asset turnover for the CRDMO segment to improve to ~0.9X by FY2028E

Exhibit 15: CRDMO – sales and asset turnover, March fiscal year-ends, 2021-28E (Rs mn, X)



Source: Company, Kotak Institutional Equities estimates

Differentiated offerings will be the key contributor in driving CRDMO sales and margins

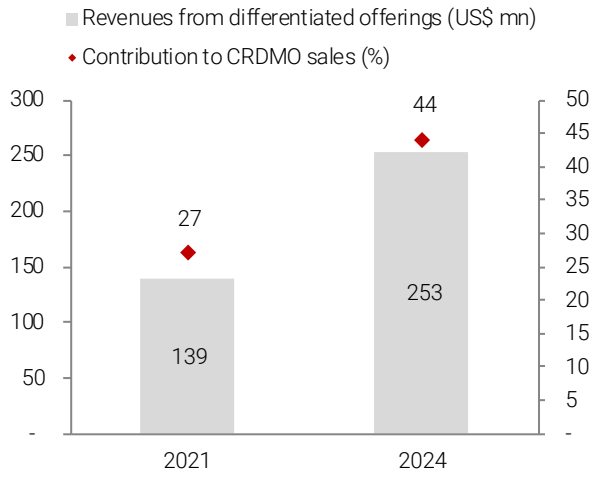
PPL has strategically added niche capabilities to its CRDMO portfolio through a series of acquisitions over time. This included acquiring the Lexington facility (sterile fill-finish), Riverview facility (HPAPIs), Sellersville facility (OSD, liquids, creams and ointments) and Hemmo Pharmaceuticals (peptide products). These acquisitions have given PPL access to HPAPIs, additional capabilities in ADCs, peptides, etc. Due to the complex nature of these capabilities, this business has relatively lower competition, providing better realizations to the company.

Share of differentiated offerings in CRDMO sales has increased significantly over the past 5-6 years, from less than ~20% to 44% in FY2024

PPL reported an impressive ~22% sales CAGR from differentiated offerings, including ADCs (10-12% of CRDMO sales), HPAPIs (15-18% of CRDMO sales), peptides (~5% of CRDMO sales) etc over FY2021-24, resulting in share of differentiated offerings in CRDMO revenues increasing from 27% in FY2021 to 44% in FY2024. This share has increased significantly over the past 5-6 years, from less than ~20% to 44% now, majorly driven by higher customer demand in niche areas, along with management's focus on expanding select capabilities. For instance, the company is also building presence in the high growth area of oncology with 60+ active cancer programs and seven integrated oncology programs. We believe PPL's expertise and capabilities in differentiated offerings will be a key growth driver for the CRDMO business in the coming years, as seen in the recent past.

Sales from differentiated offerings have grown by ~1.8X over the past 3 years

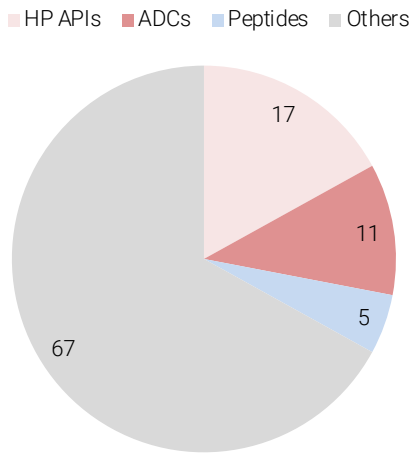
Exhibit 16: PPL – sales from differentiated offerings (US$ mn, %)



Source: Company, Kotak Institutional Equities

Within differentiated offerings, HPAPIs and ADCs contribute ~28% to CRDMO sales

Exhibit 17: PPL – CRDMO revenues sales mix by key capabilities (%)



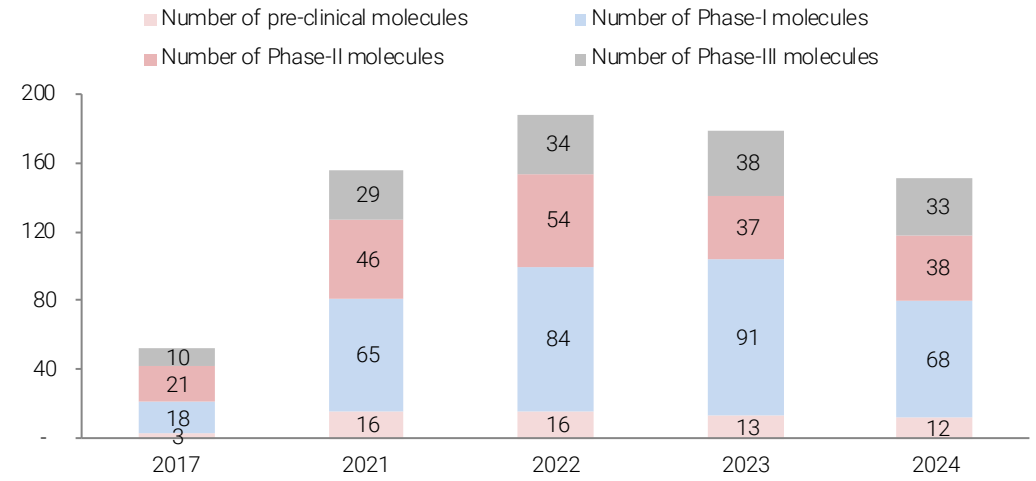
Source: Company, Kotak Institutional Equities

We expect higher contribution from patented molecules to drive CRDMO growth over FY2024-28E

PPL's pipeline has scaled up significantly from just 52 molecules in FY2017 to 151 today, led by pre-clinical/Phase-I/Phase-II/Phase-III molecules (4X/3.8X/1.8X/3.3X), highlighting the company's strong track record and win-rate. Out of the 151 molecules in various stages of development, 12 are in pre-clinical, 68 in Phase-I trials, 38 in Phase-II trials, and 33 are in Phase-III clinical trials. Although the pipeline has declined from the peak of ~180+ molecules in FY2022, due to industry headwinds such as softness in US biotech funding, we expect PPL to bag new projects as the funding environment improves further. Historically, 40-50% of the Phase-III molecules have reached commercial stage and we expect PPL to bag these contracts to increase contribution of under-patent products and further reduce the generics mix.

PPL has a development pipeline of 150+ projects across multiple phases

Exhibit 18: PPL – development pipeline, March fiscal year-ends, 2017-24 (#)



Source: Company, Kotak Institutional Equities

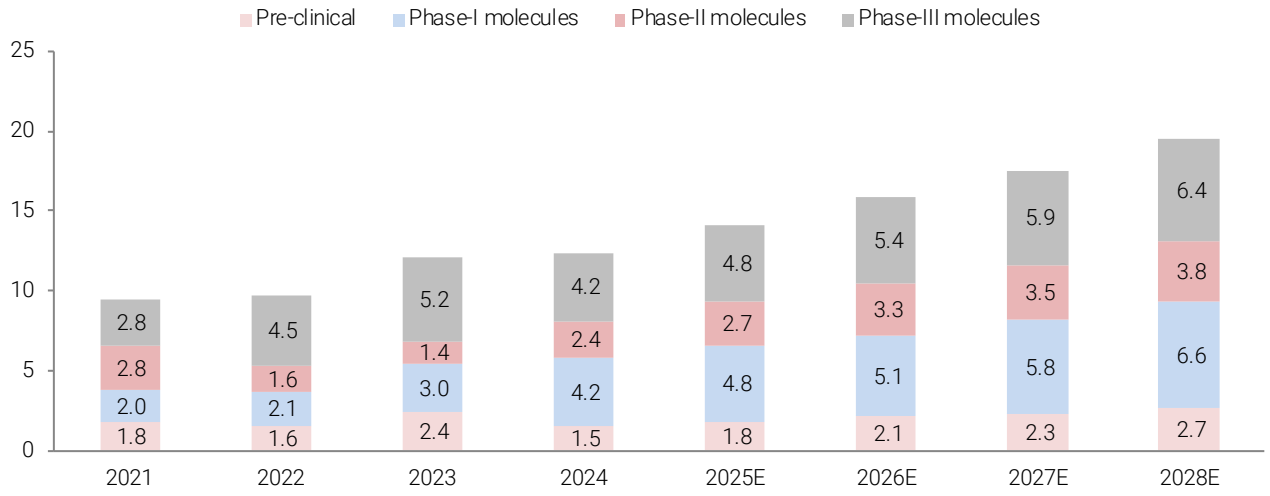
Development services sales have reported a steady ~10% CAGR over FY2021-24, led by robust sales CAGR of 29% from Phase-I molecules

Development services sales have reported a steady ~10% CAGR over FY2021-24, led by robust sales CAGR of 29% from Phase-I molecules, highlighting PPL's growth in entering the value chain at an early phase. Revenues from Phase-I molecules have been the major growth driver for development revenues over the past three years, resulting in increased share of ~34% in development revenues from ~21% in FY2021.

In our view, due to the subdued US biotech funding, PPL's cumulative development pipeline has come down from peak levels of 180+ in FY2022. However, as the US biotech funding environment improves further, aided by lower US interest rates, we expect new projects to flow in for the company. We highlight that the company is already seeing higher number of customer enquiries and RFQs, on account of supply chain diversification.

We expect new project inflows to drive revenue growth for development services over FY2024-28E

Exhibit 19: PPL – development services sales mix, March fiscal year-ends, 2021-28E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

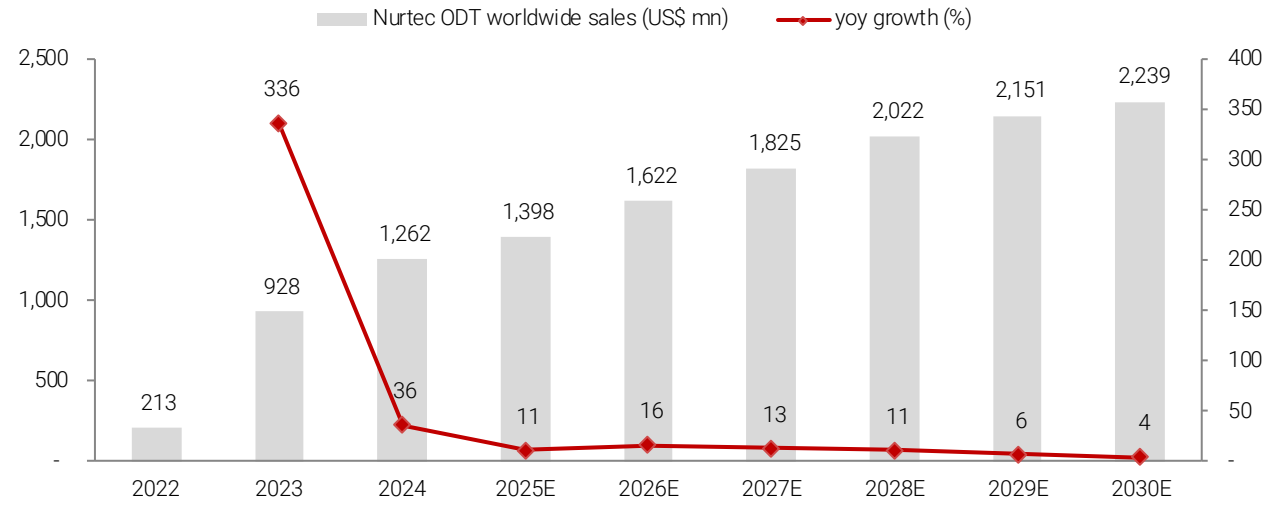
Led by increased focus on growing innovation-related projects, PPL has scaled its ex-generic CRDMO business to ~50% of FY2024 CRDMO sales (~40% in FY2021). This was majorly driven by two new molecule additions to the commercial portfolio, which led to substantial ramp-up in on-patent commercial manufacturing revenues in FY2024 (+137% yoy). In our view, the two newly commercialized molecules are Rimegepant Sulphate (Nurtec ODT; Pfizer is the innovator) and Vibegron (Gemtesa; Sumitomo Pharma is the innovator).

Newly commercialized molecules, Nurtec ODT and Gemtesa combined could generate ~US$130-140 mn in sales for PPL in CY2030E

Nurtec ODT is indicated for migraine, and has patent protection in the US until CY2030E. PPL is the primary supplier to the innovator (Pfizer), which provides a long runway for growth. According to Evaluate Pharma, Nurtec ODT could generate ~US$2.2 bn global sales in CY2030E, compared to ~US$1.2 bn in CY2024. Assuming value accretion to PPL is ~5% of the innovator drug sales, this molecule could generate ~US$110 mn in sales for PPL in CY2030E. Moreover, currently the US contributes ~95% to worldwide sales for Nurtec ODT, and as Pfizer launches this drug in newer markets, there could be more upside for PPL, as it could bag order for incremental supplies, it being the primary supplier for this product. Nevertheless, we highlight PPL's supplies for Nurtec ODT might be volatile over the lifecycle of commercialization, as typically, an innovator reaches peak volumes in 12-18 months of product launch and then usually adds a second/third supplier as volumes stabilize.

According to Evaluate Pharma, Nurtec ODT's sales are expected to report a ~10% CAGR over CY2023-30E

Exhibit 20: Nurtec ODT'S worldwide sales, December calendar year-ends, 2022-30E (US$ mn, %)

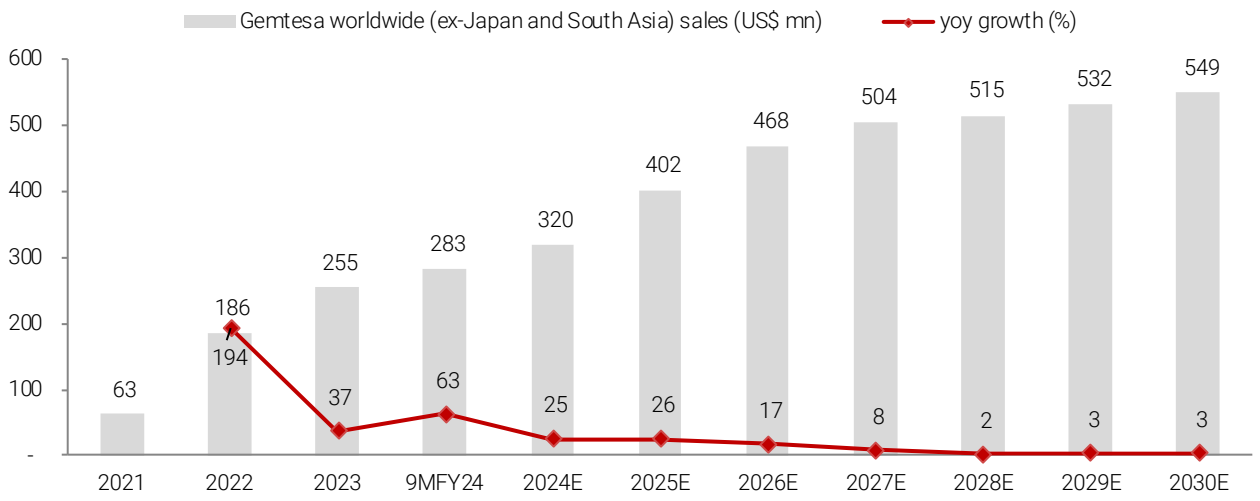


Source: Companies, Evaluate Pharma, Kotak Institutional Equities

Apart from Rimegepant Sulphate, PPL has added Gemtesa to its on-patent commercial manufacturing portfolio in FY2024. Urovant licensed Gemtesa from Merck in CY2017 for global development, excluding Japan, China, and other Asian countries. Piramal is supplying to Sumitomo Pharma (Sumitomo acquired Urovant in CY2021). The product is indicated for overactive bladder, and is a key product for Sumitomo (~14% of 9MFY24 sales). According to Evaluate Pharma, Gemtesa could generate ~US$550 mn global sales in FY2030E for Sumitomo Pharma, compared to US$255 mn in FY2023. Global sales do not include Japan and South Asian countries, as Kyorin Pharma and Kissei Pharma supply in Japan and South Asian markets. Assuming PPL's sales are ~5% of the innovator drug's sales, this molecule could generate ~US$25-30 mn in sales for PPL in CY2030E.

As per Evaluate Pharma, Gemtesa's worldwide sales for Sumitomo Pharma are expected to report ~12% CAGR over FY2023-30E

Exhibit 21: Gemtesa's worldwide sales for Sumitomo Pharma, March fiscal year-ends, 2021-30E (US$ mn, %)



Notes:
(a) 2024E for Sumitomo refers to fiscal year ending March 2025E.

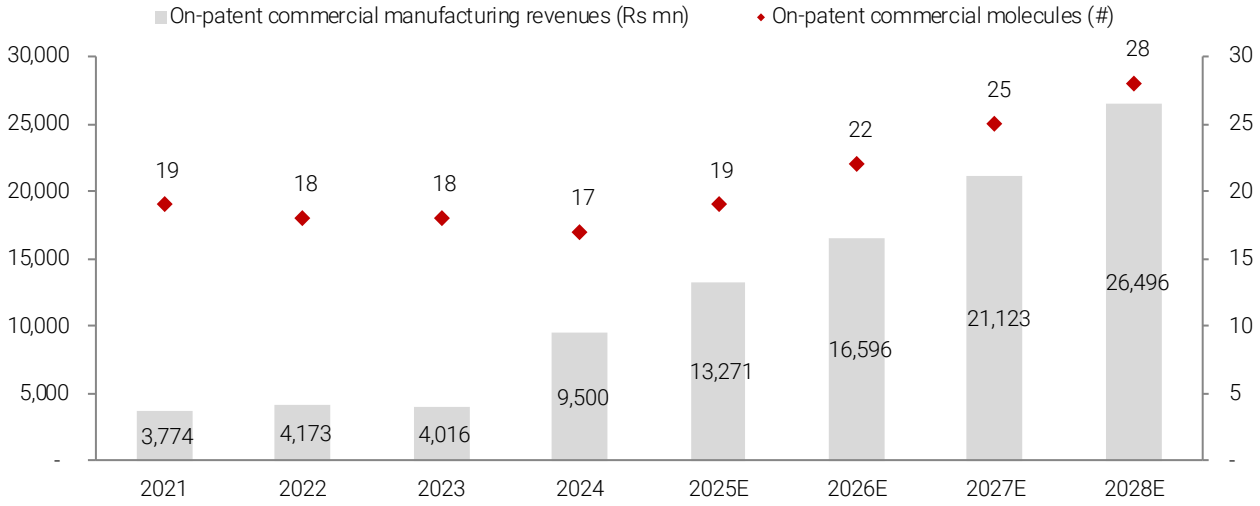
Source: Companies, Evaluate Pharma, Kotak Institutional Equities

We bake in commercializati on of 10-11 new molecules over FY2024-28E, and expect ~25% of these molecules to be significant revenue contributors for the company

With 34 molecules currently in Phase-III, we expect 14-15 molecules to commercialize over the next 4-5 years. Even if four of these 14-15 turn out to be blockbuster products for PPL, it would provide a substantial boost to on-patent commercial manufacturing revenues in the medium term. Moreover, we highlight the company's ongoing expansion at its Lexington facility could itself be an indication of more molecules moving into the commercial phase over the medium term. We bake in commercialization of 10-11 new molecules over FY2024-28E, and expect ~25% of these molecules to be significant revenue contributors for the company. In our view, increasing contribution from on-patent commercial manufacturing will significantly improve EBITDA margins, given that clients in this phase do not give much credence to price negotiations, with time to market being the key priority here for clients.

We expect PPL to report a robust ~29% sales CAGR from on-patent commercial manufacturing over FY2024-28E

Exhibit 22: PPL – sales from commercial patent molecules, March fiscal year-ends, 2021-28E (Rs mn, %)



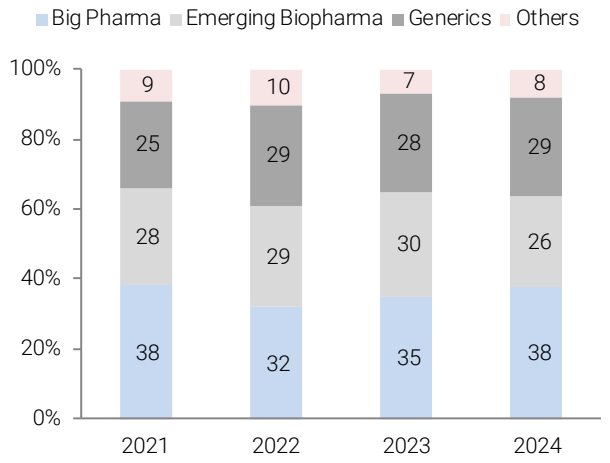
Source: Company, Kotak Institutional Equities estimates

Within CRDMO, PPL has a diversified client base with low customer concentration

PPL has 500+ customers across its CRDMO offering. PPL has built a longstanding relationship with its clients across Big Pharma, emerging biopharma and generics. PPL has been a choice of partner for 15 of its top 20 clients for more than seven years now, and works with all the top 10 innovators of the world. In terms of client contribution to sales, PPL has relatively low customer concentration, with the biggest client contributing ~11% to CRDMO sales. Moreover, 84% of its revenues are generated from regulated markets (US, Europe and Japan), providing better pricing.

Big Pharma contributed ~38% to CRDMO sales in FY2024

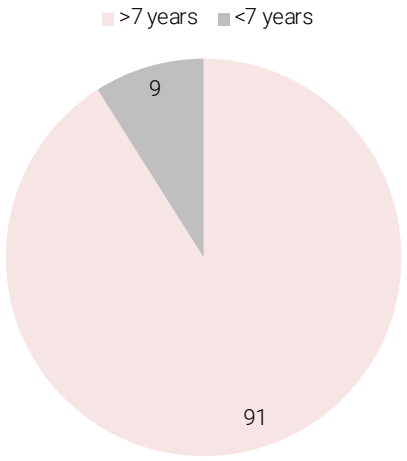
Exhibit 23: PPL – client mix by sales, March fiscal year-ends, 2021-24 (%)



Source: Company, Kotak Institutional Equities

PPL has longstanding relationships with its top 20 clients

Exhibit 24: PPL – share of revenue from Top 20 clients based on tenure, March fiscal year-end, 2024 (%)

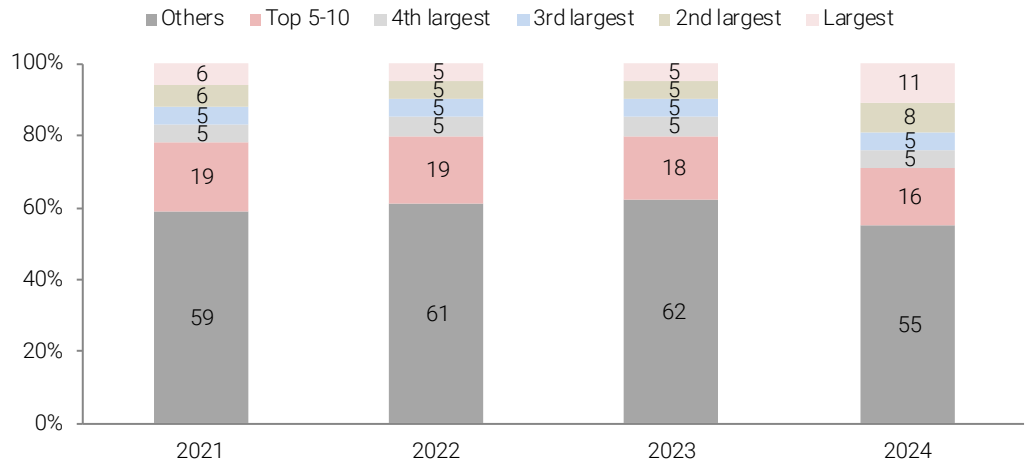


Source: Company, Kotak Institutional Equities

PPL has been a choice of partner for 15 of its top 20 clients for more than seven years now

Top 4 clients contributed ~29% to CRDMO sales in FY2024

Exhibit 25: PPL – client mix by sales, March fiscal year-ends, 2021-24 (%)



Source: Company, Kotak Institutional Equities

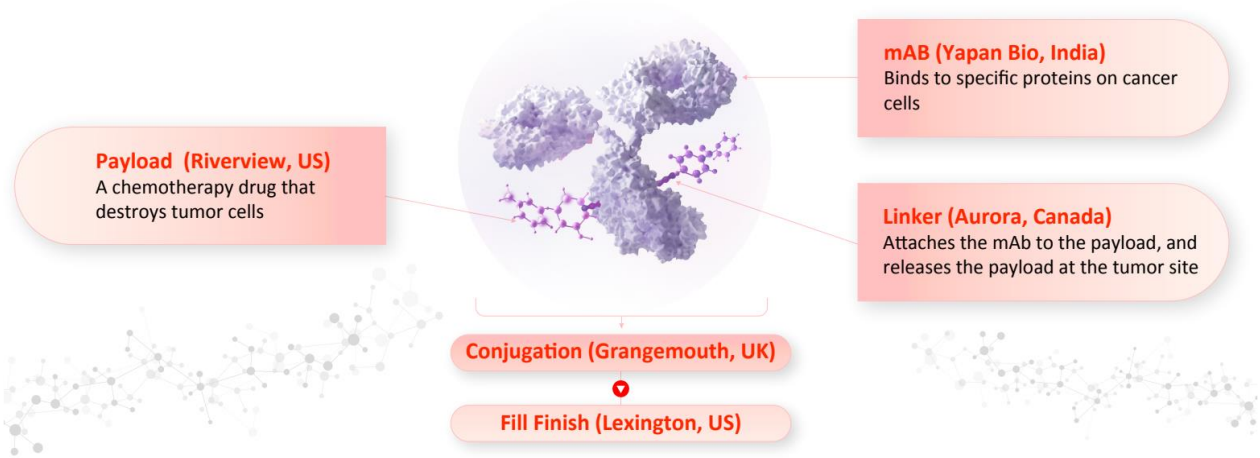
Maintaining the highest quality of compliance standards, along with a focus on reducing carbon footprint has been a key priority for PPL. In order to maintain quality standards, PPL has an independent quality control division, and employs more than ~1,000 people in quality control. The company has a strong regulatory track record with no OAI in the past 13 years, and has completed 125 customer audits in FY2024. PPL has also pledged to reduce its carbon footprint by 42% till CY2030E.

PPL is the only Indian CRDMO player with end-to-end ADC capabilities

ADC stands for antibody-drug conjugate, a targeted medicine that delivers chemotherapy directly to cancer cells. ADC has three components, namely payload, mAB and linker. Payload is the chemotherapy drug that destroys tumor cells, while mAB binds to specific proteins on cancer cells. In prior therapies, drugs could not target the cancer cells, and destroyed both healthy and cancer cells. However, mAB has the capability to identify the cancer cells. This mAB is linked to the payload (drug) through linker. This linking process is called conjugation. Among all these drug and process developments, conjugation is considered to be the most difficult. Fill-finish is the final stage of the manufacturing process where the conjugated ADC molecule is aseptically filled into vials or other containers, often requiring specialized handling due to the high potency and toxicity of the drug, ensuring sterility and proper dosage while adhering to strict regulatory standards.

PPL provides complete ADC capabilities through its integrated service offering

Exhibit 26: PPL – ADC capabilities



Source: Company, Kotak Institutional Equities

Being the only Indian player having end-to-end ADC capabilities, and Wuxi XDC being a leader in ADC development, PPL can be a key vendor for clients looking to diversify their supply chains

We estimate ADCs constitute 10-12% of CRDMO sales for PPL. The company has been doing conjugation in Grangemouth since CY2006, and has a strong hold on it. PPL has also developed linker capabilities in house at its Aurora facility in Canada. It has the capability to develop payload at its Riverview facility, and has fill-finish capabilities in its Lexington facility. With its acquisition of 33% stake in Yapan Bio (mAb capabilities), PPL has gained the capability to fully develop ADCs. PPL started offering its end-to-end ADC services two years back, and secured its first end-to-end integrated ADC order a year back. Some clients even have a filter for end-to-end capabilities while selecting any ADC vendor. With its complete offerings across the ADC value chain, PPL can now be a part of such discussions. With no other Indian player having end-to-end ADC capabilities in India, and Wuxi XDC being a leader in ADC development, PPL can be a key vendor for clients looking to diversify their supply chains away from China.

PPL has leadership position in most of its APIs

PPL's off-patent commercial manufacturing business (~50% of FY2024 CRDMO sales), has four segments, namely its API division, vitamins and minerals ingredients, supplies to Allergan JV and Bayer. API business is the largest contributor with ~35% of off-patent commercial manufacturing sales and offers 50+ off-patented APIs for global markets. Its API product portfolio includes Diltiazem Hydrochloride (anti-hypertensive), Ketoconazole (anti-fungal), Trazodone Hydrochloride (anti-depressant), Verapamil Hydrochloride (anti-hypertensive) and Mebeverine Hydrochloride (antispasmodic), which are the largest contributors to the API business. Its vitamins and minerals ingredients business is ~6-8% of off-patent commercial manufacturing sales, and is struggling a bit as there has been aggressive dumping by Chinese players. The company has filed a suit against these practices and is awaiting a response here.

We expect CRDMO revenues to report a healthy 13% CAGR over FY2024-28E

We bake in a ~950 bps expansion in CRDMO EBITDA margins over FY2024-28E, on account of continued momentum in innovation-related work

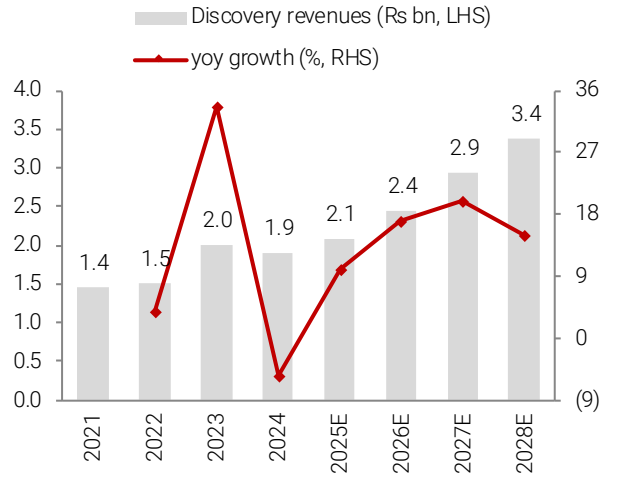
Before picking up in FY2024 (+18% yoy), CRDMO sales growth was muted over FY2021-23, and reported a mere ~5% CAGR. This resulted in CRDMO revenues exhibiting a ~10% CAGR over FY2021-24, with a significant drop in operating margins, due to underutilization of the overseas facilities. Underperformance in FY2022 and FY2023 was majorly driven by execution challenges related to raw material availability, higher energy costs in the UK, manpower shortage of overseas talent, logistical constraints, deferred customer audits due to Covid, and slower decision making by the customers due to higher interest rates and a subdued US biotech funding environment.

However, the recent uptick in FY2024 sales, largely led by strong growth (+137% yoy) in on-patent commercial manufacturing, as well as a robust development pipeline of 150+ molecules instill confidence. Ergo, we bake in a healthy ~13% sales CAGR for PPL's CRDMO segment over FY2024-28E, led by continued momentum in innovation-related work, majorly driven by robust growth in on-patent commercial manufacturing.

We highlight that compared to its CRDMO peers, PPL's CRDMO business has a higher quantum of fixed costs due to facilities across multiple geographies. As sales continue to ramp up, along with higher mix of on-patent commercial manufacturing, EBITDA margins will continue to improve hereon. Accordingly, we bake in a ~950 bps expansion in CRDMO EBITDA margins over FY2024-28E, from current levels of low double digits.

We bake in ~15% discovery sales CAGR over FY2024-28E

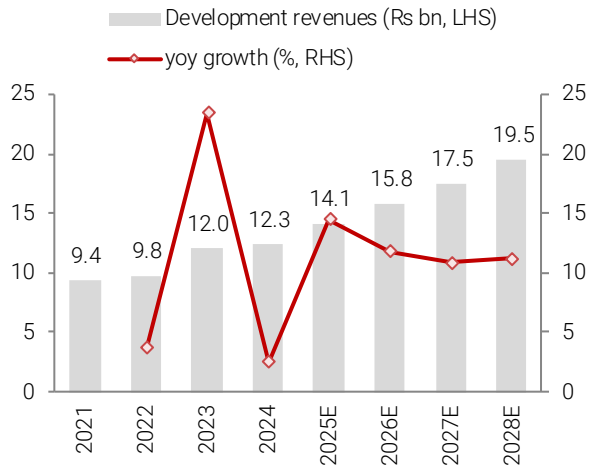
Exhibit 27: CRDMO – discovery revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We bake in ~12% development sales CAGR over FY2024-28E

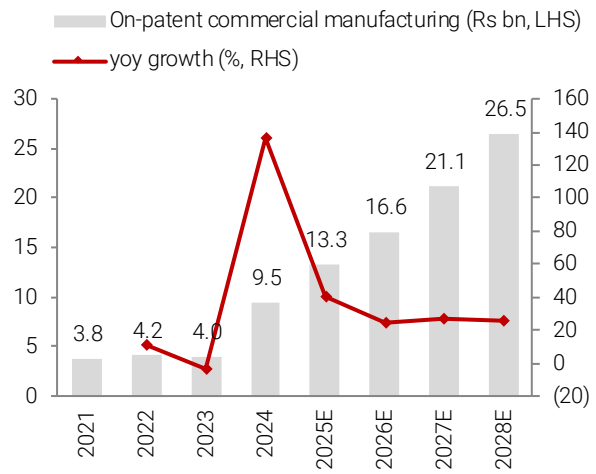
Exhibit 28: CRDMO – development revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We bake in ~29% on-patent commercial manufacturing sales CAGR over FY2024-28E

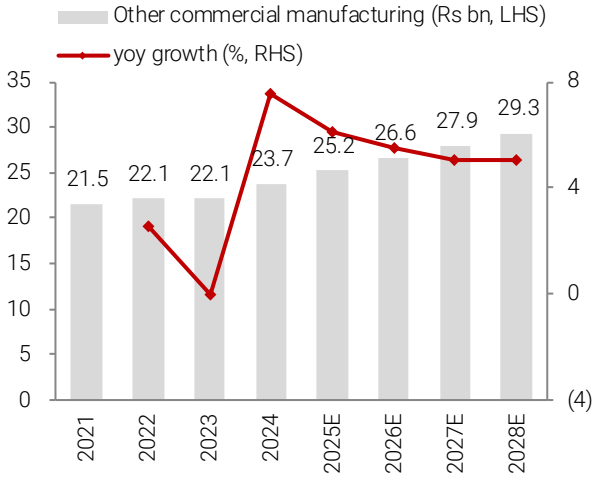
Exhibit 29: CRDMO – on-patent commercial manufacturing sales, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We bake in ~5% generics manufacturing sales CAGR over FY2024-28E

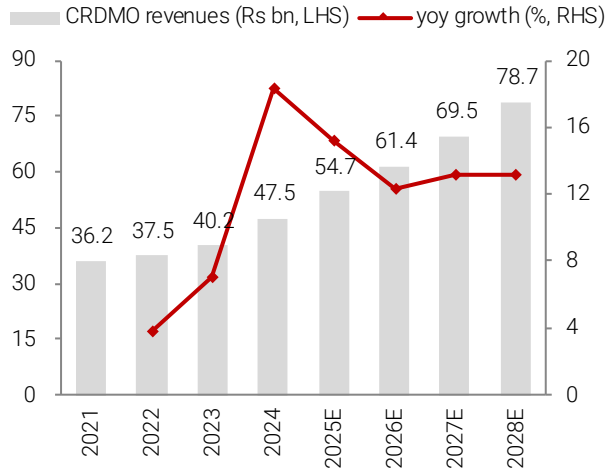
Exhibit 30: CRDMO – other commercial manufacturing sales, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect CRDMO revenues to report a healthy ~13% CAGR over FY2024-28E

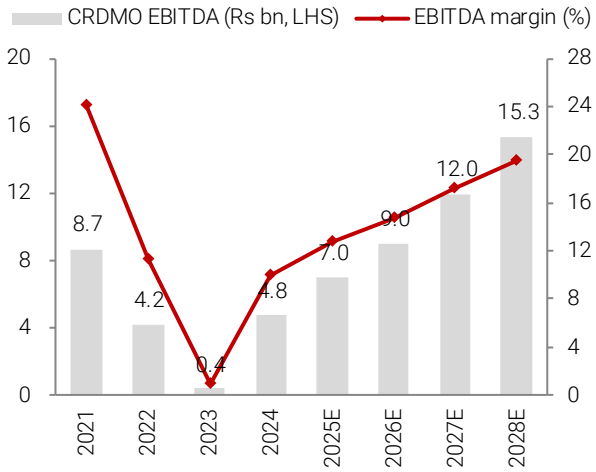
Exhibit 31: CRDMO revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect CRDMO EBITDA margins to improve to ~20% in FY2028E

Exhibit 32: CRDMO EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

3

We expect PPL to further build on its strength in IA/injectables

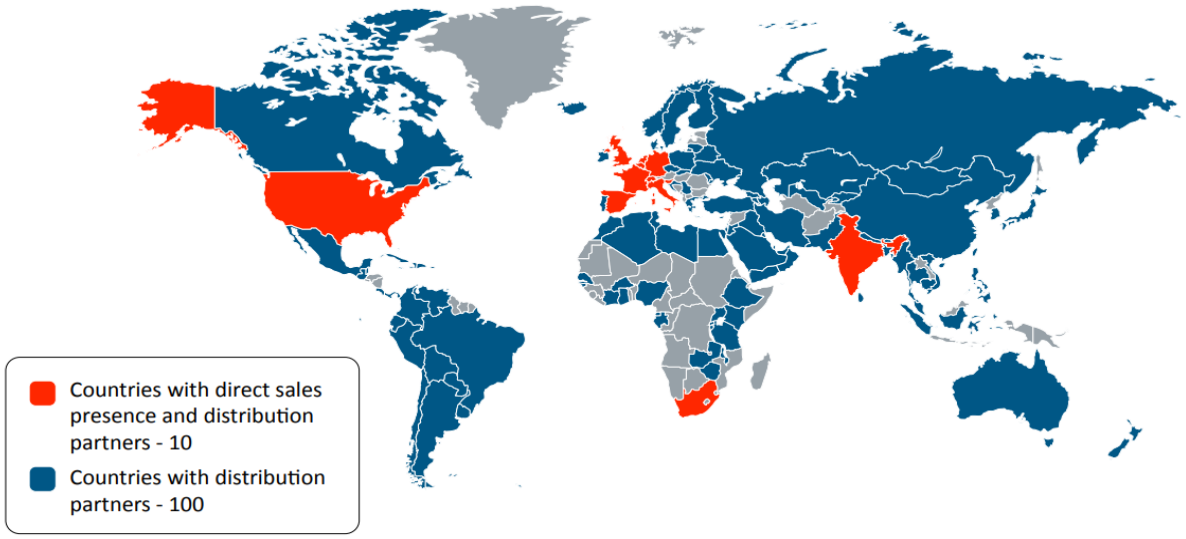
With a dominant position in the US and expanding presence in RoW markets, we expect the CHG segment to grow at a steady rate. In our view, existing products in IA and pain management injectables will lead growth in the near term, while the pipeline of differentiated products and market expansion in new geographies will drive growth over the medium to long term. Accordingly, we bake in a ~11% CHG sales CAGR for PPL over FY2024-28E. While we do expect marginal decline in CHG EBITDA margins in FY2025E, due to the ongoing expansion at Digwal, we expect margins to pick up gradually from 2HFY26E, led by higher sales in new markets. Ergo, we expect CHG to report stable EBITDA margins of ~28-29% over FY2025-28E.

PPL has developed a dominant position in IA/injectables in US and EU

PPL's Complex Hospital Generics (CHG) business consists of a portfolio of differentiated, low competition products (40+) across inhalation anesthesia (IA), injectable pain, intrathecal spasticity, antibiotics, and other medications. A majority of these products are difficult to manufacture and have high entry barriers. PPL's CHG business has the best operating margin profile (25%+) for the company. PPL has commercial presence in 100+ countries, with direct sales presence in 10 of these countries. In CHG, PPL has established channel relationships and has developed a robust commercial infrastructure. Within US, PPL has a direct sales force with strong relationships with GPOs. Overall, PPL caters to 6k+ hospitals across the globe.

PPL has commercial presence in 100+ countries in its CHG business

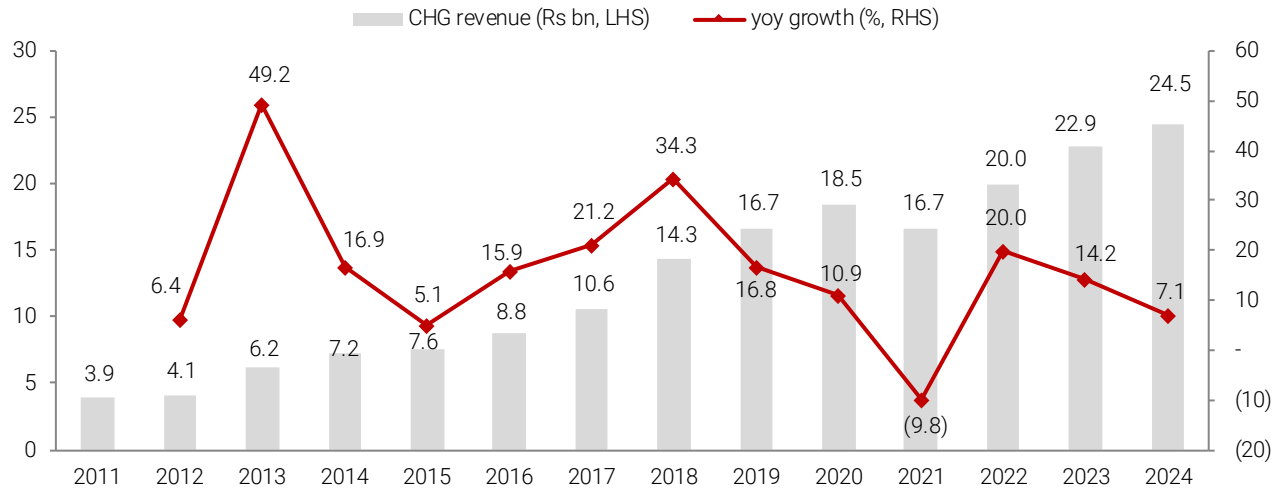
Exhibit 33: PPL – geographical presence in CHG business



Source: Company, Kotak Institutional Equities

CHG revenues for PPL have reported a ~15% CAGR over FY2011-24

Exhibit 34: PPL – CHG revenues, March fiscal year-ends, 2011-24 (Rs bn, %)



Source: Company, Kotak Institutional Equities

Within CHG, PPL has four main product categories, namely inhalation anesthesia (67% of CHG FY2024 sales), injectable anesthesia and pain management (10% of CHG FY2024 sales), intrathecal (15% of CHG FY2024 sales), and other products (8% of CHG FY2024 sales).

We expect the new Sevoflurane line at Digwal to get commissioned by 1HFY26, which will open up additional RoW markets

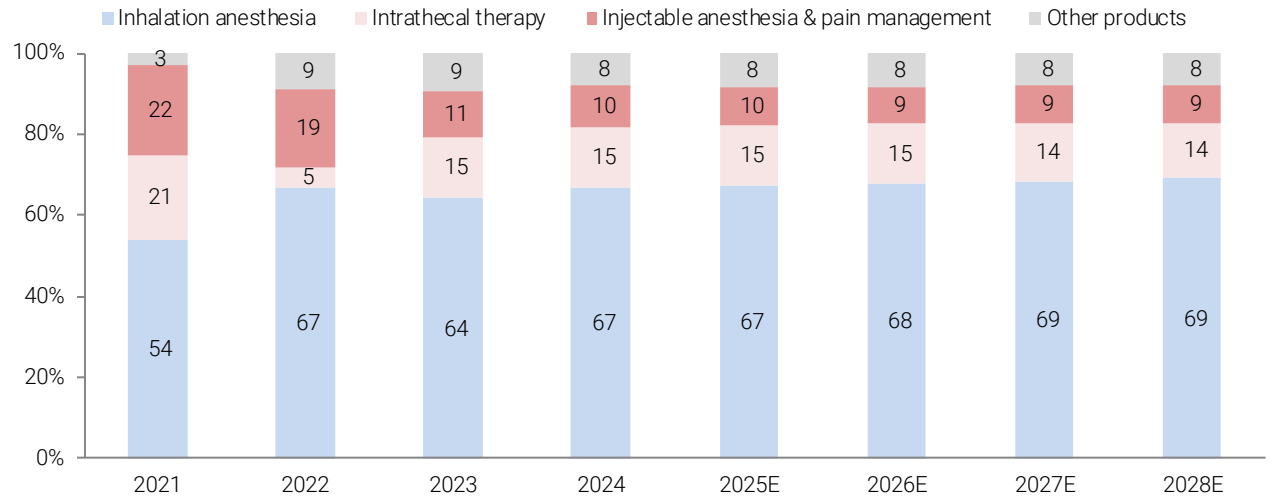
We bake in healthy growth in CHG over FY2024-28E, led by higher IA and Intrathecal therapy sales

PPL's IA sales have reported a robust CAGR of 22% over FY2021-24, on the back of significant improvement in US market share in its biggest product, Sevoflurane. We expect the new Sevoflurane line at Digwal to get commissioned by 1HFY26, which will open up additional RoW markets for the product. We estimate steady growth in IA sales over FY2024-26E, led by market share gains in existing markets, followed by pickup in growth from FY2026E, driven by market share gains from major players such as Abbive and Baxter in RoW markets.

PPL's intrathecal therapy revenues have reported a muted ~2% CAGR over FY2021-24, due to stagnation in US market share (PPL already has ~70% market share in its leading product, Baclofen). Going forward, we expect PPL to aggressively expand its products in RoW markets, and bake in an improved 9% CAGR for intrathecal therapy sales over FY2024-28E. Moreover, its new and differentiated products with a couple of interesting launches planned ahead, will continue to drive growth over the longer term as seen in the recent past (~58% sales CAGR over FY2021-24, on a low base).

We expect inhalation anesthesia to continue to drive sales in CHG over FY2024-28E, led by expansion in non-US markets

Exhibit 35: PPL – CHG sales mix by product categories, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities

PPL has a diversified CHG product portfolio

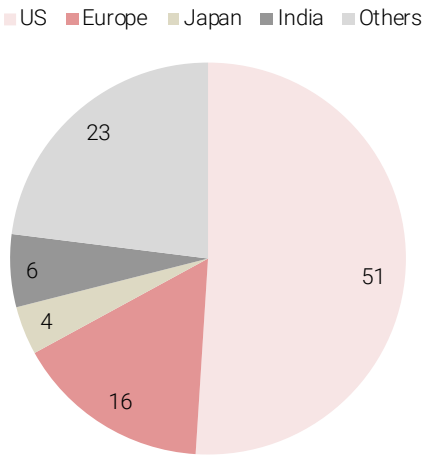
Exhibit 36: PPL – CHG product portfolio, March fiscal year-end, 2025E

	Products	Comments
Category		
Inhalation Anesthesia	Sevoflurane, Isoflurane, Desflurane, Halothane	
Injectable anesthesia/pain management	Fentanyl Citrate, Sufentanil Citrate, Alfentanil Hydrochloride, Piritramide, Etomidate	Acquired from Janssen in 2016
Inthrathecal Therapy	Baclofen, Morphine Sulfate	Acquired from Mallinckrodt LLC in 2017
Anti-infectives	Ampicillin-Sulbactam, Cafepime, Ceftriaxone, Oxacillin, Ampicillin Sodium, Piperazilin Tazobactam, Linezolid bag	
Injectable for Myxedema Coma	Levothyroxine Sodium	Acquired in 2018
Capsule for type-1 Gaucher & Niemann-Pick disease	Miglustat	Acquired in 2018
Plasma volume expander	Polygeline	
Muscarinic anticholinergic	Glycopyrrolate injection	Developed through an affiliate
Muscle relaxant	Rocuronium Bromide	Acquired distribution license in 2020

Source: Company, Kotak Institutional Equities

Sales from regulated markets contributed ~70% to PPL's CHG revenues in FY2024

Exhibit 37: PPL – CHG sales mix by geography, March fiscal year-end, 2024 (%)



Source: Company, Kotak Institutional Equities

Top 4 players, including PPL, constitute ~90% of the global IA market, with major competitors being Abbott Laboratories, Baxter International and AbbVie

PPL is the #1 player in inhalation anesthesia in US with ~43% market share

PPL is the only company with the entire generation of inhalation anesthesia offerings (Desflurane, Sevoflurane, Isoflurane, and Halothane) and has a significant presence in the global inhalation anesthetics industry (~US$1.03 bn). Top 4 players, including PPL, constitute ~90% of the global IA market, with major competitors being Abbott Laboratories, Baxter International and AbbVie. US and Europe constitute ~48% of the global IA market. Within China, Hongray has the lion's share in IA therapy. Outside US and China, Abbvie and Baxter are leading players and hold the largest market shares. In IA therapies, companies work on long-term contracts with hospitals. Inhaled anesthesia sales are sticky in nature as it requires a vaporizer, which once installed works only with that particular company's product (liquid anesthesia gas). Once a company fits vaporizer free of cost, then hospital will have to use the same company's drug bottle, thereby leading to stickiness.

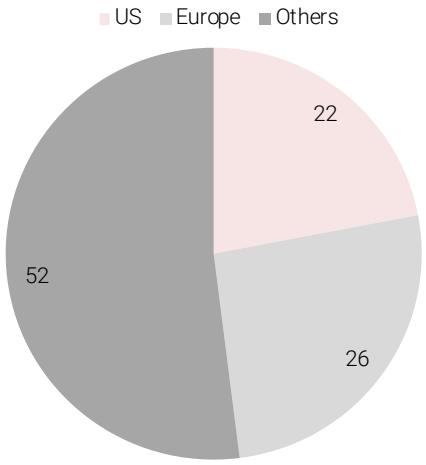
Once a company installs vaporizer free of cost, hospitals can use only that particular company's drug

Exhibit 38: Inhalation anesthesia – drug device combination

Source: Company, Kotak Institutional Equities

US and Europe constitute ~48% of the global IA market

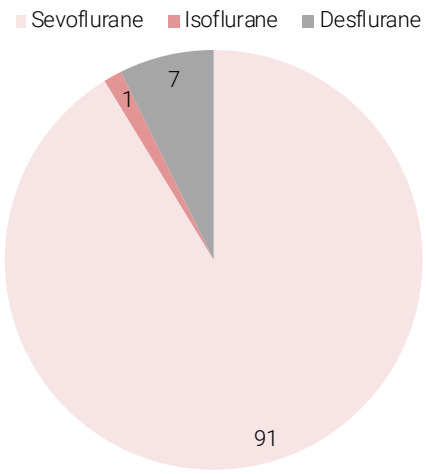
Exhibit 39: Global inhalation anesthesia market segmentation, March fiscal year-end, 2024 (%)



Source: IQVIA, Company, Kotak Institutional Equities

Sevoflurane constitutes ~91% of the US IA market

Exhibit 40: US inhalation anesthesia market segmentation by product, December calendar year-end, 2023 (%)



Source: Bloomberg, Kotak Institutional Equities

Sevoflurane's superior characteristics explain its dominance in global IA market

Exhibit 41: IA products – major characteristics

	GHG emissions	Potency	Onset and recovery	Irritability
Sevoflurane	Lowest	Higher than Desflurane	Fast acting with quicker recovery times	Least irritating
Isoflurane	Higher than Sevoflurane	Highest	Slower recovery than Sevoflurane and Desflurane	Less irritating than Desflurane
Desflurane	Highest	Lower	Fast acting with quicker recovery times	High incidence of coughing and irritation

Source: Company, Kotak Institutional Equities

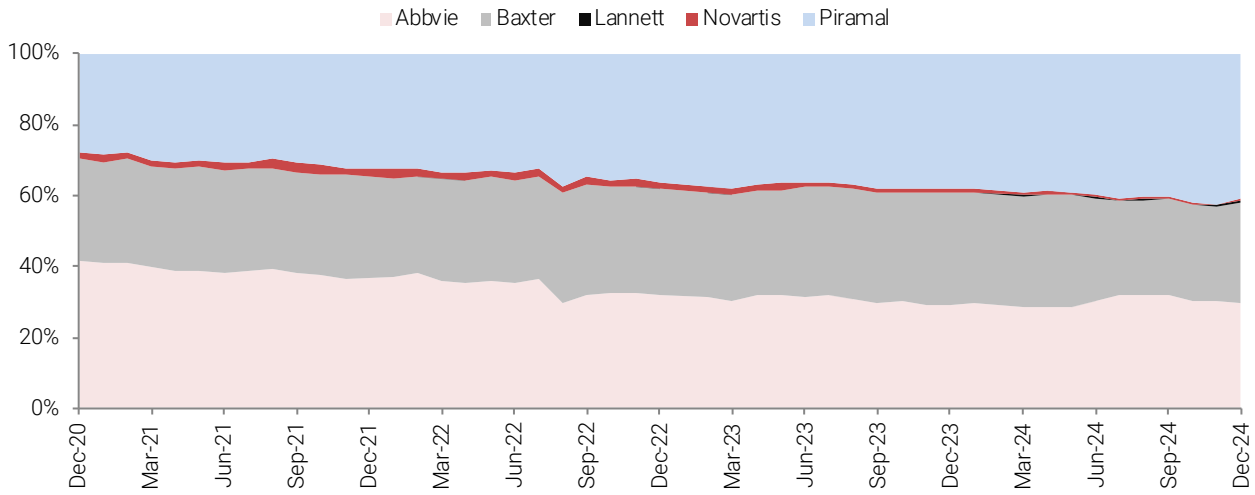
We expect expansion in non-US markets to drive growth in IA sales over the near term

PPL is the largest Sevoflurane supplier in the US with a market share of ~45%

Within IA, Sevoflurane is the most preferred drug, as it is more potent, acts rapidly, produces lesser GHG emissions and has faster emergence and recovery. As per IQVIA MAT March 2024, Sevoflurane constituted ~85% of the global IA market. PPL is the largest Sevoflurane supplier in the US (market share of ~45%), UK, Mexico, South Africa and Brazil, and ranks 4th in inhalation anesthesia globally with ~15% market share outside US. In US, PPL has been steadily gaining market share over the years, and now commands ~45%+ market share, significantly up from ~30% in CY2020. In our view, PPL's significant ramp-up in Sevoflurane market share over the recent years has helped more than offset the prevalent pricing pressures, leading to steady growth.

PPL commands a lion's share in the US Sevoflurane market

Exhibit 42: Sevoflurane – US market shares, December calendar year-ends, 2021-24 (%)

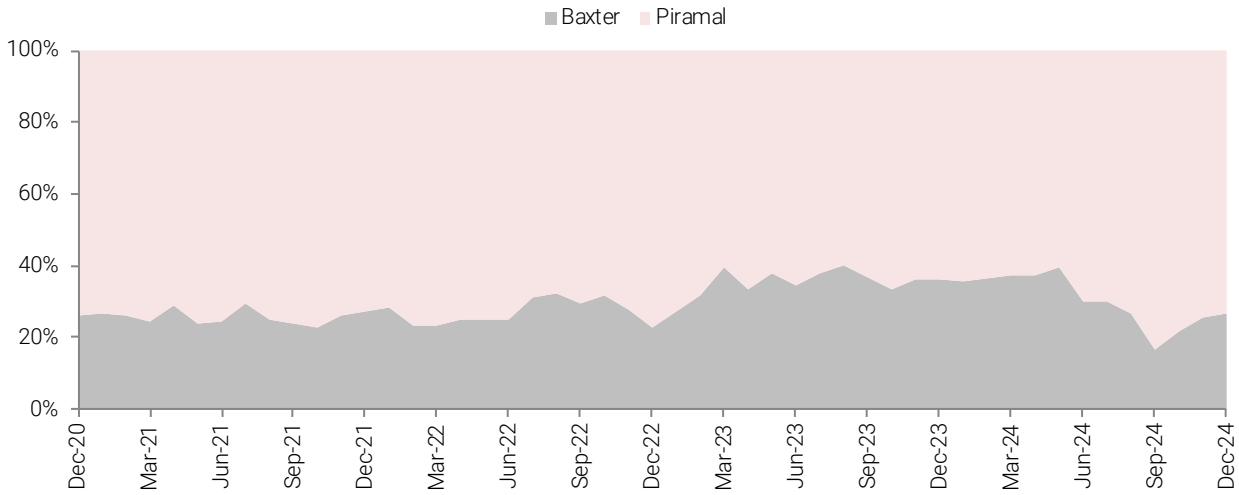


Source: Bloomberg, Kotak Institutional Equities

Within US and Europe, combined market share of PPL, Abbvie and Baxter stands at ~90% in Sevoflurane. Sevoflurane and Isoflurane are the largest products for PPL. These products are difficult to manufacture and require dedicated facility due to use of toxic raw materials. In Isoflurane, PPL's US market share stands at ~75%, while Baxter (~25%) is the only other player in the market.

PPL holds a ~75% market share in the two player Isoflurane market in US

Exhibit 43: Isoflurane – US market shares, December calendar year-ends, 2021-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Desflurane is a comparatively new generation product, and has higher greenhouse gas emissions. Baxter and Novartis are the only two players operating in Desflurane in US, with Baxter's market share being 90%+.

We expect PPL's combined ex-US, ex-EU Sevoflurane market share to improve rapidly from ~14% currently to ~21% in FY2028E

PPL has two inhalation anesthesia facilities in Bethlehem, US, and Digwal, India. Bethlehem caters to Sevoflurane and Desflurane supplies, while Digwal takes care of Isoflurane supplies. PPL is vertically integrated in Sevoflurane, post the acquisition of Specialty Fluorochemicals facility in Dahej from Navin Fluorine. It is also setting up Sevoflurane lines at Digwal to supplement the Bethlehem facility. This will help reduce production costs and the company can start targeting non-US markets. PPL will start supplies to RoW markets in FY2026E. We highlight that the upcoming line will be producing Sevoflurane at a substantially lower cost than Bethlehem, and hence we do not estimate any margin dilution from Sevoflurane sales in RoW markets. Moreover, the company is also increasing KSM capacity at Dahej to increase vertical integration.

In our view, IA will be the major growth contributor in the near term for the CHG business, driven by market share gains in its flagship product Sevoflurane in US, along with expansion of Sevoflurane into newer markets (non-US). With its proven track record of gaining market share in a limited competition space, we expect PPL's combined ex-US, ex-EU Sevoflurane market share to improve rapidly from ~14% currently to ~21% in FY2028E, largely driven by market share gains from Abbvie and Baxter.

We expect expansion in RoW markets to drive growth in intrathecal therapies over the near term

In CY2017, PPL acquired two intrathecal spasticity products (Baclofen and Morphine Sulphate), which are injected in spine, and are used for nerve related issues, as well as two pain management products under development from Mallinckrodt LLC in CY2017. Intrathecal therapy provides treatment options to patients suffering from spasticity (involuntary muscle contractions that cause stiffness) and dystonia (muscle contractions that can result in twisted or abnormal postures).

In intrathecal therapies, a drug is delivered through a pump which is implanted in the patient's abdomen

Exhibit 44: Intrathecal therapy – mechanism of action

Source: Company, Kotak Institutional Equities

PPL has ~70% market share in the Baclofen pre-filled syringe and vial segment in the US and has a differentiated Baclofen presentation in the form of 'pre-filled syringes'. PPL markets this product in US, Germany, Netherlands, Denmark and Sweden. PPL has an extensive distribution network comprising clinical field sales team with detailed understanding of tender market operations.

PPL's intrathecal therapy revenues have reported a mere ~2% CAGR over FY2021-24, due to stagnation in US market share (PPL already has ~70% market share in its leading product, Baclofen). The company expects to launch both of its products in RoW markets by FY2026E-end. We believe this will help move the needle for its intrathecal therapy revenues over the medium term. Hence, we bake in an improved 9% sales CAGR for intrathecal therapy over FY2024-28E.

PPL has a branded injectables portfolio with leadership position in select markets

In CY2016, PPL acquired a portfolio of five branded injectable anesthesia and pain management products from Janssen (Belgium). This portfolio includes Dipidolor (Piritramide), Sublimaze (Fentanyl Citrate), Rapifen (Alfentanil Hydrochloride), Sufenta (Sufentanil Citrate) and Hypnomidate (Etomidate). PPL sells these brands in 50+ countries, including key markets of Japan, Australia, Indonesia, South Africa, Saudi Arabia and European markets (Austria, Belgium, Czech Republic, France, Germany). As per the company, addressable market size of these products stands at ~US$140 mn.

PPL has commercial presence in 50+ countries with a mix of own field force and strategic partnerships for this portfolio. As per IQVIA MAT March 2024, the brand Sublimaze was ranked no.1 in Japan, France, Indonesia, South Africa, and Saudi Arabia.

PPL's injectables anesthesia and pain management product revenues have declined at ~13% CAGR over FY2021-24, due to supply constraints at its partner CMO. Once acquired, PPL had a contract for buying these products from Janssen for the initial five years. Post CY2021, as the company shifted to a new CMO for supplies of these products, the CMO could not scale up as per the requirements. The CMO partner has been ramping up its production, but it is still not sufficient to meet the full demand.

Existing products in IA and pain management injectables will lead growth in the near term, while the differentiated products' pipeline will drive growth in the medium to long term

Now, PPL has started developing a second CMO partner to distribute workload between the two partners, while the existing CMO partner ramps up. We believe, ramp-up in production at the current CMO partner, along with onboarding of new CMO partner, will help stabilize volumes by the end of FY2026E. With supply constraints to recede in FY2027E, we expect injectables anesthesia and pain management revenues to come back on growth track. Accordingly, we bake in a steady ~9% sales CAGR for this portfolio over FY2024-28E.

We expect new and differentiated product portfolio to drive medium to long-term growth in CHG

We expect PPL's current pipeline of generic injectables, with an addressable market size of ~US$2.2 bn, to drive medium to long-term growth in CHG. Within its pipeline of 24 SKUs, 5 have been approved but pending launch, 13 are under approval and 6 are yet to be filed. The addressable market for differentiated and specialty products is highly attractive, particularly in US and Europe.

PPL plans to continue to invest in differentiated and specialty products. One such example is Neoatricon. Atricon is a medicine used for heart disorders. Currently, only adult dosages are available in the market. To treat infants, doctors usually dilute the adult dosage. Now, PPL is planning to launch pediatric dosage of Atricon in the market, which is Neoatricon. Recently, PPL has secured the commercialization rights for the EU, UK, and Norway and will be responsible for distributing Neoatricon in these regions. This will be the first and only authorized treatment for hypotension in neonates, infants, and children.

Led by complex new launches in low competition segments, revenues from these products have reported a robust ~58% CAGR over FY2021-24, albeit on a low base. In our view, PPL's new and differentiated products with a couple of interesting launches planned ahead, will continue to drive growth over the longer term as seen in the recent past. Its pipeline of 24 complex generic injectables with an addressable market of US$2 bn+ provides incremental comfort on its long-term earnings trajectory. Accordingly, we bake in a healthy ~11% sales CAGR over FY2024-28E for these products.

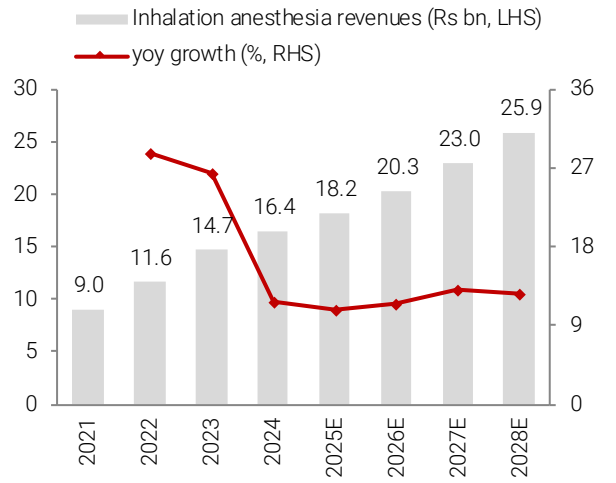
We expect CHG revenues to grow at a steady pace and report ~11% CAGR over FY2024-28E

CHG sales have reported a ~15% CAGR over FY2011-24, aided by inorganic expansion. With a dominant position in the US and expanding presence in RoW markets, we expect CHG business to grow at a steady rate. In our view, existing products in inhalation anesthesia and pain management injectables will lead growth in the near term, while the pipeline of differentiated products and market expansion in new geographies will drive growth in the medium to long term. Accordingly, we bake in an ~11% CHG sales CAGR for PPL over FY2024-28E.

CHG is the most profitable business for PPL, with EBITDA margins north of 25%. With sufficient entry barriers in place, along with planned new launches, we do not expect significant competition in the CHG business for PPL. While we do expect marginal decline in CHG EBITDA margins in FY2025E, due to the ongoing expansion at Digwal, we expect margins to pick up gradually from 2HFY26E, led by higher sales in new markets. Ergo, we expect CHG business to report stable EBITDA margins of ~28-29% over FY2025-28E.

We expect Inhalation anesthesia revenues to report ~12% CAGR over FY2024-28E

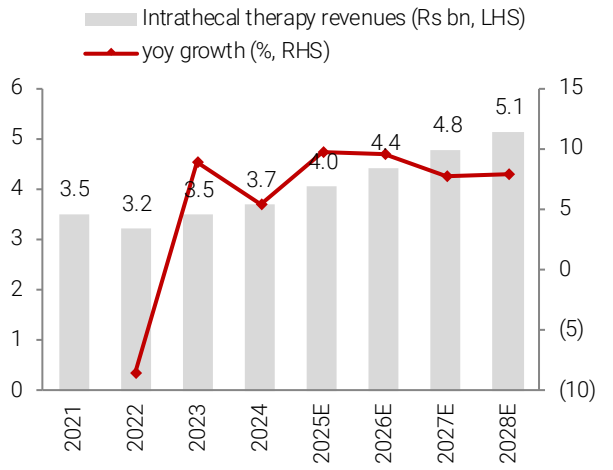
Exhibit 45: CHG – inhalation anesthesia revenues, March fiscal-year ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect Intrathecal therapy revenues to report ~9% CAGR over FY2024-28E

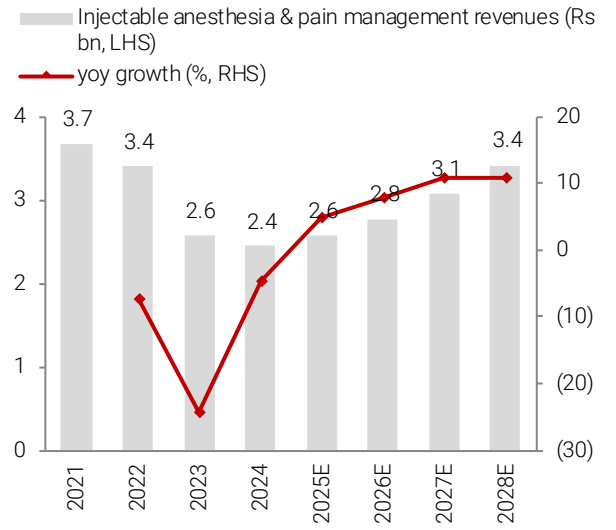
Exhibit 46: CHG – intrathecal therapy revenues, March fiscal-year ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect Injectable anesthesia and pain management revenues to report ~9% CAGR over FY2024-28E

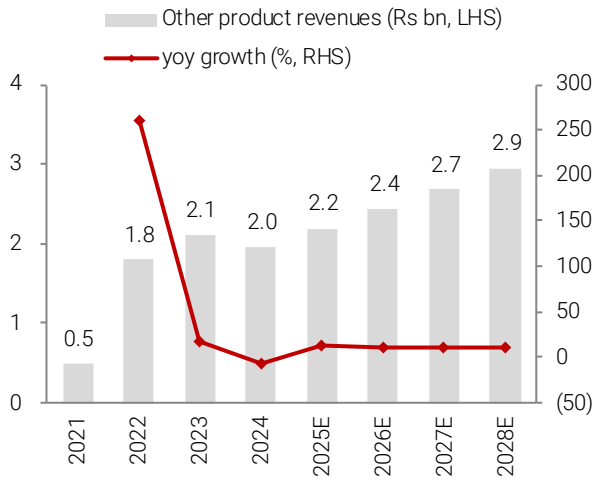
Exhibit 47: CHG – injectable anesthesia and pain management revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect other products' revenues to report ~11% CAGR over FY2024-28E

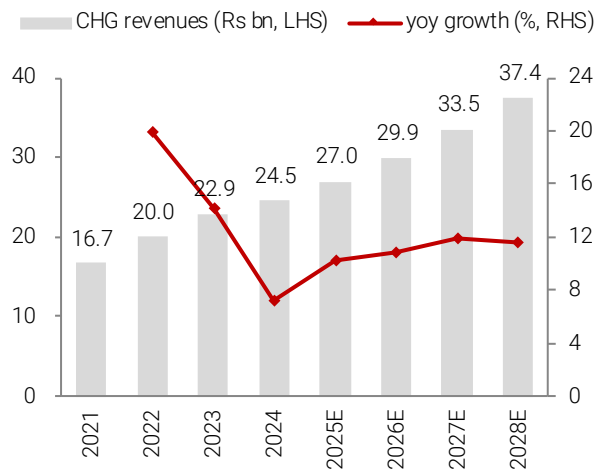
Exhibit 48: CHG – other products' revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect CHG revenues to report ~11% CAGR over FY2024-28E

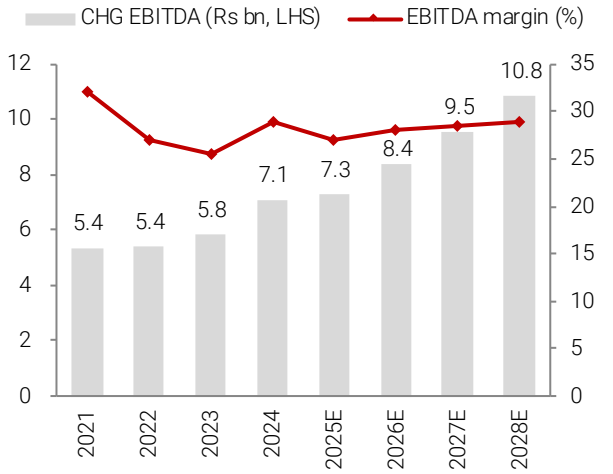
Exhibit 49: CHG revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect CHG EBITDA to remain steady at ~28-29% over FY2025-28E

Exhibit 50: CHG EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

4

We expect ICH's EBITDA margins to improve to high single digits by FY2028E

PPL has reported 10% sales CAGR for ICH business over FY2021-24, backed by robust 32% CAGR in power brand sales. Going forward, we expect the company to scale up these power brands through a mix of channel expansion strategies and new product launches. Accordingly, we bake in a healthy 13% ICH sales CAGR for PPL, driven by 18% sales CAGR for power brands over FY2024-28E. As ICH revenues scale up, we expect various cost heads such as distribution cost, sales force cost and advertisement and promotion costs as % sales to come down. Accordingly, we bake in ~800 bps improvement in EBITDA margins for the ICH business over FY2024-28E, with EBITDA margins reaching ~9% in FY2028E.

PPL has a diversified presence across categories with a portfolio of 25+ brands

PPL is one of the top 10 companies in the Indian consumer healthcare market, with a portfolio (25+ brands) of well-known brands such as Little's, Lacto Calamine, I-Pill, Saridon, and Supradyn in OTC categories like baby care, skin care, women's care, allergy management, gastro, VMN, and pain, along with a strong nationwide distribution network.

PPL has a diversified presence with a portfolio of 25+ brands

Exhibit 51: PPL – ICH business presence across categories and ranking

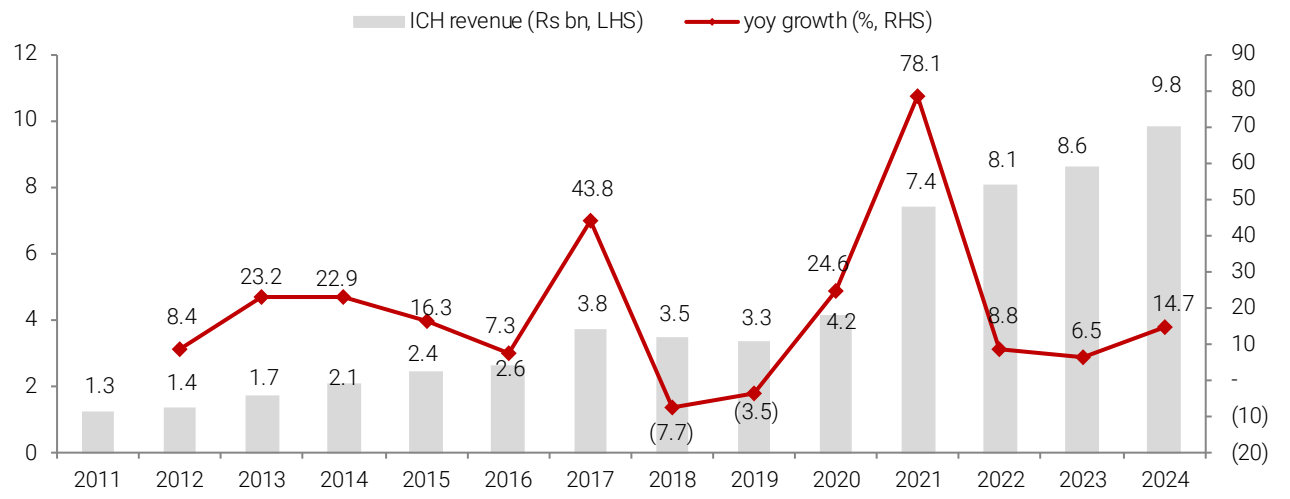
Category	Skin Care	Kids Wellness	Adult Incontinence	Women Intimate Health & Hygiene	Digestives	VMS[1]	Analgesics	Cold & Flu
Market Size (US$ Mn)	2,000	1,740	140	450	430	1,400	820	1,500
Category Growth[2]	13%	9%	8%	10%	10%	8%	12%	15%
Core Brands	LACTO CALAMINE	Little's	CIR	i-range	Polycrol	Supradyn[4]	///Saridon///[4]	Alaspan[4] Anti-Allergy Tablets
Market Positioning & Ranking[3]	6th 40-years heritage synonymous with 'calamine' segment under Face lotions category	5th Wide range of Wipes, Diapers, Toys, Feeding & Personal care products	1st 1st in Adult Diapers on Amazon	2nd Synonymous with creating emergency contraceptive category in India	2nd Antacid Liquid 23% Share (East)	5th Strong brand heritage	1st 50-years heritage and household name	

Source: Company, Kotak Institutional Equities

In the early 1990s, PPL began its OTC business by purchasing Lacto Calamine from Duphar Interfran Ltd. and Saridon from Roche Holding. Only in CY2007 did the company decide to focus on OTC expansion and started its own consumer products segment. PPL has scaled this business from 3 brands and sales of ~Rs1 bn in CY2008 to 25+ brands and sales of ~Rs9.8 bn in FY2024. Driven by organic growth, along with series of brand acquisitions, ICH business has reported ~17% sales CAGR over FY2011-24.

PPL's reported ICH business has reported ~17% sales CAGR over FY2011-24

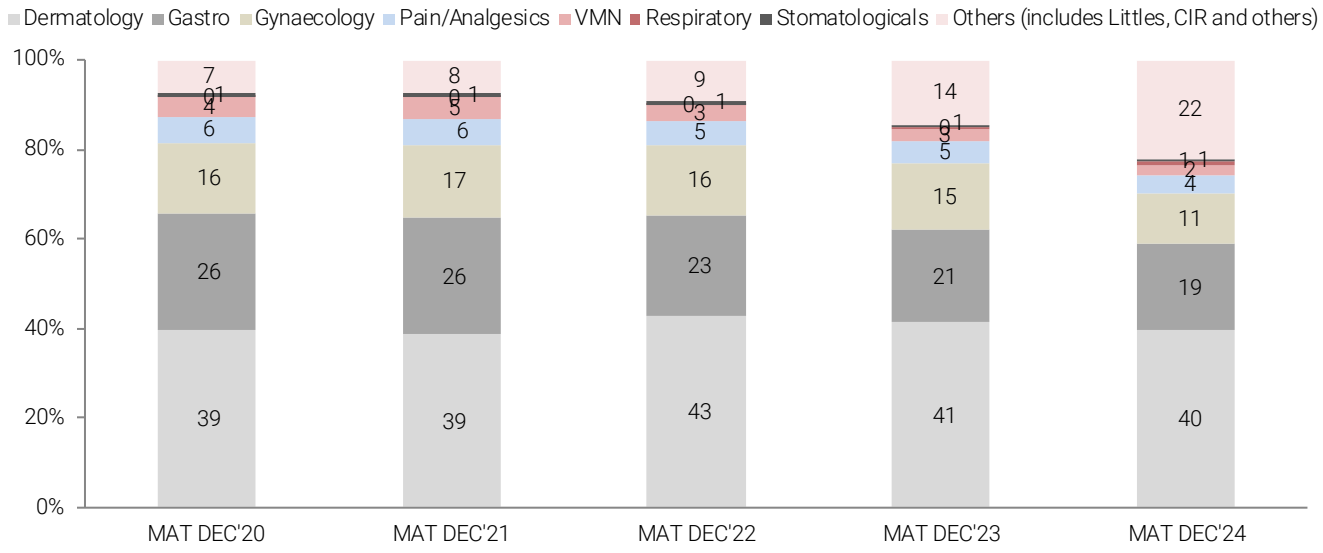
Exhibit 52: PPL – ICH revenues, March fiscal year-ends, 2011-24 (Rs bn, %)



Source: Company, Kotak Institutional Equities

PPL's ICH product portfolio is largely based in therapies of dermatology and gastro

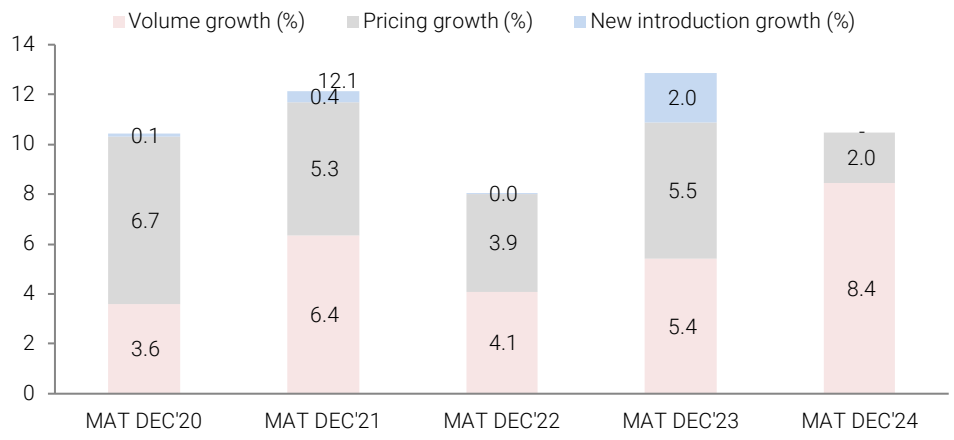
Exhibit 53: PPL – ICH revenue mix by therapies, MAT December-ends, 2020-24 (%)



Source: IQVIA, Kotak Institutional Equities

As per IQVIA, MAT Dec'2024, volume growth for ICH has ranged from 3-8% yoy over the past 5 years

Exhibit 54: PPL – ICH portfolio growth drivers, MAT December-ends, 2020-24 (%)

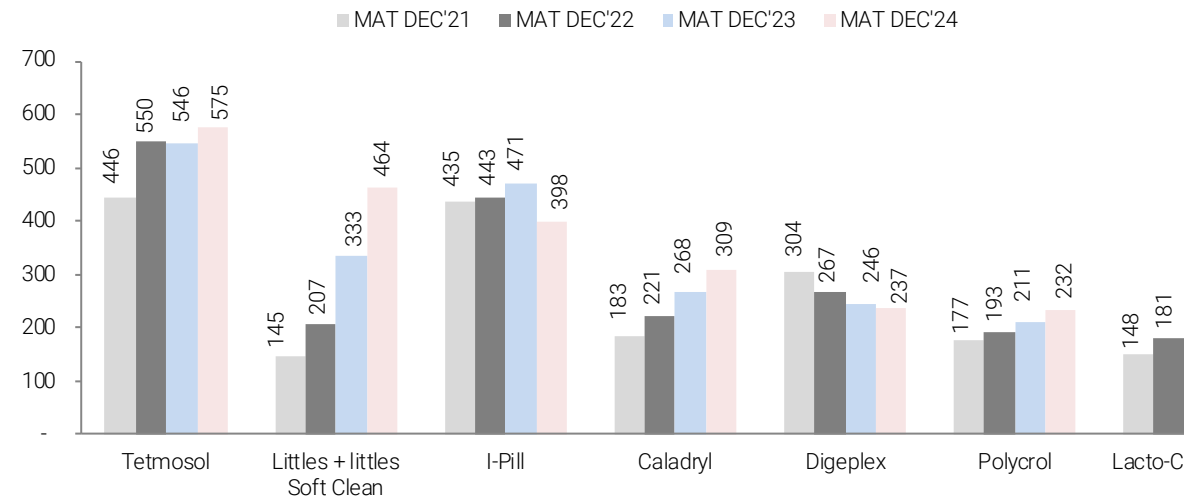


Source: IQVIA, Kotak Institutional Equities

PPL has coverage across ~180k chemists and cosmetics shops, along with 13k+ modern trade outlets

As per IQVIA, MAT Dec'2024, Little's portfolio has reported a ~45% sales CAGR over the past 4 years

Exhibit 55: PPL – ICH top brands' revenues, MAT December-ends, 2021-24 (Rs mn)



Source: IQVIA, Kotak Institutional Equities

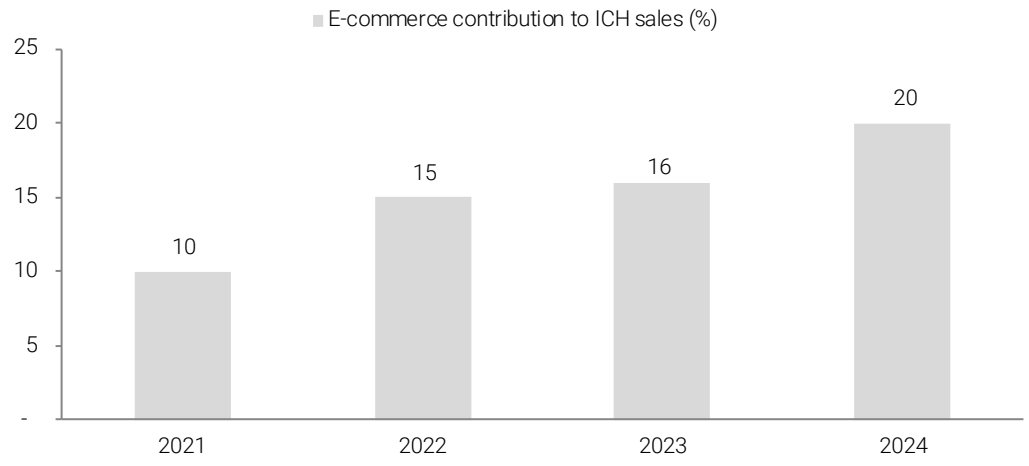
PPL has transformed from a pharmacy-dominant to an omni-channel healthcare franchise in ICH

PPL's ICH business is a self-funded business, which works on an asset-light model, wherein products are manufactured by a third party. PPL markets its products nationwide through a broad network of distributors, who in turn serve a number of pharmacies, grocery stores, modern trade, and children's stores. The company is also listed on numerous e-commerce websites. Additionally, PPL also has its own D2C portal, Wellify.in. The company uses analytics to increase field force productivity and has 100% tech-enabled sales coverage.

PPL has steadily transformed from being a pharmacy-dominant to an omni-channel consumer healthcare company by building reach in top weighted non-chemist outlets and continues to expand its reach in modern trade. Currently, PPL has coverage across ~180k chemists and cosmetics shops, along with 13k+ modern trade outlets.

ICH sales on e-commerce channel have exhibited an impressive ~58% CAGR in past 3 years

Exhibit 56: E-commerce contribution to ICH sales, March fiscal year-ends, 2021-24 (%)



Source: Company, Kotak Institutional Equities

Power brands' sales have reported a robust ~32% CAGR over FY2021-24

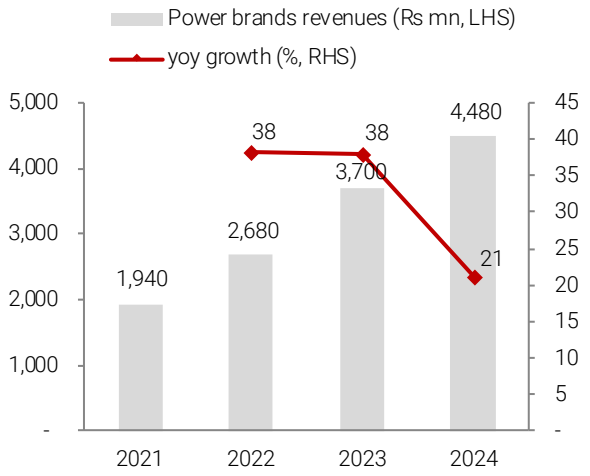
PPL's sales through e-commerce have been scaling up well and now constitute ~20% to ICH revenues against ~10% in FY2021. E-commerce channel revenues have exhibited ~58% CAGR in the past three years. PPL is present on 22+ leading e-commerce platforms. PPL generally launches new products on e-commerce to test the product, and later on launches it on other channels such as modern trade and general trade if the product is successful on the e-commerce platform. By adapting winning SKUs for offline mode with general trade (GT) specific formats, PPL looks to optimize product formats by creating shelf ready display packs. Moreover, the company creates low price unit packs (LPU's) for super-stockists.

Contribution of power brands to inch up further over the medium term

PPL has six brands that feature in the top 100 OTC brands of India. These power brands include Little's, Lacto Calamine, Tetmosol and CIR, I-Range and Polycrol. PPL has been focusing on growing these power brands bigger through marketing spends, promotions and channel expansion. As a result, power brands' sales have reported a robust ~32% CAGR over FY2021-24. Contribution of power brands to ICH sales has grown from 26% in FY2021 to 45% in FY2024. We expect the company's continued push of power brands to drive an 18% sales CAGR for these power brands over FY2024-28E.

Power brands' sales have reported a robust ~32% CAGR over FY2021-24

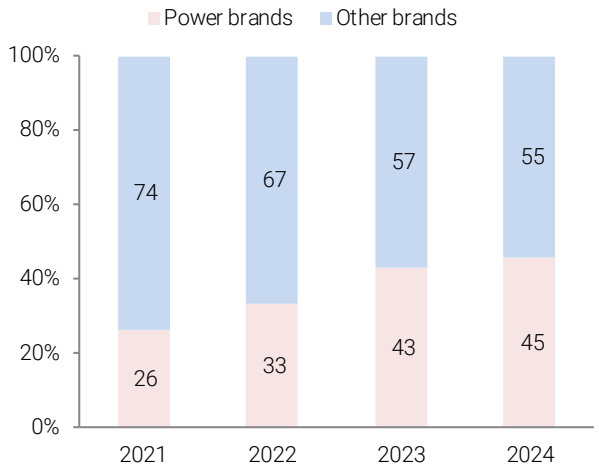
Exhibit 57: Power brands' sales, March fiscal year-ends, 2021-24 (Rs mn, %)



Source: Company, Kotak Institutional Equities

Contribution of power brands to ICH sales has grown to 45% in FY2024

Exhibit 58: ICH business sales mix, March fiscal year-ends, 2021-24 (Rs mn, %)



Source: Company, Kotak Institutional Equities

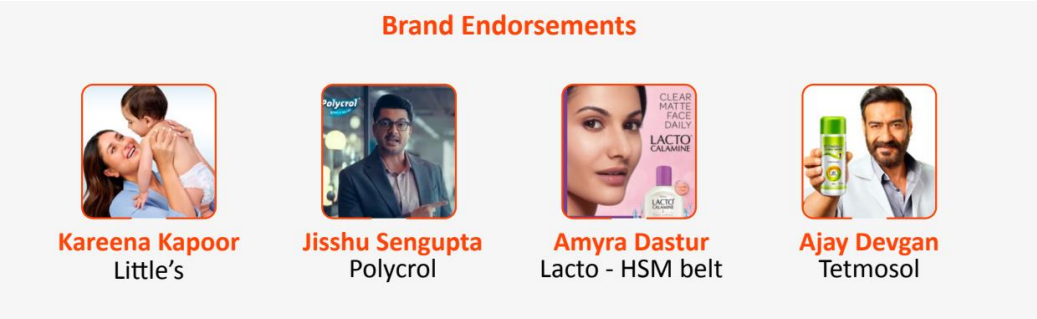
We expect scale up in growth, improved mix and focused marketing to drive ICH margin expansion

The company has been spending ~11-15% of ICH sales on marketing spends over the past 3-4 years. As a result, the ICH business is currently operating at ~1-2% EBITDA margins, in our view. While the strategy to spend more on marketing has yielded results evident in growth of power brands, the company aims to improve profitability, going ahead.

We expect economies of scale, along with better product and channel mix from the online channel to drive EBITDA margin expansion for the ICH segment

PPL has signed several celebrities to drive its marketing campaigns for its power brands

Exhibit 59: ICH - Brand endorsements

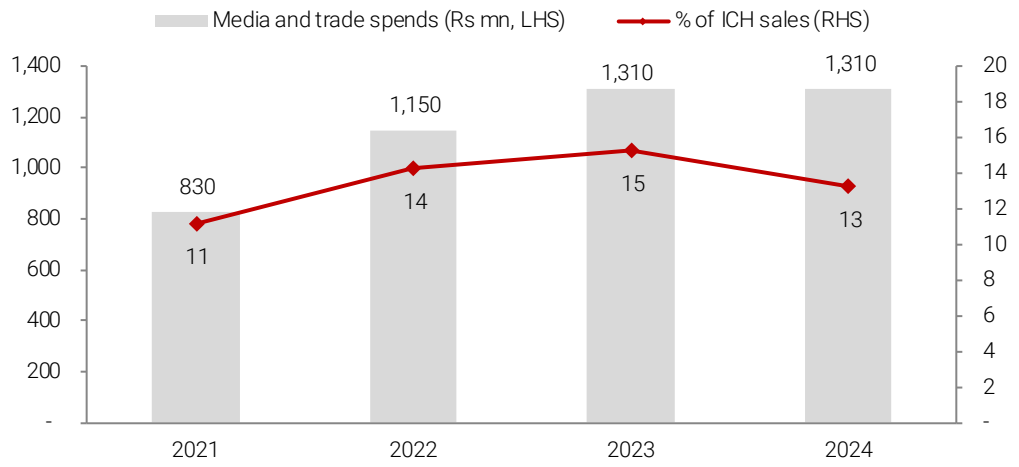


Source: Company, Kotak Institutional Equities

We highlight the company has been increasingly focusing on targeting marketing spends towards its power brands which have higher potential for growth. In our view, the focused power brand strategy will help the company trim down its marketing spends as % of sales, as these brands further scale up. We expect PPL to benefit from operating leverage as these brands scale up, led by lower growth in expenses such as distribution costs, sales force costs as compared to sales. Moreover, PPL is taking steps to improve profitability in online sales through augmenting its product and channel mix. Overall, we expect economies of scale, along with better product and channel mix from the online channel to drive EBITDA margin expansion for the ICH segment over the next few years.

PPL has been spending ~11-15% of ICH sales on marketing spends over the past 3-4 years

Exhibit 60: ICH business – marketing spends, March fiscal year-ends, 2021-24 (Rs mn, %)



Source: Company, Kotak Institutional Equities

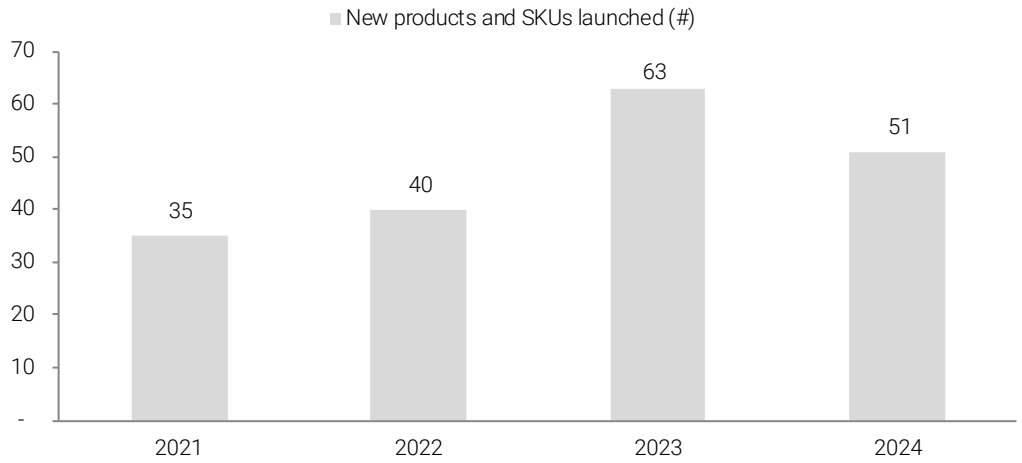
We bake in a healthy 13% ICH sales CAGR for PPL, driven by 18% sales CAGR for power brands over FY2024-28E

We expect PPL to report a healthy 13% sales CAGR for the ICH business over FY2024-28E

Going forward, we expect the company to scale up the power brands through a mix of channel expansion strategies and new product launches. The company has been aggressive on adding new products and launched 189 products and SKUs in the past four years. We expect this momentum to continue with higher number of launches on online platforms. Moreover, as PPL looks to go deeper into Tier-2/3 towns to expand its reach, we expect topline growth to benefit from increased coverage too. Accordingly, we bake in a healthy 13% ICH sales CAGR for PPL, driven by 18% sales CAGR for power brands over FY2024-28E.

PPL has launched 150+ products and SKUs in the past three years

Exhibit 61: ICH business – new launches, March fiscal year-ends, 2021-24 (#)

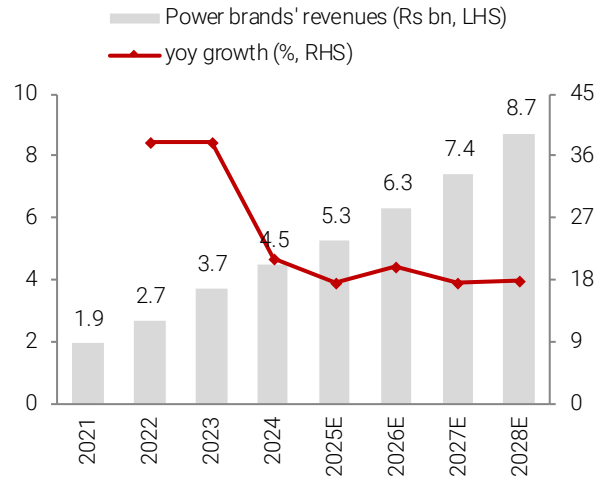


Source: Company, Kotak Institutional Equities

As PPL looks to improve profitability through further scaling up business by improving field force productivity, and optimizing ACOS (advertising cost of sales), we expect operating leverage to kick in, with EBITDA margins steadily inching up. As ICH revenues scale up, we expect various cost heads such as distribution cost, sales force cost and advertisement & promotion costs as % sales to come down. Moreover, PPL is taking steps to improve profitability in online sales through augmenting its product and channel mix. Accordingly, we bake in ~800 bps improvement in EBITDA margins for the ICH business over FY2024-28E, with EBITDA margins reaching ~9% in FY2028E.

We expect power brands' revenues to report 18% CAGR over FY2024-28E

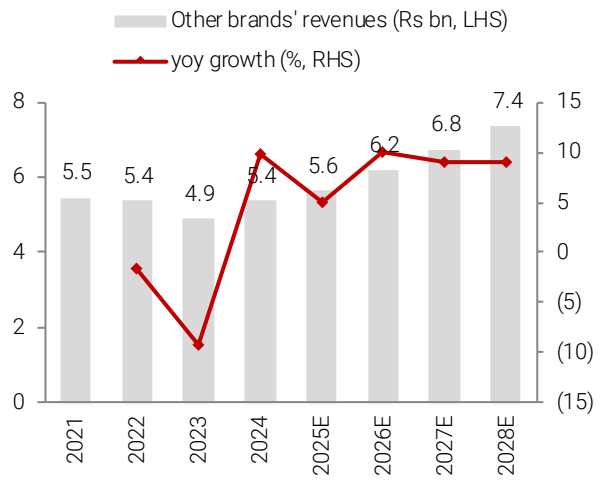
Exhibit 62: ICH – power brands' revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect other brands' revenues to report 8% CAGR over FY2024-28E

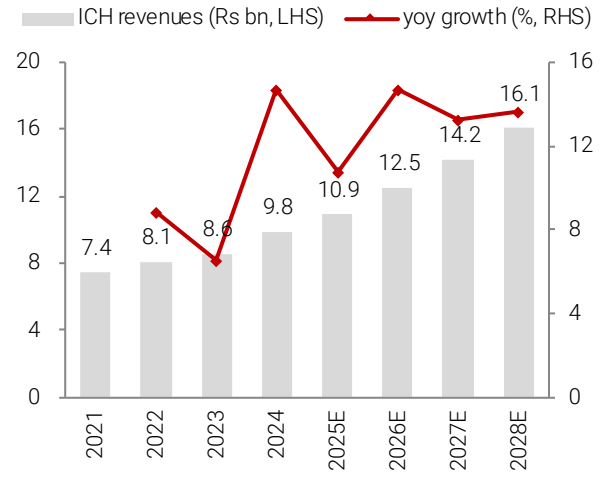
Exhibit 63: ICH – other brands' revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect PPL to report 13% ICH sales CAGR over FY2024-28E

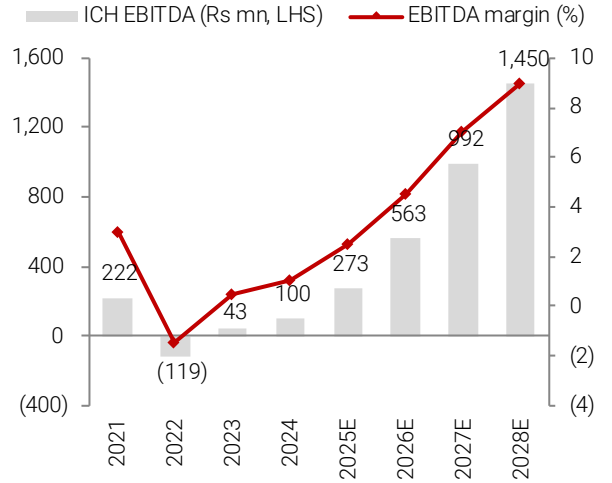
Exhibit 64: ICH revenues, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect ICH's EBITDA margins to improve to ~9% in FY2028E

Exhibit 65: ICH EBITDA, March fiscal year-ends, 2021-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

5

M&A: Strategic addition of niche capabilities and brands

PPL has strategically added capabilities to its portfolio through 15+ acquisitions over the past 13-14 years, involving a mix of facility acquisitions in CRDMO, complex product portfolios in CHG and brands in ICH. This has helped the company offer a wide range of capabilities along with onshore presence to its CRDMO clients. With a healthy track record of successful scale-ups in acquired assets, despite no major acquisitions announced in the past three years, we expect PPL to continue to scout for high-value assets to augment its capabilities across the three businesses.

PPL has been adding new and differentiated capabilities/products through acquisitions

Exhibit 66: PPL – details of acquisitions

	Acquired asset/portfolio	Acquired from	Acquisition value	Rationale/additional remarks
Acquisitions in CRDMO				
Feb-11	Oxygen Biosearch in Ahmedabad (PDS facility, India)	Oxygen Healthcare	~US$15 mn	Integrated discovery services in synthetic chemistry, medicinal chemistry, computational chemistry and in vitro biology
Jan-15	Coldstream Laboratories (Lexington) with sterile fill-finish capabilities	Kentucky University	US$30.65 mn	Enhanced company's existing capabilities in developing sterile products and ADCs with Coldstream's know-how
Aug-16	Riverview facility at Michigan, US	Ash Stevens	US$44.8 mn	Added HP APIs and ADC payload capabilities. Increased revenue from US$20 mn in FY2016 to US$67 mn in FY2024
Jun-20	Solid oral dosage manufacturing facility, Pennsylvania, USA	G&W Laboratories	US$17.5 mn	Expanded offering of Piramal Pharma Solutions (PPS) by adding solid oral dosage form capabilities in North America
Mar-21	One of the largest manufacturers of peptide APIs	Hemmo Pharma	US$106 mn (Rs7.8 bn) + earn-outs linked to achievement of milestones	Gained access to the growing peptide API market
Dec-21	India-based CDMO for biologics/ vaccines	Yapan Bio	US$16 mn (Rs1.2 bn) for 33.3% stake	The investment allows it to complete its service offerings in ADCs with addition of mAB capabilities. Yapan's FY2021 sales were Rs124 mn
Acquisitions in CHG				
Oct-16	Portfolio of five branded products in the injectable anesthesia and pain management- Sublimaze, Sufenta, Rapifen, Dipidolor and Hypnomidate	Janssen	US$161.2 mn; additional consideration may go up to US$20 mn	Provided Piramal Pharma with marketing authorizations in over 50 countries. The acquired products had high entry barriers and enhanced overall company profitability
Mar-17	Portfolio of intrathecal spasticity and two pain management products under development	Mallinckrodt LLC	Initial consideration of US$171 mn; additional US$32 mn payable on financial performance of acquired assets over next 3 years	Added new complex porducts to Piramal Pharma's portfolio. In the 12 months ended September 30, 2016, the acquired portfolio generated revenue of US$45 mn
Jun-18	Miglustat	Edenbridge		Medication used to treat type I Gaucher disease
Oct-20	Completely acquired it by buying 49% stake from Navin Fluorine	Convergence Chemicals	US$9 mn	Helped Piramal Pharma to fully integrate in its IA portfolio as the acquired company develops and manufactures raw materials for IA products. Piramal Pharma has doubled its capacity since expansion
Acquisitions in ICH				
Nov-15	Baby care brand - entire product range across size categories	Little's India	Rs 750 mn	Little's is country's oldest baby care product brands and is present across a wide range of products including feeding bottles, skin-care, grooming accessories, apparels, and toys for babies Revenue increased from Rs210 mn in FY2015 to Rs1.95 bn in FY2024
Dec-15	Five brands including Naturolax, Lactobacil and Farizym	MSD BV & Organon F	US$14 mn	Helped expand presence in gastrointestinal segment through OTC route. Helped improve profitability and ranking in OTC market
May-16	Four consumer product brands namely, Ferradol, Neko, Sloan's and Waterbury's compound	Pfizer	US$18 mn	Acquisition included brands namely, Ferradol, Neko, Sloan's and Waterbury's compound and additionally, trademark rights for Ferradol and Waterbury's compound for Bangladesh and Sri Lanka
Nov-17	Digeplex and associated brands	Shreya Lifesciences		Helped the company in strengthening its position in gastrointestinal segment and was complementary to its existing portfolio - Polycrol and Naturolax, in the GI segment

Source: Company, Kotak Institutional Equities

M&A to remain an integral part of PPL's growth strategy

PPL has done 15+ acquisitions (cumulative outlay of US$600+ mn) over the past 13-14 years across its three business segments to augment its capabilities and product portfolio. Over time, PPL has also divested multiple assets where it did not have high expectations from these businesses. In CY2010/2011, the company divested its domestic formulations (annual sales of Rs20 bn in FY2010) to Abbott at ~30X EV/EBITDA and diagnostics division to SRL. Later on, the company shut down its NCE research unit in CY2014. It also sold its imaging business to Alliance Medical Group in CY2018, and the DRG business to Clarivate in CY2020.

PPL has showcased successful integration of acquired overseas facilities into its existing network, after having completed ~50 acquisitions in the past 24 years. Although there have been challenges in a few acquisitions, its M&A success rate has been generally good. It has a strong ability to retain people and management teams in acquired sites as the company provides autonomy to the teams acquired as part of these transactions. We believe retaining the acquired team and balancing cultural biases across the globe is one of its key strengths.

In our view, PPL's M&A strategy of selectively adding niche capabilities has helped it to gradually build a unique offering for its clients

In our view, PPL's M&A strategy of selectively adding niche capabilities has helped it to gradually build a unique offering for its clients. This also helps the company in cross-selling different capabilities to its existing clients. Moreover, PPL has generally been able to retain clients associated with the acquired facilities, thereby expanding its customer base. Within its CRDMO business, it has acquired small scale plants with expertise in niche capabilities, while for its CHG and ICH segments, it has acquired products and scaled them meaningfully. While these acquisitions have taken a toll on the company's RoCEs, we expect the step-up in scale backed by the augmented capability profile due to these acquisitions to gradually drive healthy overall RoCEs for PPL over the medium to long term.

We have assessed below few of PPL's acquisitions over the years:

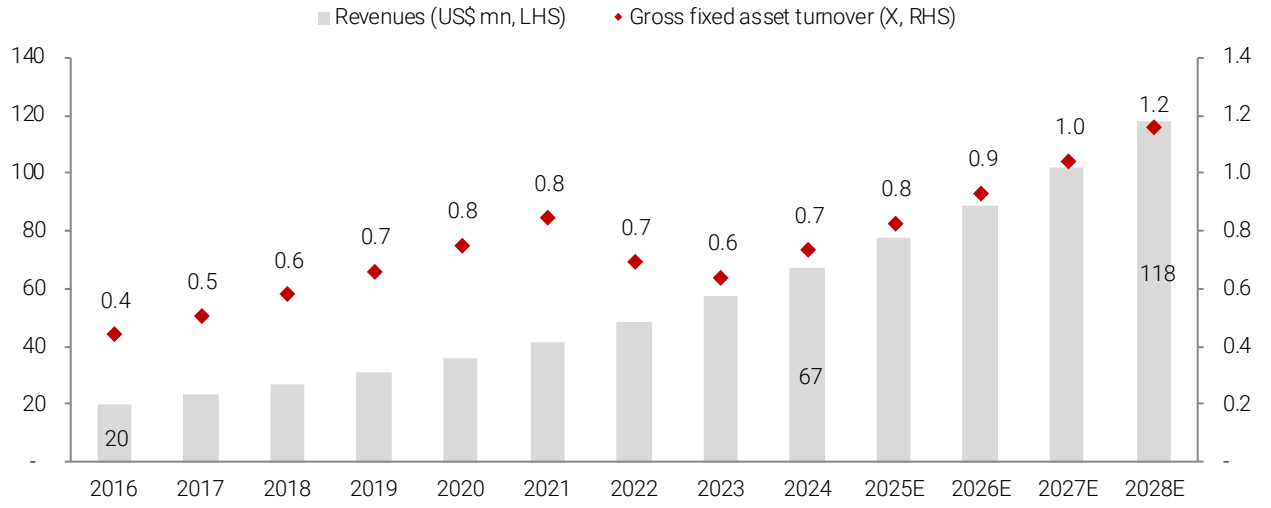
Ash Stevens (Riverview facility, Michigan, US): Revenues grew by ~3X over FY2016-24

PPL acquired this facility in CY2016 for a total consideration of ~US$45 mn. The idea behind the acquisition was to acquire niche capabilities in the space of HPAPIs and payload for ADCs. This facility was a smaller one owned by a single proprietor. PPL estimated that it was being run sub-optimally, and therefore ramped up production steadily. For instance, the facility used to be operated for 1 shift, 5 days a week under the previous ownership, which is now operated for 3 shifts, 7 days a week. Accordingly, PPL scaled up its annual revenues from US$20 mn in FY2016 to US$67 mn in FY2024.

The company also expanded capacity by ~30-40% in the facility in FY2023, due to strong demand for its niche capabilities. We estimate that the facility is currently generating gross fixed asset turnover of ~0.7X, on the newly expanded capacity. As utilization for this facility improves on the expanded capacity, we expect it to clock revenues of ~US$115+ mn by FY2028E, generating gross fixed asset turnover of ~1.2X.

We expect Riverview facility to clock gross fixed asset turnover of ~1.2X by FY2028E

Exhibit 67: Riverview facility – revenues and gross fixed asset turnover, March fiscal year-ends, 2016-28E (US$ mn, X)



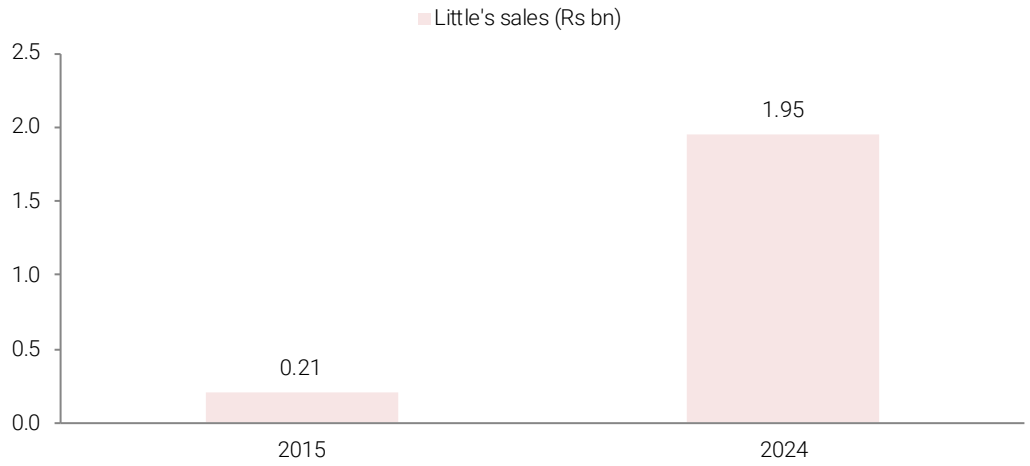
Source: Company, Kotak Institutional Equities estimates

Little's – baby care brand: PPL has scaled up this brand to 9X of FY2015 sales

PPL acquired Little's consumer healthcare brand in CY2015 for a total consideration of ~Rs750 mn. Little's is the country's oldest baby care product brand and is present across a wide range of products including feeding bottles, skin-care, grooming accessories, apparels, and toys for babies. PPL has actively added line extensions and new SKUs to scale up this brand. Led by new product launches, and focused marketing spends, revenues from Little's increased from Rs210 mn in FY2016 to Rs1.95 bn in FY2024.

Little's brand has delivered a robust 30% sales CAGR over FY2016-24

Exhibit 68: Little's brand revenues, March fiscal year-ends, 2016-24 (Rs bn)



Source: Company, Kotak Institutional Equities

While the current debt situation does not allow PPL to be very aggressive in chasing inorganic assets, we believe PPL will continue to add new and differentiated products/capabilities

Dahej facility acquisition completed backward integration in IA portfolio

Apart from adding new capabilities and brands through acquisitions, PPL acquired 100% stake in Covergence Chemicals (Dahej facility) from Navin Fluorine in CY2020 to fully backward integrate in its IA portfolio. Before this acquisition, PPL was partly backward integrated and used to source few raw materials from Navin Fluorine. This helped the company to control costs for its generic IA products. PPL has also doubled the capacity in this plant since acquisition in order to serve the growing demand in its IA portfolio.

Sellersville, US facility: An underwhelming addition

PPL acquired an OSD facility in Sellersville, US from G&W Laboratories in CY2020. This has been a not so successful acquisition for PPL as the demand in this plant's capabilities has been lower than expectations. This facility has capabilities in multiple dosage formulations including OSD, liquids, creams and ointments. Demand in OSDs has been weaker than expected, leading to lower utilizations and losses in this facility.

Stake acquisition in Yapan Bio completed PPL's ADC capabilities

PPL acquired 33.33% of the paid-up equity share capital of Yapan Bio, an India-based CDMO providing process development and manufacturing services for large molecules through two tranches of 27.78% stake in December, 2021 and 5.55% stake in April, 2022, which helped it to expand capabilities for the CDMO business, particularly providing mAB capabilities for its ADC offering. While the company has highlighted that it does not intend to expand its CRDMO offerings to include biologics, PPL is keen on increasing its stake in Yapan Bio as the business scales up.

While the current debt situation does not allow PPL to be very aggressive in chasing inorganic assets, we believe as the financial position improves in the coming years, PPL will continue to add new and differentiated products/capabilities under its belt, as seen in the past.

6

Key risks: High debt, dependence on Sevoflurane and M&A integration issues

Elevated debt levels, high contribution from two products (Sevoflurane/Rimegepant Sulphate contribute ~17/8% to consolidated sales & ~30/10% to EBITDA), integration issues related to potential M&As, execution challenges in CRDMO, slower-than-expected pickup in biotech funding and sluggish improvement in ICH profitability are key risks for PPL.

Elevated net debt levels remain a matter of concern

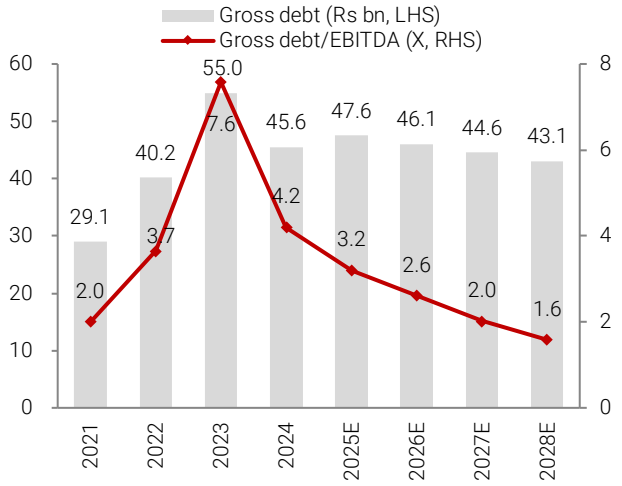
PPL's subdued performance over FY2021-23, resulted in elevated levels of debt and solvency ratios as management continued to invest in business capabilities, investments in Yapan Bio, acquisition of Hemmo Pharmaceuticals and capacity expansion at different facilities. While the performance uptick in FY2024 provides relief, with net debt/EBITDA declining to ~4X from ~7X in FY2023, current net debt/EBITDA at ~3X still remains elevated.

PPL's net debt to EBITDA remained elevated at ~4X in FY2024

Moreover, the net debt/EBITDA position in FY2024 further improved on account of the rights issue carried out by the company in 2QFY24. The company raised Rs10.5 bn through this issue and used the proceeds to reduce its debt. The company issued ~130 mn shares for this issue. Any future disruptions in operations, or any other execution challenges could result in lower cash generation and higher solvency ratios, which could also force the company to issue additional equity, which can eventually lead to EPS dilution.

PPL's gross debt stood at ~Rs46 bn as on March-2024

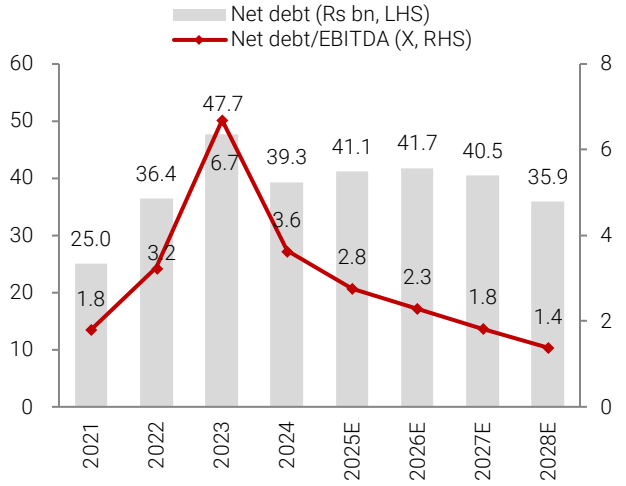
Exhibit 69: Gross debt and gross debt/EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

PPL's net debt/EBITDA declined to ~4X in FY2024

Exhibit 70: Net debt and net debt/EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



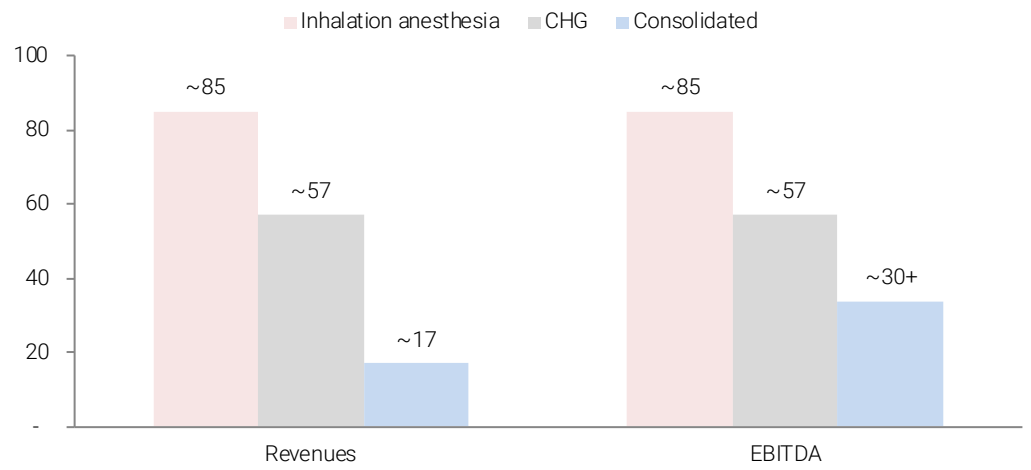
Source: Company, Kotak Institutional Equities estimates

High contribution from two products (Sevoflurane is ~85% of IA sales and ~57% of CHG sales)

Sevoflurane is the biggest product for PPL, which is part of its IA portfolio in the CHG business. PPL is the biggest player in US in Sevoflurane and generates ~85% of global IA sales for PPL. Ergo, Sevoflurane constitutes ~57%/17% of CHG/consolidated sales for PPL. Moreover, CHG business being the most profitable business for PPL, concentration of Sevoflurane on the company's profitability would be much higher. In our estimate, Sevoflurane would be contributing ~30%+ to consolidated EBITDA for PPL.

Sevoflurane contributes ~17% and ~30%+ to consolidated sales and EBITDA, respectively for PPL

Exhibit 71: Sevoflurane's revenue and EBITDA contribution, March fiscal year-end, 2024 (%)



Source: Company, Kotak Institutional Equities estimates

Sevoflurane/ Rimegepant Sulphate contribute ~17/8% to consolidated sales and ~30/10% to FY2025E EBITDA

While the IA market is highly concentrated with Top 4 players combined enjoying 90%+ global market share, any aggressive move from the other players might impact the business adversely, thereby affecting the company's operations meaningfully. In one such case in CY2022, Baxter went aggressive in Desflurane pricing in the US, which had impacted Sevoflurane's pricing for PPL in one of its contracts with a customer. Any such cases in the future could materially impact the topline and profitability for PPL.

We highlight that apart from Sevoflurane, Rimegepant Sulphate is also a meaningful contributor to PPL's performance. We estimate it contributes 14%/20%+ to CRDMO sales/EBITDA and 8%/10% to the company's consolidated FY2025E sales/EBITDA. Although Rimegepant Sulphate's innovator has patent protection in the US until CY2030E, we note that supplies might be volatile over the lifecycle of commercialization, as generally, the innovator reaches peak volumes in 12-18 months of product launch and then usually adds a second/third supplier as volumes stabilize.

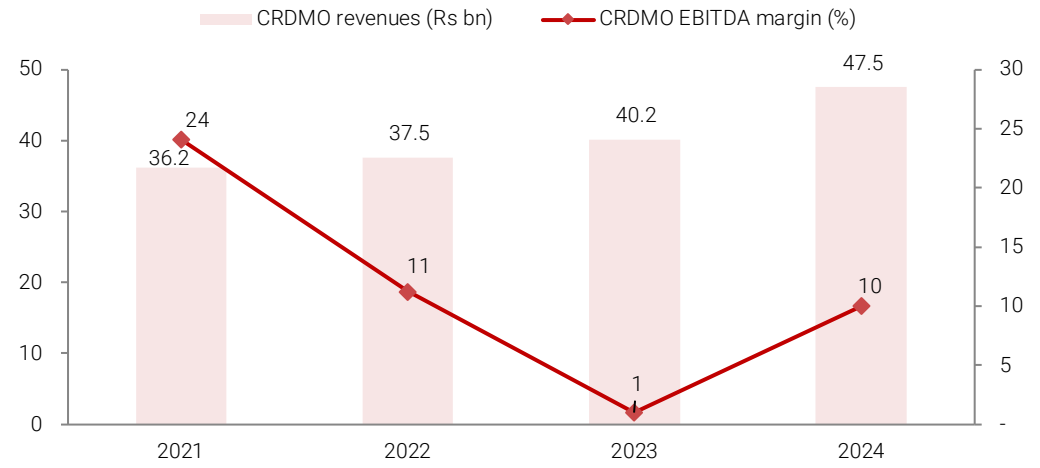
FY2021-23 provides a snapshot of potential impact of execution challenges in the CRDMO business

Execution slip-ups in the CRDMO business due to multiple reasons such as failure in qualifying facilities by clients, attrition in scientific staff, slow movement or failure in movement of projects through different clinical trials could adversely impact the order book and offtake in supplies, resulting in subdued sales and margins.

FY2021-23 saw a period of underperformance by the company in the CRDMO segment. Execution challenges related to raw material availability, manpower shortage (overseas talent attrition), logistics and customer-led volatility (changes in delivery schedules and slower decision making due to biotech funding issues) surfaced. Both raw material and manpower shortages were attributable to higher Covid-19 vaccine manufacturing (especially in developed countries) as better profitability and government mandates led to shifting of RM supplies (such as bags, filters, etc.) for vaccine manufacturing and double-digit attrition rate was led by overseas quality control talent being recruited by vaccine manufacturers. These factors led to execution challenges and impacted EBITDA margin in the segment as the company shifted to higher-cost third party CMOs for order fulfilment.

Operational challenges in CRDMO business impacted FY2021-23 performance meaningfully

Exhibit 72: CRDMO business revenues and EBITDA margins, March fiscal year-ends, 2021-24 (Rs bn, %)



Source: Company, Kotak Institutional Equities

FY2021-23 saw a period of underperformance by the company in the CRDMO segment, leading to execution challenges and subdued EBITDA margins

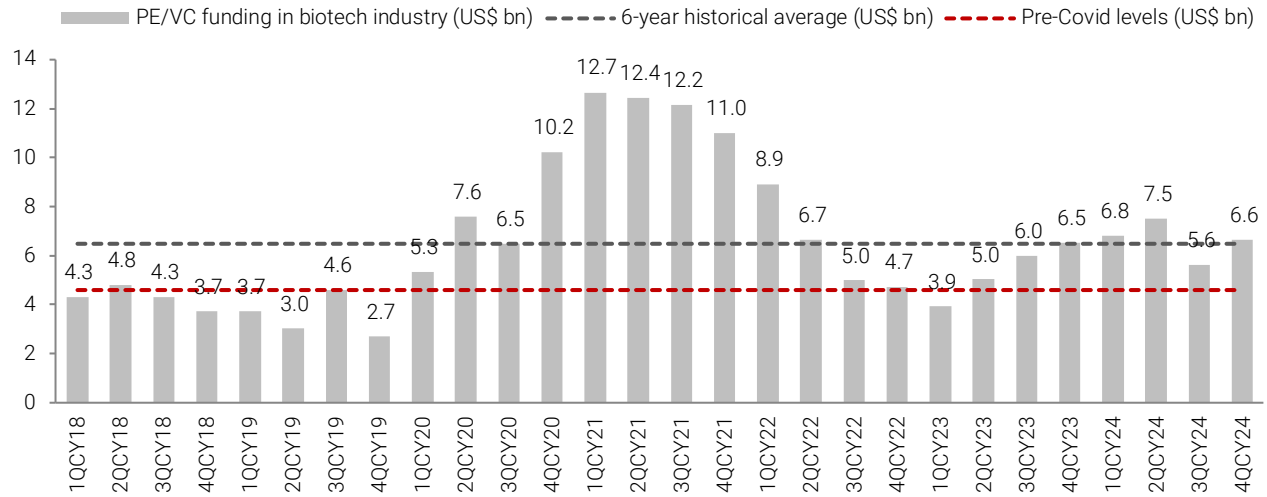
While the challenges relating to raw material prices and manpower shortage have been resolved, high reliance on customers for orders, delivery schedules and decision making still persists. In addition, the CRDMO business intrinsically has risk of slow movement or failure in movement of projects through different clinical trials, which could adversely impact the order book, development and commercial supplies, resulting in underutilization at different facilities and thereby impacting sales and profitability abruptly due to operating deleverage.

Slower pickup in US biotech funding can lead to lower incoming projects

Biotechs and small innovator pharma companies are mainly dependent on funding by financial sponsors. These companies generally are lean on resources, have limited infrastructure and may not have thorough experience in every aspect of drug discovery, development, and manufacturing. Therefore, they are heavily reliant on funding to outsource their critical research operations. It is estimated that small and mid-sized innovator companies in the US incur an annual cash burn of US$50-70 bn. To fund their R&D and clinical programs, these companies primarily rely on PE/VC funding. The PE/VC funding environment for the global biotech industry was subdued in FY2023 and FY2024, resulting in slowdown in incoming projects for global CROs. However, over the past one year, there has been a pickup in the funding environment and the annual value of deals in the biotech space is at a much higher level compared to the pre-Covid average. We note that, while the quantum of funding was at its peak in CY2021 and fell by ~50% in CY2022, over the past few quarters, there has been some recovery in the funding environment (crossed the 6-year historical average mark), thereby driving greater outsourcing by innovator pharma companies. Nevertheless, as per our discussions with various companies, the buoyancy in funding is still missing. This could result in slower R&D spends by big pharma and particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding to further their R&D programs.

The global biotech funding environment has registered an uptick in the recent quarters; buoyancy is still missing though

Exhibit 73: PE/VC funding in biotech industry, December calendar year-ends, 2018-24 (US$ bn)

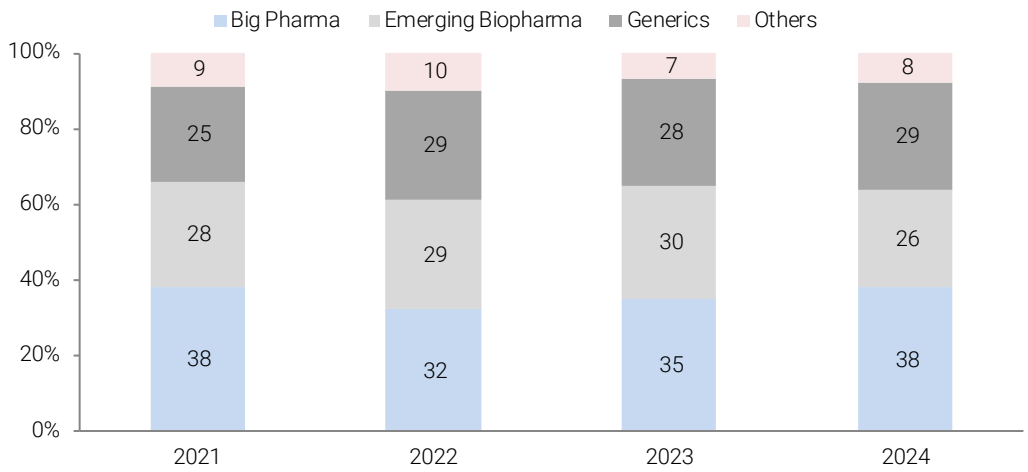


Source: Bay Bridge Bio, S&P Global, Global Data, Pharma Intelligence Center, Frost & Sullivan, Kotak Institutional Equities

Although PPL has a well-diversified client base across big pharma, emerging biopharma and generics, its CRDMO business generated 26-30% of its revenues from emerging pharma and biotech companies over FY2021-24. Therefore, a lower-than-expected pick up in US biotech funding can adversely impact new order inflows and growth prospects in the future.

As of FY2024, emerging biopharma contributed ~26% to PPL's CRDMO revenues

Exhibit 74: PPL' CRDMO client mix, March fiscal year-ends, 2021-24 (%)



Source: Company, Kotak Institutional Equities

Slower pickup in US biotech funding can lead to lower incoming projects

Slower-than-expected improvement in ICH profitability could play spoilsport

PPL's ICH business is operating at 1-2% EBITDA margins due to high marketing spends in the business. The company has highlighted that it will now focus on improving profitability in the business, by lowering marketing spends as % of sales. In our estimates, we are baking in notable improvement in ICH EBITDA margins, and expect ICH EBITDA margins to improve to ~9% in FY2028E. However, given the high number of competitors in the Indian OTC pharma market, PPL might have to continue its elevated spending on marketing activities, which could result in lower-than-expected improvement in profitability. Moreover, new players or competition from existing players in its key products could be a potential risk for PPL.

Any potential M&A integration issues might lead to drag on operating performance

While the current debt situation does not allow PPL to be very aggressive in chasing inorganic assets, we believe as the financial position improves in the coming years, PPL will continue to add new and differentiated products/capabilities under its belt, as seen in the past. Although PPL has demonstrated a healthy track record in acquiring and integrating new assets, there persists a potential risk of slip ups in case the company fails to effectively optimize the acquired assets. One such past instance has been PPL's acquired OSD facility in Sellersville, which has performed below expectations.

PPL faces foreign currency exchange risk as it generates 88%/99% of its sales/EBITDA outside India

In addition, PPL faces foreign currency exchange risk as it generates 88%/99% of its sales/EBITDA outside India. Although it also incurs costs in US$ and EUR, due to its overseas facilities in US, UK and Canada, which could provide a natural hedge to the business; however, the sheer size of revenues generated outside India expose the company to foreign currency exposure risk. To de-risk itself from unfavorable currency movements, PPL aims to hedge ~50% of its net receivables at any point of time.

7

Financials: We bake in a robust 23% EBITDA CAGR over FY2024-28E

We expect PPL to deliver 13%, 23% and 170% revenue, EBITDA and PAT CAGRs, respectively, over FY2024-28E, driven by ramp-up in CRDMO sales, led by a robust pipeline. As CRDMO sales further pick up and utilizations in overseas sites improve, we expect operating leverage to kick in, resulting in significant improvement in EBITDA margins. We expect a cumulative FCF generation of ~Rs17 bn over FY2025-28E and an improvement in RoAEs and RoICs to ~10/9% to address longstanding investor concerns around debt, FCF burn and low return ratios for PPL.

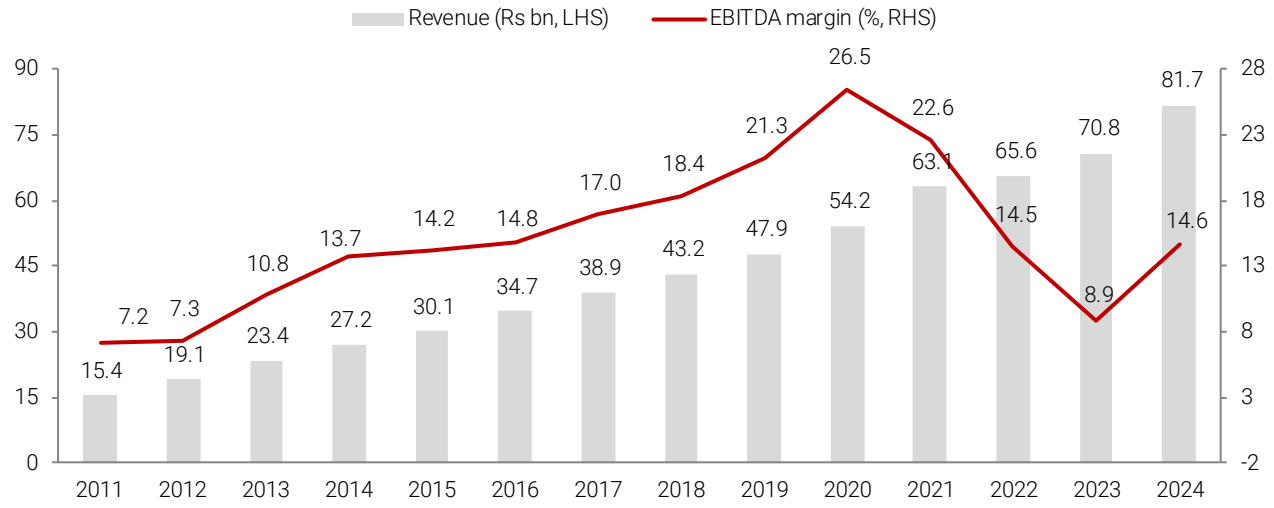
We build in ~13% revenue CAGR over FY2024-28E, driven by growth in CRDMO sales

We expect PPL to report a 13% overall sales CAGR over FY2024-28E, led by 13/11/13% sales CAGR in CRDMO/CHG/ICH

Over FY2011-20, PPL had demonstrated a strong track record of healthy topline growth with improvement in operating margins. PPL had reported a robust 33% EBITDA CAGR over the same period. However, starting from FY2021, performance got impacted due to multiple operational challenges, which resulted in significant operating deleverage and underperformance. Growth over FY2020-23 was impacted by execution challenges related to raw material availability, manpower shortage (overseas talent attrition), logistics and customer-led volatility (changes in delivery schedules and slower decision making due to biotech funding issues). Both raw material and manpower shortages were attributable to higher Covid-19 vaccine manufacturing (especially in developed countries), as better profitability and government mandates led to shifting of RM supplies (such as bags, filters, etc.) for vaccine manufacturing and double-digit attrition rate was led by overseas quality control talent being recruited by vaccine manufacturers. These factors led to execution challenges in CRDMO and impacted EBITDA margins in the segment as the company shifted to higher-cost third-party CMOs for fulfilling orders.

PPL has reported ~20% EBITDA CAGR over FY2011-24

Exhibit 75: Sales and EBITDA margins, March fiscal year-ends, 2011-24 (Rs bn, %)



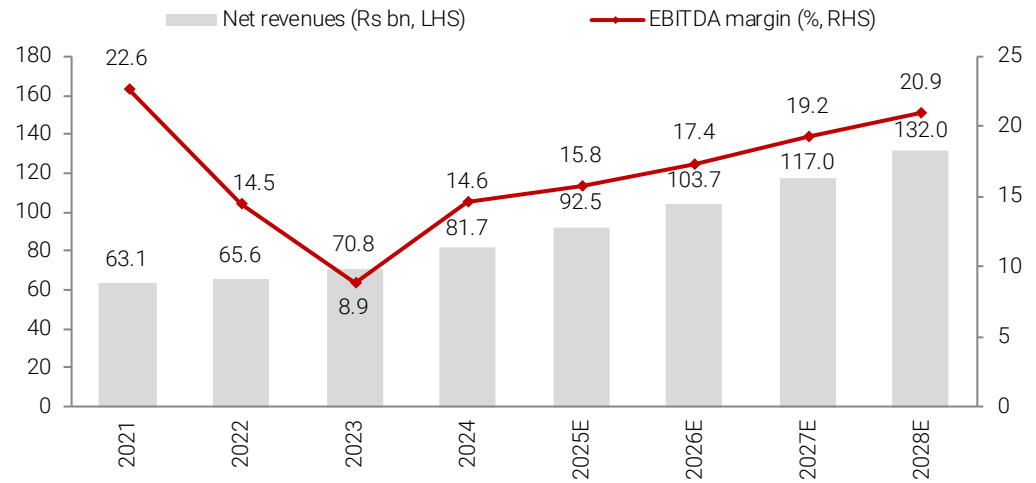
Source: Company, Kotak Institutional Equities estimates

Apart from the manpower shortage constraints in overseas CRDMO facilities, PPL also got impacted due to supply challenges in CHG as the CMO partner for the injectable pain management segment, was unable to supply sufficient quantities on time, which has now been resolved. An impressive pickup in FY2024 performance, led by robust CRDMO sales growth, instills confidence in long-term potential of the business. We highlight that the business is lumpy in nature (2H usually constitutes ~65% of full year EBITDA due to ordering patterns of clients) and hence looking at quarterly performance can be tricky.

Led by continued momentum in innovation-related work, majorly driven by robust growth in on-patent commercial manufacturing, we bake in 13% sales CAGR for CRDMO over FY2024-28E, along with a steady 11% sales CAGR for CHG over the same period. With focus on improving profitability in ICH, we forecast a healthy ~13% sales CAGR over FY2024-28E, much lower than ~17% sales CAGR, which the segment has reported over FY2011-24.

We forecast 13% overall sales CAGR for PPL over FY2024-28E

Exhibit 76: PPL – sales and EBITDA margin, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

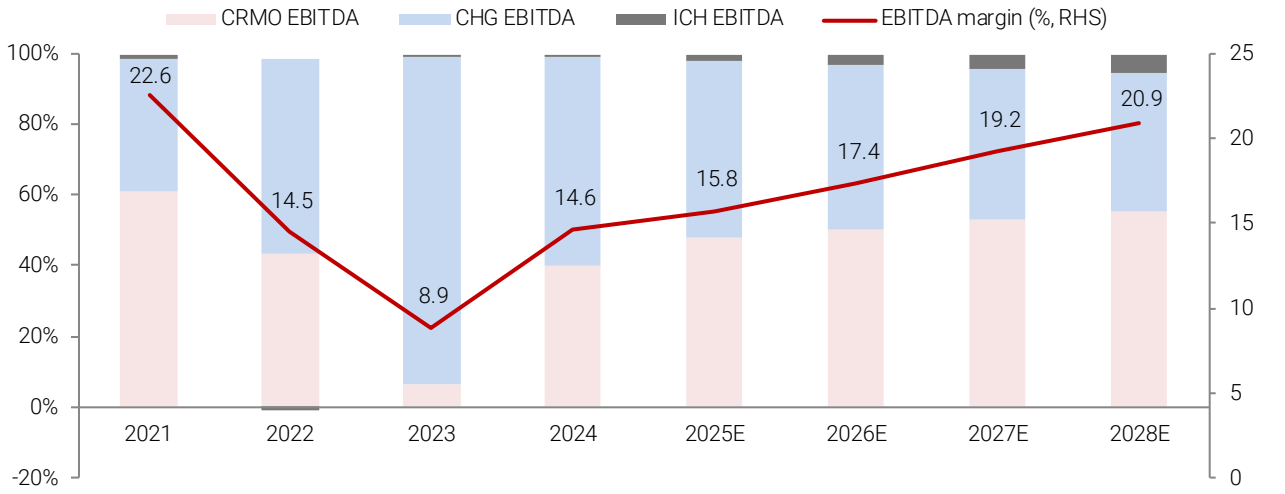
We expect utilizations at overseas facilities to improve to ~65-70% from current levels of ~40-45%, driving overall EBITDA margin expansion

We expect operating leverage in CRDMO to lead margin expansion of ~630 bps over FY2024-28E

PPL delivered ~15% EBITDA margin in FY2024 (+570 bps yoy), largely led by ramp-up in its CRDMO business on the back of growth in on-patent commercial manufacturing revenues. While we expect notable improvement in ICH EBITDA margins over the next 3-4 years, we believe majority of the expansion in consolidated EBITDA margins will be driven by operating leverage in the CRDMO business, led by improving utilization at its overseas facilities. We expect blended utilizations at its overseas facilities to improve to ~65-70% from current levels of ~40-45%, on the back of higher growth in its differentiated offerings, over the next 3-4 years.

We expect operating leverage from CRDMO business to drive overall EBITDA margin expansion over FY2024-28E

Exhibit 77: EBITDA mix and EBITDA margins, March fiscal year-ends, 2021-28E (%)



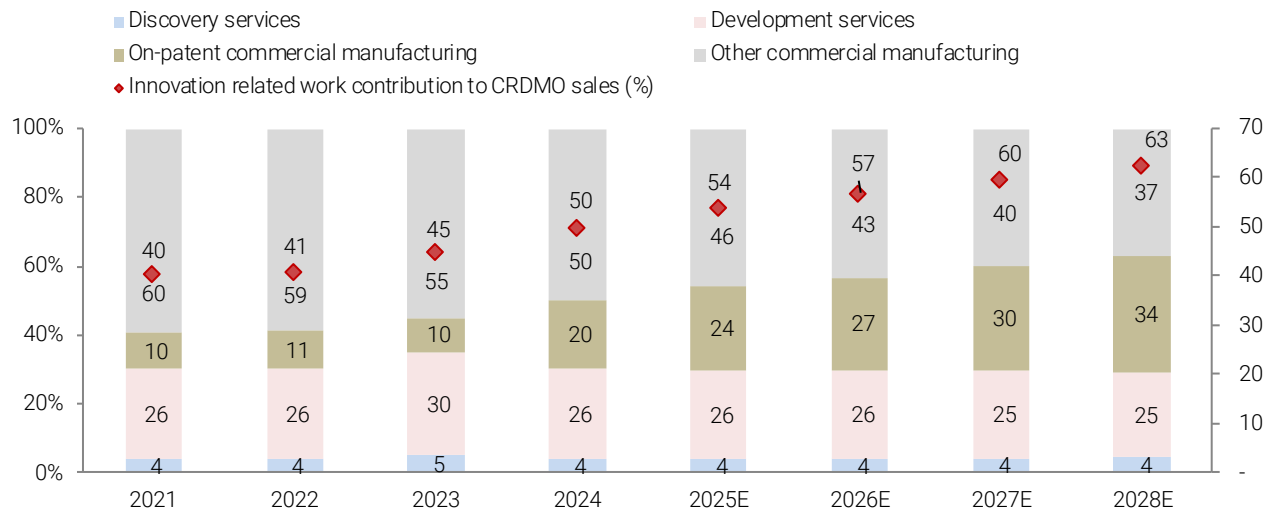
Source: Company, Kotak Institutional Equities estimates

Innovation-related work to drive growth in CRDMO business

PPL has been focusing on growing its innovation-related work, which includes discovery, development and on-patent commercial manufacturing. This business, which constituted ~50% of CRDMO FY2024 sales (used to be at 35%, five years back), reports much better EBITDA margins compared to other commercial manufacturing businesses. As the contribution from on-patent commercial manufacturing further scales up, driven by a healthy development pipeline of 150+ molecules, we expect meaningful EBITDA margin expansion in CRDMO. PPL has highlighted that there is a supply demand mismatch in sterile injectables segment, which prompted the company to expand its Lexington capacity, with an investment of ~US$80 mn. Overall, we believe PPL's investments in expanding niche capabilities can be significant contributors in EBITDA margin expansion.

From 50% in FY2024, we expect contribution from innovation-related work to improve to ~63% in FY2028E

Exhibit 78: CRDMO sales mix, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities estimates

In the ICH business, we believe increasing focus on improving profitability will drive EBITDA margin expansion from current levels of ~1-2% to ~9% in FY2028E. PPL aims to curtail marketing spends as % of ICH sales, with a more focused approach of growing power brands. As ICH sales scale up, these spends are expected to come down, which has been visible in FY2024, wherein marketing expenses as % of ICH sales have been down to 13% in FY2024 from 15% in FY2023.

We forecast a robust ~170% PAT CAGR for PPL over FY2024-28E

We expect improving utilizations at overseas facilities to drive operating leverage

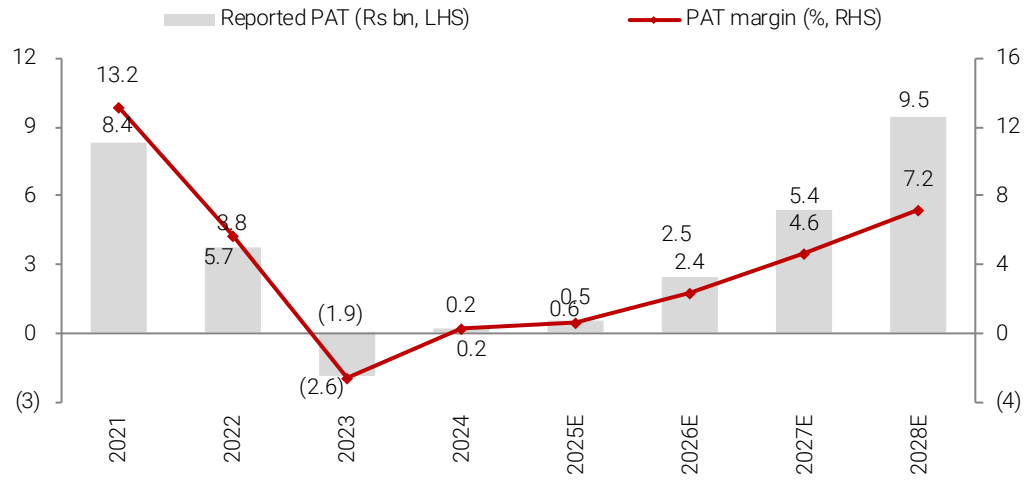
We highlight despite the underperformance in FY2021-23, profitability has always been a key priority for the management along with driving topline growth. We note PPL's senior executives are evaluated on profitability (EBITDA and PAT) and economic value added in a particular year. With management's strong focus on profitability, we expect increasing utilizations at underperforming facilities, primarily its overseas facilities, to drive operating leverage and therefore PPL's EBITDA margin expansion over the next 4-5 years. Accordingly, we bake in EBITDA margin expansion of ~630 bps over FY2024-28E.

While we expect marketing spends to remain elevated for the ICH business, as the company scales up its power brands with a more focused marketing campaign, we expect ICH EBITDA margins to improve by ~800 bps over FY2024-28E. PPL's business has high proportion of fixed costs, which could result in huge expansion in EBITDA and PAT margins as sales ramp up. PPL is currently operating at a very high effective tax rate (~90% in FY2024), driven by operating losses in most of its overseas facilities due to lower utilizations. While PPL's Indian CRDMO facilities are running at healthy utilizations, it is unable to offset the overseas losses with the domestic profits. This is resulting in higher overall tax rate. While we expect the tax rate to reduce gradually as the overseas facilities scale up, it will still remain elevated over

the medium term (KIE: ~42% tax rate in FY2028E). Accordingly, we forecast a robust ~170% PAT CAGR for PPL over FY2024-28E.

On a low base, we expect PPL to deliver ~170% PAT CAGR over FY2024-28E

Exhibit 79: Reported PAT and PAT margins, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities

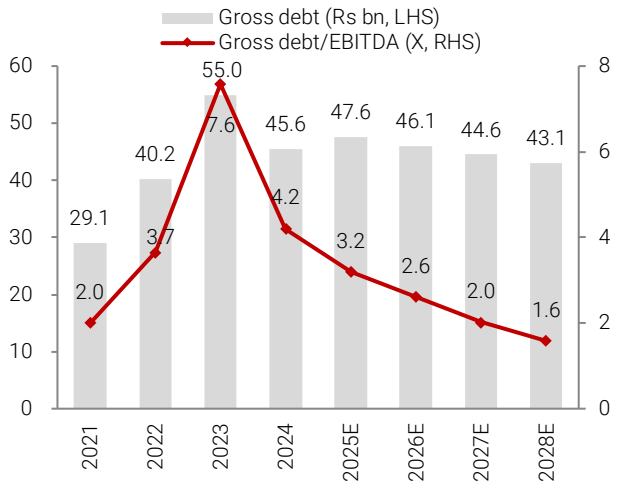
Solvency and return ratios are expected to improve as performance ramps up

We expect net debt/EBITDA to improve to ~1.4X in FY2028E

PPL's subdued performance over FY2021-23, resulted in elevated levels of debt and solvency ratios as management continued to invest in business capabilities, including investments in Yapan Bio, acquisition of Hemmo Pharma and capacity expansion at different facilities. While the performance uptick in FY2024 provides a relief, with net debt/EBITDA declining to ~4X from ~7X in FY2023, current net debt/EBITDA at ~3X still remains elevated. However, as improvement in performance continues, coupled with meaningful improvement in EBITDA margins, we expect net debt/EBITDA to improve to ~1.4X in FY2028E, with borrowings expected to remain at a similar level (gross debt of ~Rs46.4 bn).

PPL's gross debt stood at ~Rs46 bn as on March-2024, compared to ~Rs55 bn as on March-2023

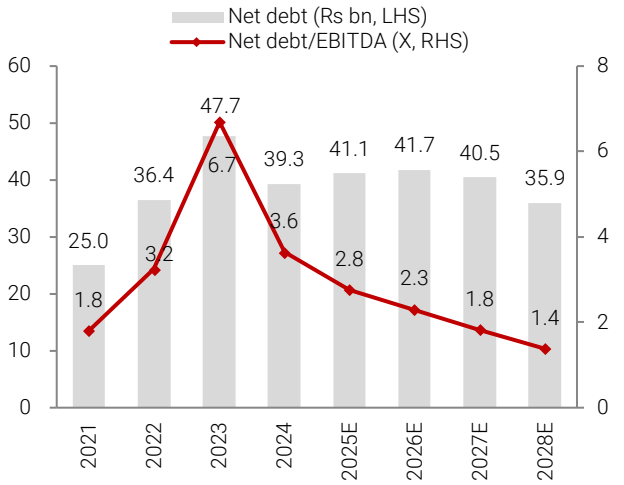
Exhibit 80: Gross debt and gross debt/EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect PPL's net debt/EBITDA to improve to ~1.4X in FY2028E

Exhibit 81: Net debt and net debt/EBITDA, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

Return ratios and cash flow profile to improve hereon

We highlight PPL's return ratios have remained subdued due to the inorganic expansion strategy pursued by the company over the past 15 years. Coupled with multiple acquisitions, and tepid performance over FY2021-23, PPL has one of the lowest RoEs and RoICs in the industry. However, with sales and profitability picking up, we expect return ratios to improve hereon. Moreover, with most of the capacity expansion completed, asset turnover ratios are expected to improve as utilizations improve. We expect PPL's net fixed asset turnover to improve to ~2.1X in FY2028E, from current levels of ~1.2X.

We forecast gross fixed asset turnover of ~1X for PPL in FY2028E

Exhibit 82: March fiscal year-ends, 2021-28E (X)

Source: Company, Kotak Institutional Equities estimates

We forecast net fixed asset turnover of ~2.1X for PPL in FY2028E

Exhibit 83: March fiscal year-ends, 2021-28E (X)

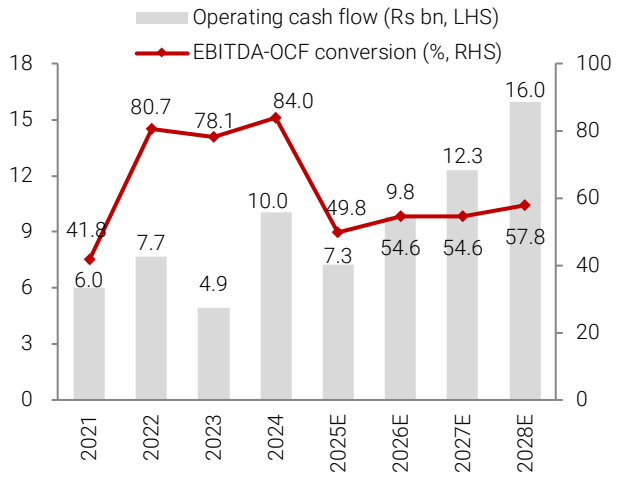
Source: Company, Kotak Institutional Equities estimates

We expect PPL to generate cumulative FCF of ~Rs17 bn over FY2025-28E

Over the past three years, PPL has spent a cumulative amount of Rs25.7 bn on capex, with most of the capex being centered around CDMO. We forecast cumulative capex of ~Rs34 bn for PPL over FY2025-28E. We expect PPL to generate cumulative FCF of ~Rs17 bn over FY2025-28E. We highlight this healthy FCF generation over the next few years allays fears on the current elevated debt position, thereby resulting in manageable net debt levels by FY2028E. We forecast meaningful improvement in return ratios, with PPL expected to report ~10%/9% RoE/RoIC in FY2028E.

We forecast cumulative ~Rs45 bn OCF over FY2025-28E

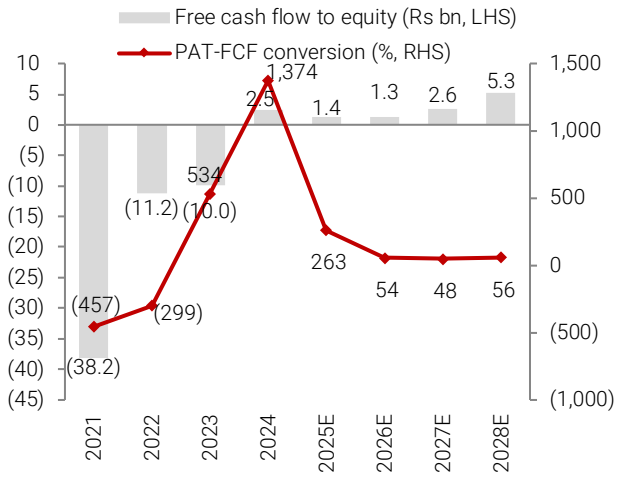
Exhibit 84: OCF and EBITDA to OCF conversion, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We forecast cumulative ~Rs12 bn FCFE over FY2025-28E

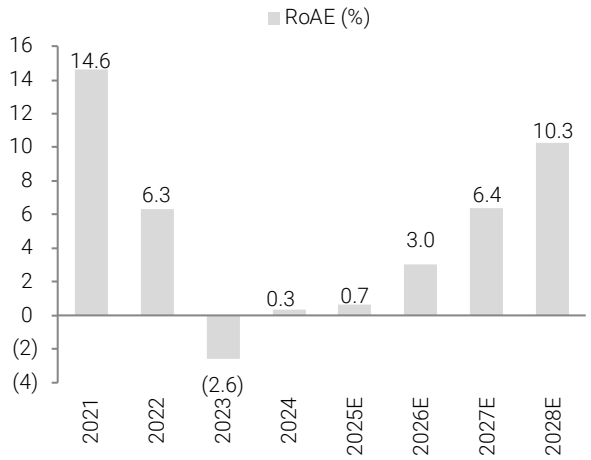
Exhibit 85: FCFE and PAT to FCFE conversion, March fiscal year-ends, 2021-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We bake in ~10% ROE for PPL in FY2028E

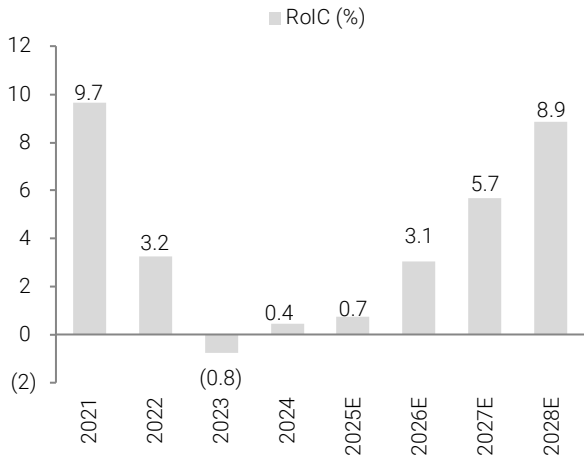
Exhibit 86: ROE, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities estimates

We bake in ~9% ROIC for PPL in FY2028E

Exhibit 87: ROIC, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 13% sales CAGR over FY2024-28E for PPL

Exhibit 88: Consolidated income statement, March fiscal year-ends, 2021-28E (Rs mn)

	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss								
Net revenues	**63,149**	**65,591**	**70,816**	**81,712**	**92,457**	**103,723**	**117,014**	**132,008**
Cost of goods sold	(20,591)	(24,512)	(27,033)	(29,540)	(32,915)	(36,407)	(40,604)	(45,543)
Gross profit	**42,558**	**41,079**	**43,783**	**52,172**	**59,542**	**67,316**	**76,410**	**86,465**
Staff costs	(14,677)	(15,888)	(18,964)	(20,295)	(23,136)	(25,450)	(27,995)	(30,794)
SG&A expenses	(13,601)	(15,694)	(18,537)	(19,914)	(21,843)	(23,865)	(25,925)	(28,042)
EBITDA	**14,280**	**9,497**	**6,282**	**11,963**	**14,563**	**18,001**	**22,490**	**27,629**
Depreciation & amortisation	(5,450)	(5,862)	(6,767)	(7,406)	(8,216)	(8,706)	(9,329)	(10,022)
EBIT	**8,829**	**3,635**	**(484)**	**4,557**	**6,347**	**9,295**	**13,161**	**17,607**
Other income	1,641	2,758	2,251	1,754	1,893	1,251	1,518	1,916
Interest expense	(1,635)	(1,983)	(3,442)	(4,485)	(4,552)	(4,286)	(4,179)	(4,076)
Share in associates	472	590	543	595	695	761	831	895
Exceptional items	182	(151)	(70)	(628)	—	—	—	—
Profit before tax	**9,491**	**4,850**	**(1,201)**	**1,793**	**4,382**	**7,021**	**11,330**	**16,342**
Tax & deferred tax	(1,140)	(1,090)	(663)	(1,615)	(3,865)	(4,563)	(5,945)	(6,857)
Less: minority interest	—	—	—	—	—	—	—	—
Net income (reported)	**8,350**	**3,760**	**(1,865)**	**178**	**517**	**2,458**	**5,385**	**9,485**
FD no. of shares (mn)	1,193	1,193	1,193	1,323	1,323	1,323	1,323	1,323
EPS (reported) (Rs)	**7.0**	**3.2**	**(1.6)**	**0.1**	**0.4**	**1.9**	**4.1**	**7.2**
Growth (%)								
Revenue		3.9	8.0	15.4	13.2	12.2	12.8	12.8
EBITDA		(33.5)	(33.8)	90.4	21.7	23.6	24.9	22.8
Reported PAT		(55.0)	(149.6)	(109.6)	190.1	375.1	119.1	76.1
Margins (%)								
Gross margin	**67.4**	**62.6**	**61.8**	**63.8**	**64.4**	**64.9**	**65.3**	**65.5**
Staff costs	23.2	24.2	26.8	24.8	25.0	24.5	23.9	23.3
SG&A expenses	21.5	23.9	26.2	24.4	23.6	23.0	22.2	21.2
EBITDA margin	**22.6**	**14.5**	**8.9**	**14.6**	**15.8**	**17.4**	**19.2**	**20.9**
Tax rate	12.0	22.5	(55.2)	90.1	88.2	65.0	52.5	42.0
PAT margin (reported)	**13.2**	**5.7**	**(2.6)**	**0.2**	**0.6**	**2.4**	**4.6**	**7.2**

Source: Company, Kotak Institutional Equities estimates

We expect PPL's net debt/EBITDA to improve to ~1.4X by FY2028E

Exhibit 89: Consolidated balance sheet, March fiscal year-ends, 2021-28E (Rs mn)

	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Assets								
PPE	26,366	28,641	33,630	38,726	39,941	41,666	44,667	47,976
CWIP	3,995	6,732	8,529	5,657	6,657	7,657	7,757	7,857
Intangibles	24,823	28,061	27,726	26,171	23,117	20,063	17,009	13,954
Goodwill	8,565	10,305	11,075	11,226	11,226	11,226	11,226	11,226
Right of use assets	1,302	1,785	2,255	3,776	3,400	3,024	2,647	2,271
Other non-current financial assets	1,936	3,123	2,334	2,611	2,611	2,611	2,611	2,611
Other non-current assets	5,525	8,651	11,321	10,306	10,306	10,306	10,306	10,306
Non-current assets	**72,511**	**87,298**	**96,871**	**98,473**	**97,258**	**96,552**	**96,223**	**96,201**
Cash & equivalents	4,056	3,290	3,076	2,192	1,975	2,353	1,131	2,640
Current investments	—	504	4,271	4,081	4,489	2,000	3,000	4,500
Debtors	15,749	17,853	17,993	21,344	24,151	27,094	30,566	34,482
Inventories	12,320	13,888	16,814	21,759	24,620	27,620	31,159	35,152
Other current financial assets	1,121	509	924	159	180	202	228	257
Other current assets	3,241	4,629	5,277	5,110	5,782	6,487	7,318	8,256
Current assets	**36,487**	**40,672**	**48,355**	**54,645**	**61,197**	**65,756**	**73,402**	**85,287**
Total assets	**108,998**	**127,970**	**145,226**	**153,118**	**158,455**	**162,307**	**169,625**	**181,488**
Liabilities and equity								
Long-term borrowings	23,392	26,221	33,835	24,838	25,838	24,838	23,838	22,838
Lease liabilities	1,149	1,046	1,323	1,513	1,412	1,245	1,066	868
Other non-current financial liabilities	—	4	50	—	—	—	—	—
Other non-current liabilities	3,719	3,584	4,156	4,294	4,294	4,294	4,294	4,294
Non-current liabilities	**28,260**	**30,855**	**39,364**	**30,644**	**31,543**	**30,376**	**29,197**	**27,999**
Short-term borrowings	5,710	14,011	21,212	20,751	21,751	21,251	20,751	20,251
Creditors	9,179	10,264	11,927	15,384	17,407	19,528	22,030	24,853
Short-term provisions	318	338	392	436	493	553	624	704
Income tax liabilities	394	717	35	403	403	403	403	403
Other current financial liabilities	7,229	2,590	2,271	2,513	2,843	3,190	3,598	4,059
Other current liabilities	1,858	2,229	2,289	3,874	4,383	4,917	5,547	6,258
Current liabilities	**24,688**	**30,149**	**38,127**	**43,360**	**47,280**	**49,842**	**52,954**	**56,528**
Total liabilities	**52,948**	**61,004**	**77,491**	**74,004**	**78,823**	**80,218**	**82,150**	**84,528**
Share capital	9,946	11,859	11,933	13,230	13,230	13,230	13,230	13,230
Other equity	46,104	55,107	55,802	65,884	66,402	68,860	74,245	83,730
Total equity	**56,050**	**66,966**	**67,735**	**79,114**	**79,631**	**82,089**	**87,475**	**96,960**
Minority interest	—	—	—	—	—	—	—	—
Total liabilities and equity	**108,998**	**127,970**	**145,226**	**153,118**	**158,455**	**162,307**	**169,625**	**181,488**
Gross debt	29,102	40,233	55,048	45,589	47,589	46,089	44,589	43,089
Net debt	25,046	36,439	47,701	39,316	41,125	41,736	40,457	35,949
Gross debt / equity (X)	0.5	0.6	0.8	0.6	0.6	0.6	0.5	0.4
Net debt / equity (X)	**0.4**	**0.5**	**0.7**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**
Net debt / EBITDA (X)	**1.8**	**3.2**	**6.7**	**3.6**	**2.8**	**2.3**	**1.8**	**1.4**
Interest coverage (X)	5.4	1.8	(0.1)	1.0	1.4	2.2	3.1	4.3
Net fixed asset turnover (X)	**1.2**	**1.2**	**1.2**	**1.2**	**1.4**	**1.6**	**1.8**	**2.1**
Return ratios								
RoAE (%)	14.6	6.3	(2.6)	0.3	0.7	3.0	6.4	10.3
RoCE (%)	**9.2**	**3.1**	**(0.7)**	**0.4**	**0.7**	**2.9**	**5.5**	**8.5**
RoIC (%)	**9.7**	**3.2**	**(0.8)**	**0.4**	**0.7**	**3.1**	**5.7**	**8.9**

Source: Company, Kotak Institutional Equities estimates

We forecast cumulative ~Rs17 bn FCF over FY2025-28E for PPL

Exhibit 90: Consolidated cash flow statement, March fiscal year-ends, 2021-28E (Rs mn)

	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Cash flow from operating activities								
Profit before tax	**8,836**	**4,410**	**(1,606)**	**1,198**	**4,382**	**7,021**	**11,330**	**16,342**
Depreciation & amortisation	4,624	5,862	6,767	7,406	8,216	8,706	9,329	10,022
Finance costs	1,635	1,983	3,442	4,485	4,552	4,286	4,179	4,076
Changes in working capital	(6,196)	(2,923)	(2,950)	(2,343)	(3,441)	(3,608)	(4,256)	(4,801)
Income taxes paid	(1,445)	(1,694)	(1,890)	(1,568)	(3,865)	(4,563)	(5,945)	(6,857)
Others	(1,477)	27	1,147	868	(695)	(761)	(831)	(895)
Net cash generated from / (used in) operating activities	**5,976**	**7,664**	**4,909**	**10,045**	**7,257**	**9,831**	**12,289**	**15,970**
Cash flow from investing activities								
Capex	(6,022)	(8,895)	(9,647)	(7,120)	(7,000)	(8,000)	(9,000)	(10,000)
Acquisitions (including intangibles)	(37,100)	(8,925)	(203)	–	–	–	–	–
Other income	490	816	754	221	1,893	1,251	1,518	1,916
Others	(2,167)	(1,117)	(4,288)	2,560	287	3,249	(169)	(605)
Net cash generated from / (used in) investing activities	**(44,799)**	**(18,121)**	**(13,385)**	**(4,340)**	**(4,821)**	**(3,500)**	**(7,651)**	**(8,689)**
Cash flow from financing activities								
Dividend	–	(500)	(670)	–	–	–	–	–
Interest paid	(1,634)	(1,445)	(2,771)	(4,696)	(4,552)	(4,286)	(4,179)	(4,076)
Issuance of equity	43,084	–	–	10,359	–	–	–	–
Change in net debt	(2,652)	10,191	11,984	(9,715)	2,000	(1,500)	(1,500)	(1,500)
Principal payment of lease liabilities	(38)	(304)	(355)	(171)	(137)	(150)	(165)	(182)
Others	1,009	–	–	–	36	(17)	(14)	(15)
Net cash generated from / (used in) financing activities	**39,768**	**7,942**	**8,188**	**(4,224)**	**(2,653)**	**(5,953)**	**(5,859)**	**(5,773)**
Change in cash & equivalents	**945**	**(2,515)**	**(287)**	**1,482**	**(217)**	**378**	**(1,222)**	**1,508**
Beginning cash	1,520	2,620	852	532	2,192	1,975	2,353	1,131
Adjustments	155	747	(33)	178	–	–	–	–
Ending cash	**2,620**	**852**	**532**	**2,192**	**1,975**	**2,353**	**1,131**	**2,640**
Key cash flows								
Operating cash flow (ex-interest costs)	4,341	6,219	2,139	5,349	2,705	5,544	8,109	11,895
Free cash flow to firm	**(36,738)**	**(9,702)**	**(4,613)**	**2,896**	**1,899**	**2,834**	**4,558**	**7,636**
Free cash flow to equity	(40,829)	(1,047)	2,030	(7,265)	3,361	(167)	1,071	3,770
Free cash flow to equity (adjusted for net debt)	**(38,177)**	**(11,239)**	**(9,955)**	**2,450**	**1,361**	**1,333**	**2,571**	**5,270**
Cash conversion (%)								
OCF as % of EBITDA	41.8	80.7	78.1	84.0	49.8	54.6	54.6	57.8
FCFE as % of PAT	(466.1)	(289.9)	566.7	1,017.8	263.1	54.2	47.7	55.6
Capex as % of sales	9.5	13.6	13.6	8.7	7.6	7.7	7.7	7.6

Source: Company, Kotak Institutional Equities estimates

8

Company profile: Diversified mix of CRDMO, complex generics and Indian OTC

PPL made its foray into the pharma business through the acquisition of Nicholas Laboratories in CY1988. Over the next two decades, PPL developed business verticals such as domestic formulations, diagnostics, CRDMO, OTC and critical care. In CY2010/2011, the company divested its domestic formulations and diagnostics divisions. Since selling its domestic formulations business to Abbott, it has reconstructed its pharma division and now operates in three main areas—(1) PPL Solutions (CRDMO), 58% of FY2024 sales, (2) PPL Critical Care/Complex Hospital Generics (CHG) and (3) India Consumer Healthcare/OTC (ICH). In addition, it has a 49% share in Allergan India (JV) with Allergan (now Abbvie) since CY1996, wherein it is the exclusive manufacturer for these products.

A unique CRDMO offering with a mix of complex generics and Indian OTC verticals

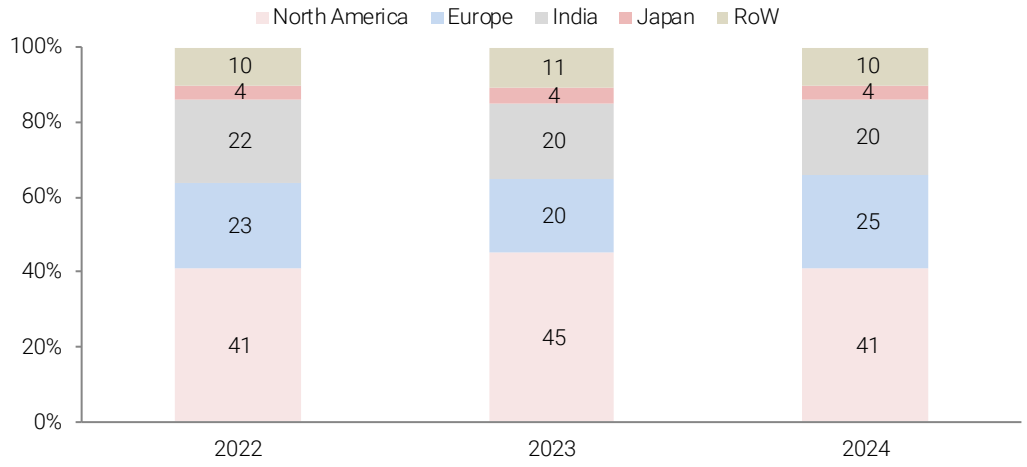
PPL has reported 13/15/17% sales CAGRs for CRDMO/CHG/ICH segments over FY2011-24, through a mix of organic and inorganic forays

PPL has been present in its three existing business segments for more than 15 years, and has scaled these businesses up significantly over the past decade. PPL has reported 13/15/17% sales CAGRs for CRDMO/CHG/ICH segments over FY2011-24, through a mix of organic and inorganic forays (15+ M&A transactions completed in past 10 years). PPL has commercial presence in 100+ countries, along with 17 development and manufacturing sites.

The company operates in three main areas—(1) CRDMO (58% of FY2024 sales) with integrated solutions across drug life cycle, (2) Complex Hospital Generics (CHG; 30% of FY2024 sales) with presence in high entry barrier complex hospital generics and (3) India Consumer Healthcare/OTC (ICH; 12% of FY2024 sales) with well recognized brands and a large distribution network. In addition, it has a 49% share in Allergan India (JV) with an ophthalmology player (Allergan, now Abbvie) since CY1996, wherein it is the exclusive manufacturer for these products. PPL has been present in its three existing business segments for more than 15 years, and has scaled these businesses up significantly over the past decade. The company's diversified presence of CRDMO facilities, backward integration in key products in CHG business, and fast-growing power brands in ICH business instill confidence in the long-term potential of the business. After a subdued performance over FY2021-23, the company is aiming to double its revenues and triple its EBITDA with 25% EBITDA margin by FY2030E with net debt to EBITDA reduced to ~1X (versus ~4X in FY2024) and high teens RoCE (versus 0.4% in FY2024). Moreover, we believe the management rejig over the recent years aiming to derive integration across its CRDMO facilities, diversify its CHG portfolio away from the two key products (Sevoflurane and Baclofen), and focus on customer insights and innovation to drive ICH growth are steps in the right direction.

PPL generated ~70% of its FY2024 revenues from regulated markets

Exhibit 91: PPL – sales mix by geography, March fiscal year-ends, 2022-24 (%)



Source: Company, Kotak Institutional Equities

History of the company

Since selling its domestic formulations business in CY2010, PPL's business model has undergone a meaningful change

Exhibit 92: Timeline of key events, calendar year-ends, 2000-24

Calendar year	Events
1988	Acquired Nicholas Labs, initiating entry into pharma, renamed to (1) Nicholas Piramal India (NPIL) in 1992, (2) Piramal Healthcare in 2008 and (3) Piramal Enterprises in 2013
1991	Commissioned Pithampur formulation plant; expanded in 1992
1996	Commenced commercial operations at Allergan India Private Ltd, a JV with Allergan (now AbbVie)
	Entered product tie-up with F. Hoffman-La-Roche
	Acquired Boehringer Mannheim
1997	NPIL entered agreement with Reckitt & Colman for joint marketing of the latter's OTC products in India
1998	NPIL forged JV with Boots Healthcare International (BHI) to develop and market consumer healthcare products in India
2002	Acquired ICI Pharma, Ennore, India facility
2003	Acquired Global Bulk drugs
2005	Acquired Avecia Pharma
	Acquired Global inhalation anesthetics business of UK-based Rhodia Organique Fine
2006	Acquired Pfizer's Morpeth UK facility
2009	Acquired RxEliteinc, US based inhalation anesthetic gas distribution business
2010	Acquired iPill oral contraceptive brand from Cipla
	Sold domestic formulations business to Abbott
2011	Acquired Oxygen Bio-research
	Buyout of Bharat Serum and Vaccines Ltd - Anesthetics business
	Grangemouth CDMO facility becomes world's first contract supplier at commercial scale for ADCs
2012	Acquired health care information management firm, Decision Resources Group (DRG), USA
2013	Consumer products' division acquires Caladryl brand in India
2015	Acquired Kentucky based specialty pharmaceutical CDMO, Coldstream Laboratories Inc
	Acquired Baby Care brand – Little's, for ICH business
	Acquired 5 brands from Organon India (OIPL) and MSD BV for ICH business
2016	Entered agreement to acquire 4 brands from Pfizer Ltd (India) for ICH business
	Entered agreement to acquire e Ash Stevens Inc., a US based company, for High Potency APIs
	Entered agreement to acquire Janssen's Injectable Anesthesia and Pain Management products in CHG business
2017	Completed acquisition of portfolio of drugs for Spasticity and Pain Management from Mallinckrodt LLC
2019	Divested DRG business for USD 950 mn
2020	Completed Sellersville, Pennsylvania (oral solid dosage drug product) facility acquisition from G&W Labs
	Carlyle invests in Piramal Pharma for 20% stake
2021	Completed acquisition of Hemmo Pharma - a leading Peptide API manufacturer
	Acquired minority stake in Yapan Bio (India based CDMO) with expertise in biologics and vaccines
2022	De-merger of Piramal Pharma from Piramal Enterprises and separate listing on stock exchanges
	Piramal Pharma Consumer Products Division launched Wellify.in, a D2C platform for health and wellness products
2023	Raised Rs10.5bn through rights issue, primarily for repayment of debt

Source: Company, Kotak Institutional Equities

PPL is run by a strong management team with defined roles across its businesses

PPL is led by a strong management team, helmed by Ms Nandini Piramal, Chairperson and her husband, Mr Peter DeYoung, CEO. Mr Peter DeYoung has been with the company for more than 10 years, and has played a key role in driving strategy for the business. Apart from the group CEO, the company has appointed three different CEOs for the three different business verticals in order to focus individually on each of its verticals. Moreover, Mr Vivek Valsaraj, CFO, has been with the company for the past 24 years. The promoters hold ~35% of stake in the company, while Carlyle Group, which had acquired 20% stake in the company in CY2020 at a valuation of US$2.78 bn, continues to hold ~18% in the company. The company gives has a royalty payout to the Piramal family for the brand name. Currently, it is at 0.75% of sales, which is slightly higher than other corporate groups like Tata (0.25% of sales) and Godrej (used to be at 0.5% of sales). This rate is based on benchmarking conducted by the 'Big 4' auditors carried out every year. The company has a well-defined corporate structure, with a strong inclination toward grooming and promoting internal candidates.

PPL has a strong management team with dedicated roles across different business segments

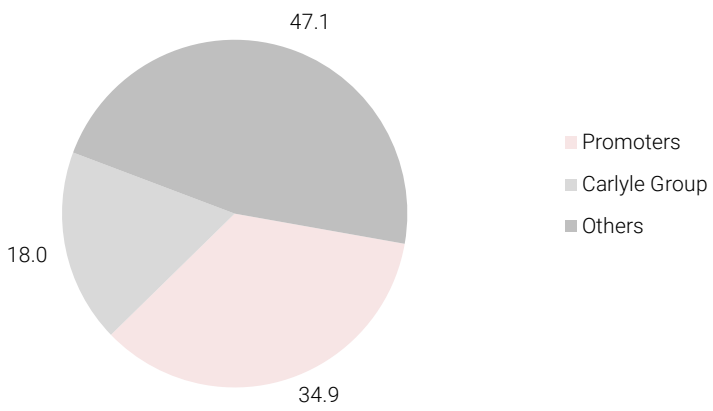
Exhibit 93: Management team, March fiscal year-end, 2024

	Position	Description
Key management personnel		
Ms. Nandini Piramal	Chairperson	Ms. Nandini Piramal is a business leader with over fifteen years of experience in the Piramal group. Along with being the Chairperson, she also heads the Human Resources and Information Technology functions, and handles the quality unit at Piramal Pharma. Recognized as one of India's Most Powerful Women by Business Today (2020, 2022) and a World Economic Forum Young Global Leader (2014), Ms. Piramal holds a BA (Hons.) from Oxford University and an MBA from Stanford University.
Mr. Peter DeYoung	Executive Director and Chief Executive Officer - Piramal Global Pharma	Mr. Peter DeYoung comes with 20+ years of experience across sectors including Life Sciences, Pharmaceuticals, Private Equity, and Strategy. He is currently responsible for steering strategy and driving profitable growth of the businesses. Prior to joining the Piramal group he was associated with the Blackstone group, McKinsey & Company, and the World Economic Forum. Mr. DeYoung holds a B.S. from Princeton University and an MBA from Stanford University.
Mr. Vivek Valsaraj	Executive Director and Chief Financial Officer	Mr. Vivek Valsaraj has 25+ years of experience in the field of finance, and has been associated with the Piramal Group for over two decades. His expertise spans across Corporate Finance, Business Strategy, Mergers and Acquisitions, and Taxation. Mr. Valsaraj has been integral to key acquisitions, capital raising, and optimizing systems, processes, and internal controls in the Pharma business. He holds a Bachelor's degree in Commerce and is an associate member of the Institute of Cost Accountants of India.
Mr. Stuart Needleman	Chief Commercial Officer and Chief Patient Centricity Officer - Piramal Pharma Solutions	Mr. Stuart Needleman has over two decades of experience in the pharmaceutical industry and is currently overseeing the company's global business development initiatives. He has consistently driven the business development team to achieve record-breaking results and is also responsible for driving profitable growth for the API Generics and Nutrition Solutions Businesses. Additionally, he is also responsible for ensuring patient-centric behaviour throughout the organization. Mr. Needleman holds a B.S. and an MBA from Rensselaer Polytechnic Institute
Mr. Herve Berdou	Chief Operating Officer - Piramal Pharma Solutions	Mr. Herve Berdou's expertise spans across global Supply Chain, Procurement, and Operations at pharmaceutical innovator companies, CDMOs, and the Generics businesses. Prior to joining Piramal Pharma Solutions, he held key roles at Lonza, Novartis and AstraZeneca-Medimmune. Currently, he leads the segment's operations across a worldwide network of drug substance and drug product facilities.
Mr. Jeffrey Hampton	President and Chief Operating Officer - Piramal Critical Care	Mr. Jeffrey Hampton's career spans over three decades and his expertise lies across global sales and marketing, commercial operations, and distribution strategies for pharmaceutical organizations. Prior to joining Piramal Critical Care, Mr. Hampton was the President at Accord Healthcare and held key positions at Apotex, Osmotica, Dabur and Teva Pharmaceuticals. He is currently responsible for driving the segment's global business and sustaining relationships with all the stakeholders across the value chain.

Source: Company, Kotak Institutional Equities

Promoters hold ~35% of the total shareholding in PPL

Exhibit 94: Shareholding pattern, March fiscal year-end, 2024



Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Sai Life Sciences (SAILIFE)

Pharmaceuticals

REDUCE

CMP(₹): **739** Fair Value(₹): **700** Sector View: **Neutral** NIFTY-50: **23,658** **March 24, 2025**

Leading CRDMO in pursuit of commercial scale

Sai Life Sciences (Sai) is a leading innovator-focused small molecule CRDMO, with a solid integrated drug discovery program supported by a global delivery model and a fully built leadership team. After a fair share of ups and downs over the years, Sai successfully scaled up its discovery presence and is ramping up in commercial CMC (increased scientists and manufacturing capacity by ~51% and 87%, respectively, in FY2022-24), establishing itself as a prominent innovator-focused CRDMO. We expect a rising commercial mix, recovery in funding and ramp-up of overseas facilities, to drive robust 29%/38% EBITDA/EPS CAGRs in FY2024-28E. On elevated valuations, we initiate on Sai with REDUCE and a DCF-based FV of Rs700.

Initiate with REDUCE and FV of Rs700

We initiate coverage on Sai with a REDUCE rating and a DCF-based FV of Rs700, offering a ~5% downside from CMP. In our DCF model, we forecast 10-year sales and EBITDA CAGRs of ~16% and ~22%, respectively. Our FV implies a ~23X FY2027E EV/EBITDA multiple, at par with Syngene. Led by recovery in funding and improved utilizations across its Indian and overseas facilities due to a higher commercial mix, we expect Sai to report robust 17/29/41% revenue/EBITDA/PAT CAGRs over FY2024-28E. Its 'follow-the-molecule' strategy enables it to be present across the CDMO supply chain of innovators, right from the start of the molecule lifecycle. Backed by a team of 1.1k+ discovery scientists, Sai offers complex chemistry and biology CRO services (34% of sales). It has also carved out a niche for itself in CMC, with 50 products in Phase III/commercial. In addition, Sai has 120 products across pre-clinical (45+), Phase I (35+) and Phase II (30+).

Improved overseas profitability and commercial scale-up to drive margins

We expect a recovery in funding and improved utilizations of the Hyderabad and Boston facilities, a higher biology sales mix (~24% of discovery sales) and continued scientist additions to drive a robust ~18% discovery sales CAGR for Sai over FY2024-28E. We highlight that after adding biology through the Boston site in FY2021, Sai's non-medicinal chemistry sales mix has improved significantly and we expect it to continue to inch up. Sai's Chemistry, Manufacturing and Control (CMC) business is relatively nascent, with low revenue per client/molecule but holds promise, given 38 commercial products and 12 in Phase III. Aided by a higher commercial mix (as seen in 9MFY25) and ramp-up of the newly added capacities in Bidar and Manchester, we forecast a healthy ~16% CMC sales CAGR over FY2024-28E. Resultantly, we expect robust 29%/38% EBITDA/EPS CAGRs for Sai over FY2024-28E.

Key risks: Slow commercial ramp-up and higher salience to smaller innovators

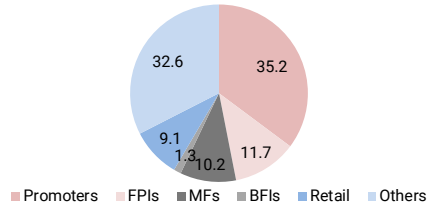
Sai's low average CMC revenues per client (~US$1.5 mn) and per product (~US$0.7 mn) indicate that thus far, scaling of projects has been a challenge. While we expect that to change, it is also critical for the funding environment to improve to drive meaningful growth, given Sai's high reliance on biotech firms. Other risks are high reliance on Bidar and continued drag from overseas facilities.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	739/700/REDUCE
52-week range (Rs) (high-low)	809-639
Mcap (bn) (Rs/US$)	154/1.8
ADTV-3M (mn) (Rs/US$)	714/8.3

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	6	(3)	NA
Rel. to Nifty	1	(3)	NA
Rel. to MSCI India	2	1	NA

Forecasts/Valuations	2025E	2026E	2027E
EPS (Rs)	7.3	9.1	12.7
EPS growth (%)	66.3	24.9	39.6
P/E (X)	101.3	81.1	58.1
P/B (X)	7.4	6.8	6.1
EV/EBITDA (X)	39.1	32.1	24.3
RoE (%)	9.9	8.7	11.0
Div. yield (%)	0.0	0.0	0.0
Sales (Rs bn)	16	20	24
EBITDA (Rs bn)	3.9	4.9	6.5
Net profits (Rs bn)	1.5	1.9	2.6

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of March 24, 2025

Full sector coverage on KINSITE

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We expect Sai to report robust ~17% overall sales CAGR over FY2024-28E

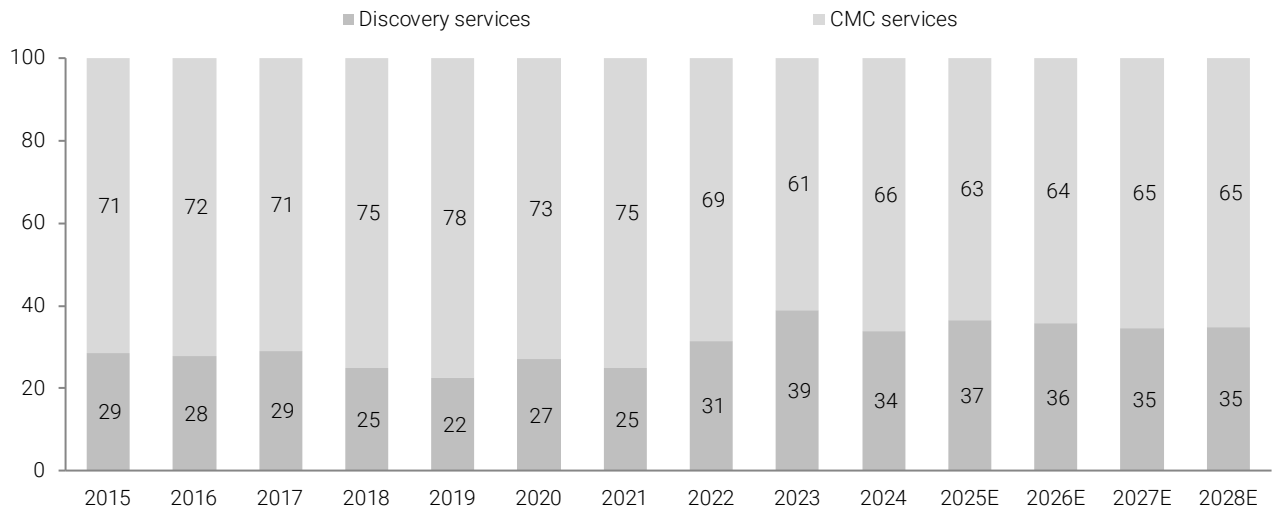
Exhibit 1: Financial snapshot, March fiscal year-ends, 2022-28E (Rs mn, %)

	Net revenues		EBITDA			EPS (reported)		RoIC	RoE	P/E	EV/EBITDA
Financial snapshot	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	Growth (%)	(Rs mn)	Growth (%)	(%)	(%)	(X)	(X)
2022	8,696	14.4	1,213	13.9	(26.3)	0.3	(89.8)	1.6	0.7	2,238.7	130.9
2023	12,171	40.0	1,649	13.6	36.0	0.5	60.5	2.9	1.1	1,395.2	96.3
2024	14,652	20.4	2,855	19.5	73.1	4.4	728.9	9.0	8.9	168.3	55.6
2025E	16,425	12.1	3,900	23.7	36.6	7.3	66.3	10.4	9.9	101.3	39.1
2026E	19,548	19.0	4,886	25.0	25.3	9.1	24.9	9.4	8.7	81.1	32.1
2027E	23,511	20.3	6,534	27.8	33.7	12.7	39.6	11.0	11.0	58.1	24.3
2028E	27,352	16.3	7,967	29.1	21.9	15.9	24.9	11.8	12.3	46.5	19.9

Source: Company, Kotak Institutional Equities estimates

We expect CMC to contribute to ~65% of Sai's overall sales by FY2028E

Exhibit 2: Business segments, March fiscal year-ends, 2015-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

We forecast ~29% and ~38% EBITDA and EPS CAGRs, respectively, for Sai, over FY2024-28E

Exhibit 3: Consolidated summary financials, March fiscal year-ends, 2022-28E (Rs mn)

	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss							
Net revenues	**8,696**	**12,171**	**14,652**	**16,425**	**19,548**	**23,511**	**27,352**
Gross profit	**6,028**	**7,946**	**10,194**	**11,899**	**13,942**	**16,838**	**19,686**
EBITDA	**1,213**	**1,649**	**2,855**	**3,900**	**4,886**	**6,534**	**7,967**
Depreciation & amortisation	(902)	(994)	(1,194)	(1,423)	(1,885)	(2,281)	(2,678)
EBIT	**311**	**655**	**1,661**	**2,476**	**3,001**	**4,253**	**5,289**
Interest expense	(496)	(771)	(859)	(809)	(734)	(1,006)	(1,188)
Profit before tax	**97**	**164**	**1,092**	**2,021**	**2,522**	**3,528**	**4,406**
Tax & deferred tax	(35)	(64)	(264)	(504)	(627)	(882)	(1,101)
Net income (reported)	**62**	**100**	**828**	**1,518**	**1,895**	**2,645**	**3,305**
EPS (reported) (Rs)	**0.3**	**0.5**	**4.4**	**7.3**	**9.1**	**12.7**	**15.9**
Balance sheet							
Fixed assets (incl. goodwill)	9,396	9,400	10,470	13,948	18,997	22,683	26,004
Cash & equivalents	1,303	863	1,588	2,335	1,087	1,234	1,598
Inventories	1,269	1,395	874	980	1,071	1,288	1,499
Total assets	**21,642**	**21,866**	**22,751**	**30,126**	**34,363**	**40,373**	**46,141**
Borrowings	7,513	6,992	7,102	3,102	5,000	7,500	9,000
Total liabilities	**12,857**	**12,986**	**13,000**	**9,357**	**11,699**	**15,064**	**17,527**
Shareholders' equity	**8,786**	**8,881**	**9,751**	**20,769**	**22,664**	**25,309**	**28,614**
Total liabilities and equity	**21,642**	**21,866**	**22,751**	**30,126**	**34,363**	**40,373**	**46,141**
Cash flow statement							
Operating cash flow before working capital changes	**1,294**	**1,845**	**3,013**	**3,396**	**4,259**	**5,652**	**6,866**
Changes in working capital	(246)	349	(385)	(631)	(704)	(1,327)	(1,286)
Capex	(2,069)	(1,131)	(1,817)	(4,500)	(6,500)	(5,500)	(5,500)
Acquisitions	0	(19)	—	(100)	(100)	(100)	(100)
Other income	1,074	502	159	354	254	280	305
Payment of lease liabilities	(42)	(371)	(237)	(2,500)	500	(500)	(500)
Free cash flow to firm	**(267)**	**960**	**275**	**(2,268)**	**(3,504)**	**(1,564)**	**(199)**
Free cash flow to equity	839	(406)	(71)	(6,875)	(2,157)	182	409
Ratios							
Gross margin (%)	**69.3**	**65.3**	**69.6**	**72.4**	**71.3**	**71.6**	**72.0**
EBITDA margin (%)	**13.9**	**13.6**	**19.5**	**23.7**	**25.0**	**27.8**	**29.1**
RoAE (%)	**0.7**	**1.1**	**8.9**	**9.9**	**8.7**	**11.0**	**12.3**
RoCE (%)	1.5	2.7	8.3	8.9	8.3	10.2	11.0
RoIC (%)	1.6	2.9	9.0	10.4	9.4	11.0	11.8
Net fixed asset turnover (X)	**1.0**	**1.2**	**1.3**	**1.2**	**1.1**	**1.0**	**1.0**
Net debt / EBITDA (X)	**4.9**	**3.7**	**2.0**	**0.5**	**0.2**	**0.6**	**0.7**

Source: Company, Kotak Institutional Equities estimates

1

Valuation: Initiate coverage on Sai with a REDUCE

We initiate coverage on Sai with a REDUCE rating and a DCF-based FV of Rs700, offering a ~5% downside from CMP. In our DCF model, we forecast 10-year sales and EBITDA CAGRs of ~16% and ~22%, respectively. Our FV implies a ~23X FY2027E EV/EBITDA, at par with Syngene. Driven by recovery in funding and improved utilizations across its Indian and overseas facilities due to a higher commercial mix, we expect Sai to report robust 17/29/41% revenue/EBITDA/PAT CAGRs over FY2024-28E. Its 'follow-the-molecule' strategy enables it to be present across the CDMO supply chain of innovators, right from the start of the molecule lifecycle.

We expect Sai Life Sciences to offer a ~5% downside from CMP

We initiate coverage on Sai with a REDUCE rating and a DCF-based FV of Rs700, offering a ~5% downside from CMP. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Sai, at par with Syngene. Driven by recovery in the funding environment and improved utilizations across its Indian and overseas facilities due to a higher commercial mix of molecules, we expect Sai to report 17/29/41% revenue/EBITDA/PAT CAGRs over FY2024-28E. Sai is one of India's leading CROs, with ~34% of its revenues attributable to research and discovery operations. The balance ~66% of Sai's revenues come from its CDMO (also CMC) business, which is largely centered around small molecule development and manufacturing. Sai's discovery model is supported by a robust team of 1,100+ scientists, which has enabled it to successfully complete 300+ discovery programs.

Our FV implies a ~23X FY2027E EV/EBITDA multiple for Sai, at par with Syngene

While FY2024 was a muted year for Sai, given the muted biotech funding environment, we expect a recovery in funding and improved utilizations of its Hyderabad and Boston facilities, a higher biology sales mix and continued scientist additions to drive a robust ~18% discovery sales CAGR for Sai over FY2024-28E. On the CMC front, Sai is on track to add capacities at its flagship Bidar facility, which involves an amidite block and an HPAPI block. Within its portfolio, Sai has a total of ~170 products, of which 38 are commercial and 12 are in Phase-III trials. Aided by a higher commercial mix of molecules and ramp-up of the newly added capacities, we forecast a healthy ~16% CMC sales CAGR over FY2024-28E. We also expect a higher commercial mix, higher biology sales mix in discovery and better capacity utilizations across facilities to drive robust 29%/38% EBITDA/EPS CAGRs for Sai over FY2024-28E.

Our DCF model bakes in 10-year sales/EBITDA CAGRs of ~16%/22% for Sai

Exhibit 4: Sai—DCF valuation, March fiscal year-ends, 2024-50E (Rs mn, %)

	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2038E	2040E	2042E	2044E	2046E	2048E	2049E	2050E
Free cash flow profile																	
Net revenues	**14,652**	**16,425**	**19,548**	**23,511**	**27,352**	**36,805**	**49,120**	**64,764**	**84,352**	**108,520**	**137,895**	**172,589**	**211,019**	**251,977**	**293,767**	**314,331**	**334,291**
%yoy growth	*20.4*	*12.1*	*19.0*	*20.3*	*16.3*	*15.9*	*15.4*	*14.7*	*14.0*	*13.3*	*12.6*	*11.6*	*10.3*	*9.0*	*7.7*	*7.0*	*6.4*
Pre-Ind AS-116 EBITDA	**2,160**	**3,113**	**4,172**	**5,965**	**7,483**	**10,913**	**15,055**	**20,304**	**27,035**	**35,540**	**46,126**	**58,939**	**73,118**	**88,066**	**103,553**	**111,273**	**118,840**
Pre-Ind AS-116 EBITDA margin (%)	*14.7*	*19.0*	*21.3*	*25.4*	*27.4*	*29.7*	*30.7*	*31.4*	*32.1*	*32.8*	*33.5*	*34.2*	*34.7*	*35.0*	*35.3*	*35.4*	*35.6*
Gross block	16,794	21,894	28,994	35,094	41,194	52,934	67,158	83,656	102,039	121,676	142,877	167,978	198,832	235,874	279,296	303,656	330,400
Depreciation & amortisation	(1,194)	(1,423)	(1,885)	(2,281)	(2,678)	(3,441)	(4,365)	(5,438)	(6,633)	(7,909)	(9,287)	(10,919)	(12,924)	(15,332)	(18,154)	(19,738)	(21,476)
%gross block	*(7.1)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*	*(6.5)*
EBIT	966	1,690	2,288	3,684	4,805	7,472	10,690	14,866	20,402	27,631	36,839	48,020	60,194	72,734	85,399	91,535	97,364
EBIT margin (%)	*6.6*	*10.3*	*11.7*	*15.7*	*17.6*	*20.3*	*21.8*	*23.0*	*24.2*	*25.5*	*26.7*	*27.8*	*28.5*	*28.9*	*29.1*	*29.1*	*29.1*
NOPAT	**732**	**1,268**	**1,719**	**2,762**	**3,604**	**5,589**	**7,996**	**11,120**	**15,261**	**20,668**	**27,556**	**35,919**	**45,025**	**54,405**	**63,878**	**68,468**	**72,829**
Tax rate (%)	*(24.2)*	*(24.9)*	*(24.9)*	*(25.0)*	*(25.0)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*	*(25.2)*
Capex	(1,817)	(4,500)	(6,500)	(5,500)	(5,500)	(6,183)	(7,368)	(8,419)	(9,279)	(9,767)	(11,032)	(13,807)	(16,882)	(20,158)	(23,501)	(24,361)	(26,743)
%sales	*(12.4)*	*(27.4)*	*(33.3)*	*(23.4)*	*(20.1)*	*(16.8)*	*(15.0)*	*(13.0)*	*(11.0)*	*(9.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(8.0)*	*(7.8)*	*(8.0)*
Working capital	5,211	5,842	6,546	7,872	9,159	11,042	14,736	19,429	25,306	32,556	41,369	51,777	63,306	75,593	88,130	94,299	100,287
%sales	*35.6*	*35.6*	*33.5*	*33.5*	*33.5*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*
Change in working capital	766	(631)	(704)	(1,327)	(1,286)	(1,515)	(1,961)	(2,483)	(3,098)	(3,809)	(4,613)	(5,361)	(5,886)	(6,210)	(6,263)	(6,169)	(5,988)
Free cash flow to firm	**876**	**(2,439)**	**(3,600)**	**(1,783)**	**(504)**	**1,332**	**3,032**	**5,655**	**9,517**	**15,001**	**21,198**	**27,670**	**35,182**	**43,369**	**52,268**	**57,676**	**61,573**
Discount factor				1.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	23.00	24.00
Discounted free cash flow to firm				**(1,596)**	**(404)**	**854**	**1,557**	**2,326**	**3,134**	**3,957**	**4,477**	**4,680**	**4,766**	**4,705**	**4,541**	**4,484**	**4,284**

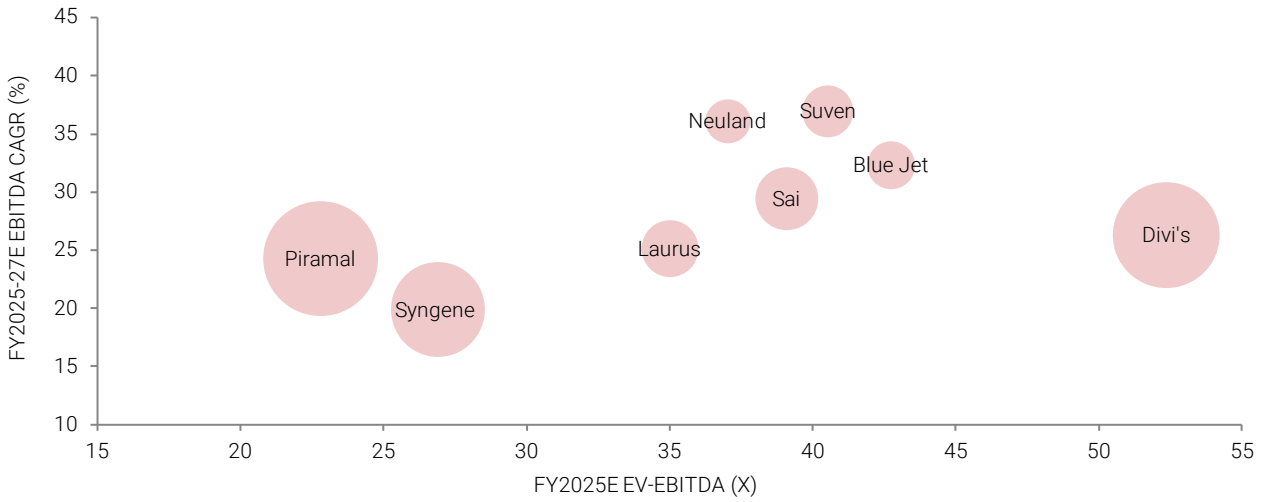
Asset valuation	
WACC (%)	**11.7**
Terminal growth rate (%)	*5.5*
Enterprise value	**148,215**
Net debt	2,913
Equity value	**145,302**
Minority interest	–
Equity value attributable to parent	**145,302**
Number of shares (mn)	208
Fair value per share (Rs)	**699**

Source: Company, Kotak Institutional Equities estimates

At CMP, Sai's valuations are relatively higher than Piramal and Syngene

Sai is trading at a relatively higher multiple, compared to its domestic peers

Exhibit 5: EV/EBITDA vs EBITDA CAGR for Indian CRDMOs, March fiscal-year ends, 2025-27E (%, X)



Notes:

(a) We have used Bloomberg estimates for Suven and Neuland; for rest of the companies, we have used KIE estimates.

(b) Size of the bubble indicates relative size of CRDMO revenues for these companies.

Source: Companies, Kotak Institutional Equities estimates

Most Indian CRDMOs continue to trade at a premium to their global counterparts

Exhibit 6: Valuations for Global CRDMO companies, March fiscal-year ends, 2024-27E

	Country	EV (US$ mn)	PER (X) 2024	2025E	2026E	2027E	EV/Sales (X) 2024	2025E	2026E	2027E	EV/EBITDA (X) 2024	2025E	2026E	2027E
Global CRDMO valuations														
Asymchem Laboratories Tian-H	China	2,779	NA	18.7	14.6	11.8	2.6	3.4	2.9	2.5	7.1	15.1	11.6	9.4
Hangzhou Tigermed Consulti-A	China	6,759	23.0	40.9	31.6	26.1	6.6	7.2	6.5	5.8	20.8	30.1	25.0	21.6
Joinn Laboratories China	China	1,643	40.4	94.4	44.3	31.7	5.1	5.8	5.5	4.5	24.0	74.7	34.6	20.6
Pharmaron Beijing	China	6,699	30.1	26.7	25.9	22.2	4.2	3.9	3.5	3.1	16.2	17.0	14.6	13.0
Wuxi Apptec	China	25,112	20.5	16.8	15.1	13.2	4.6	4.3	3.8	3.4	14.0	11.5	10.2	9.0
Wuxi Biologics Cayman	China	13,787	32.1	30.7	25.6	22.3	5.9	5.5	4.9	4.3	19.4	17.0	14.5	12.5
Blue Jet Healthcare	India	1,789	95.8	54.2	38.6	33.2	21.5	15.2	10.7	9.2	66.8	42.8	28.8	24.4
Concord Biotech	India	1,999	56.4	50.7	40.1	32.1	16.8	14.9	12.0	10.0	39.6	36.2	29.5	24.6
Divi's Laboratories	India	17,906	98.0	72.4	58.4	45.4	19.5	16.4	14.3	11.9	69.5	52.4	42.3	32.9
Gland Pharma	India	2,797	34.2	35.3	26.3	21.1	4.2	4.1	3.5	3.1	18.0	18.2	15.0	12.5
Jubilant Pharmova	India	1,902	183.7	21.3	26.5	19.1	2.4	2.2	2.1	1.8	18.0	14.1	12.3	10.0
Laurus Labs	India	4,246	208.0	107.3	67.4	52.3	7.2	6.7	5.8	5.2	46.7	35.0	26.5	22.4
Neuland Laboratories	India	1,776	50.9	58.0	34.5	25.0	10.0	9.8	7.4	5.8	32.9	37.0	23.1	17.2
Piramal Pharma	India	3,899	1,625.2	560.1	117.9	53.8	4.1	3.6	3.2	2.8	27.8	22.8	18.5	14.7
Sai Life Sciences	India	1,890	168.3	101.3	81.1	58.1	11.0	9.8	8.3	6.9	55.6	39.1	32.1	24.3
Suven Pharmaceuticals	India	3,425	99.6	86.2	63.4	46.8	28.3	13.7	8.4	6.9	72.2	40.5	25.1	19.6
Syngene International	India	3,341	55.8	62.2	57.6	43.4	8.2	7.6	6.6	5.6	25.5	26.9	22.6	18.1
Celltrion	South Korea	29,106	90.4	37.1	26.2	19.2	12.0	9.5	7.9	7.2	46.9	23.7	18.0	14.7
Samsung Biologics	South Korea	52,414	70.8	59.6	48.1	41.5	16.9	14.0	12.0	10.5	40.1	34.8	29.1	25.5
Lonza Group Ag	Switzerland	49,952	64.8	34.2	28.8	24.1	6.7	5.7	5.2	4.6	27.5	20.0	17.3	14.9
Charles River Laboratories	United States	11,240	841.5	18.0	16.4	14.7	2.8	2.9	2.8	2.6	17.1	11.8	11.3	10.2
Iqvia Holdings	United States	45,313	24.7	15.8	14.1	12.7	2.9	2.8	2.7	2.5	13.0	11.9	11.1	10.3
Labcorp Holdings	United States	25,481	26.5	14.7	13.3	11.9	2.0	1.8	1.7	1.7	13.1	10.7	10.1	9.4
Thermo Fisher Scientific	United States	224,790	31.6	22.5	20.3	18.1	5.2	5.1	4.8	4.5	20.8	19.7	18.2	16.7

Notes:

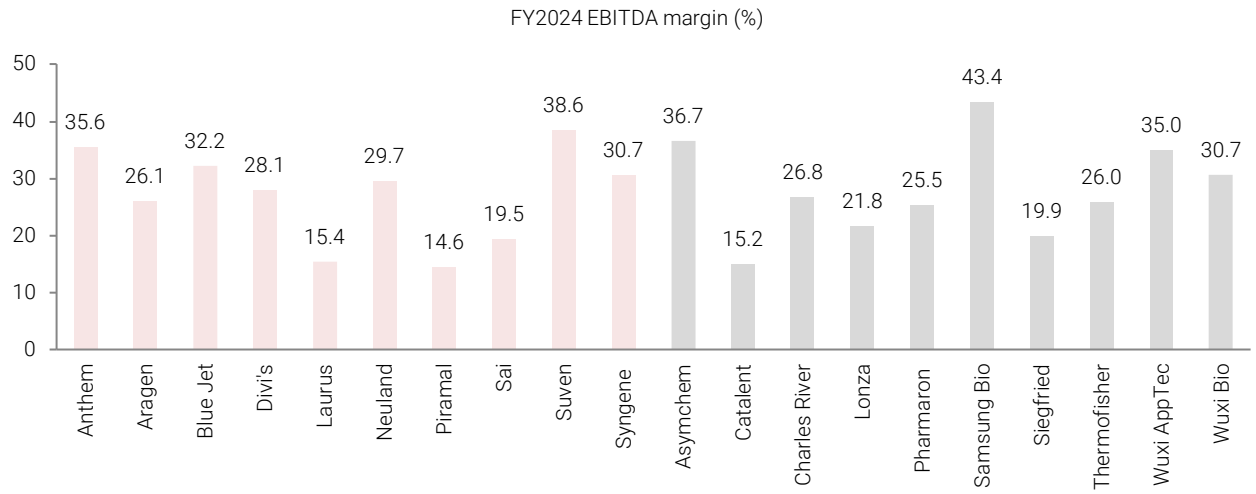
(a) We have used KIE estimates for companies under our coverage; for the rest, we have used Bloomberg estimates.

(b) 2024-27 March fiscal year-ends for Indian companies, 2023-26 December calendar year-ends for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

Owing to losses at offshore facilities, Sai's FY2024 EBITDA margins were lower than its Indian CRDMO peers

Exhibit 7: Global CRDMO EBITDA margins comps, March fiscal year-end, 2024 (%)



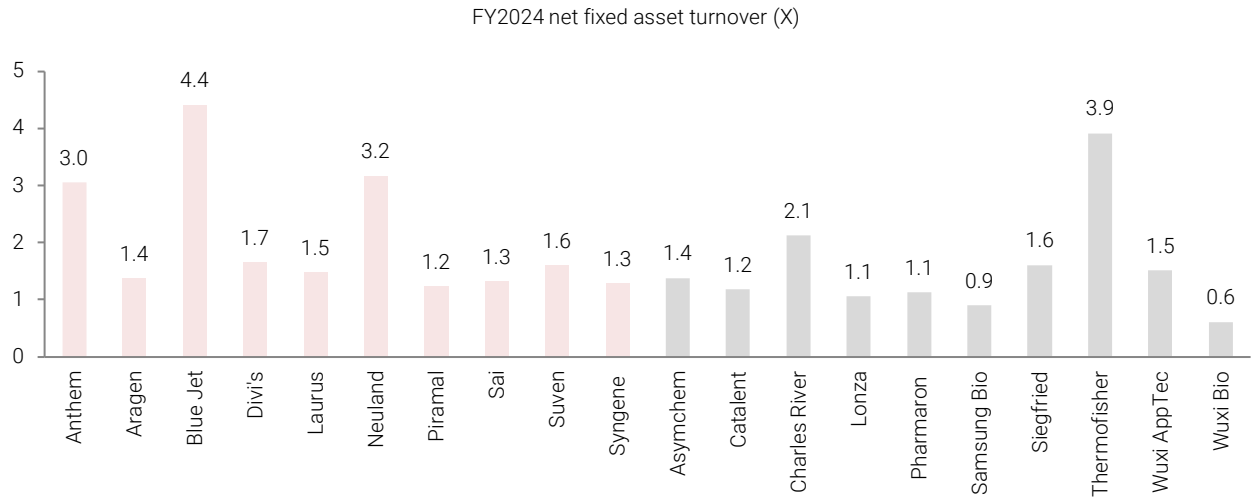
Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

Sai's FY2024 net fixed asset turnover lagged its Indian CRDMO peers, due to underutilization at Bidar, Boston and Manchester

Exhibit 8: Global CRDMO net fixed asset turnover comps, March fiscal year-end, 2024 (X)



Notes:

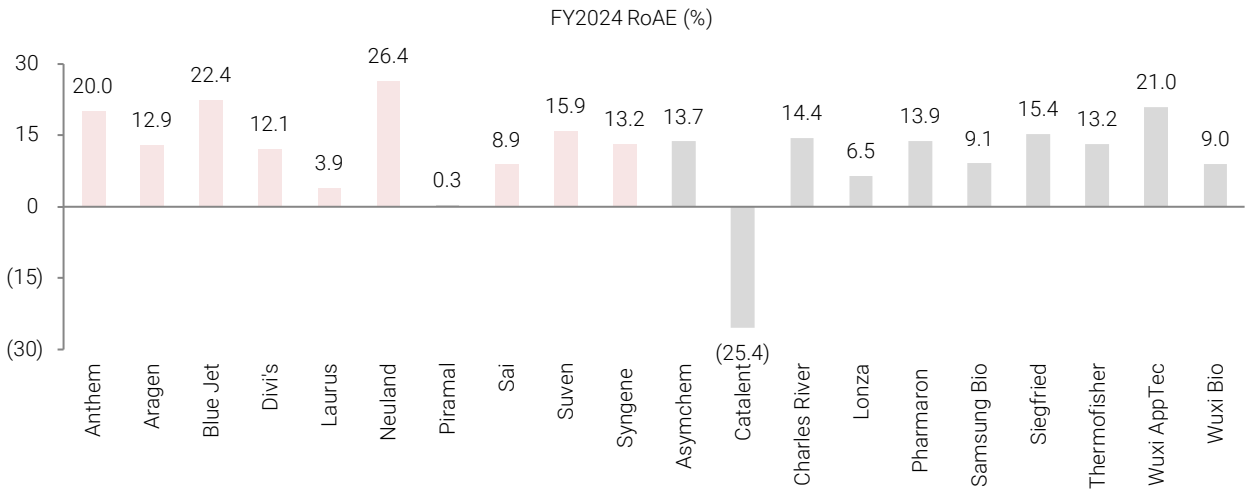
(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) Net fixed asset turnover = Revenue/average net fixed assets (excl. CWIP).

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

As of FY2024, Sai's RoE was much below its Indian CRDMO counterparts

Exhibit 9: Global CRDMO RoAE comps, March fiscal year-end, 2024 (%)



Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) RoAE = PAT/average equity.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

2

Significant headway for discovery growth with a focus on integrated projects

Sai is one of India's leading CRO, with ~34% of its FY2024 revenues attributable to research and discovery operations. Within discovery services, Sai engages with innovators to help accelerate their drug discovery journey from Hit ID to IND, using creative chemistry supported by high-quality biology, DMPK, toxicology and cGMP scale-up services. As of December 2024, Sai has worked on 300+ discovery programs, of which 60%+ are small molecule-focused. Backed by a growing scientific team, Sai has provided tailored, cost-effective solutions to its clients across diverse therapeutic areas. Over recent years, it has also been growing its integrated offering, which allows it to be present over a larger span of the lifecycle of the molecule. After a muted couple of years, we expect a gradual improvement in the funding environment, improved utilizations of its Hyderabad and Boston facilities, a higher biological assay sales mix and continued scientist additions to drive a robust ~18% discovery sales CAGR for Sai over FY2024-28E.

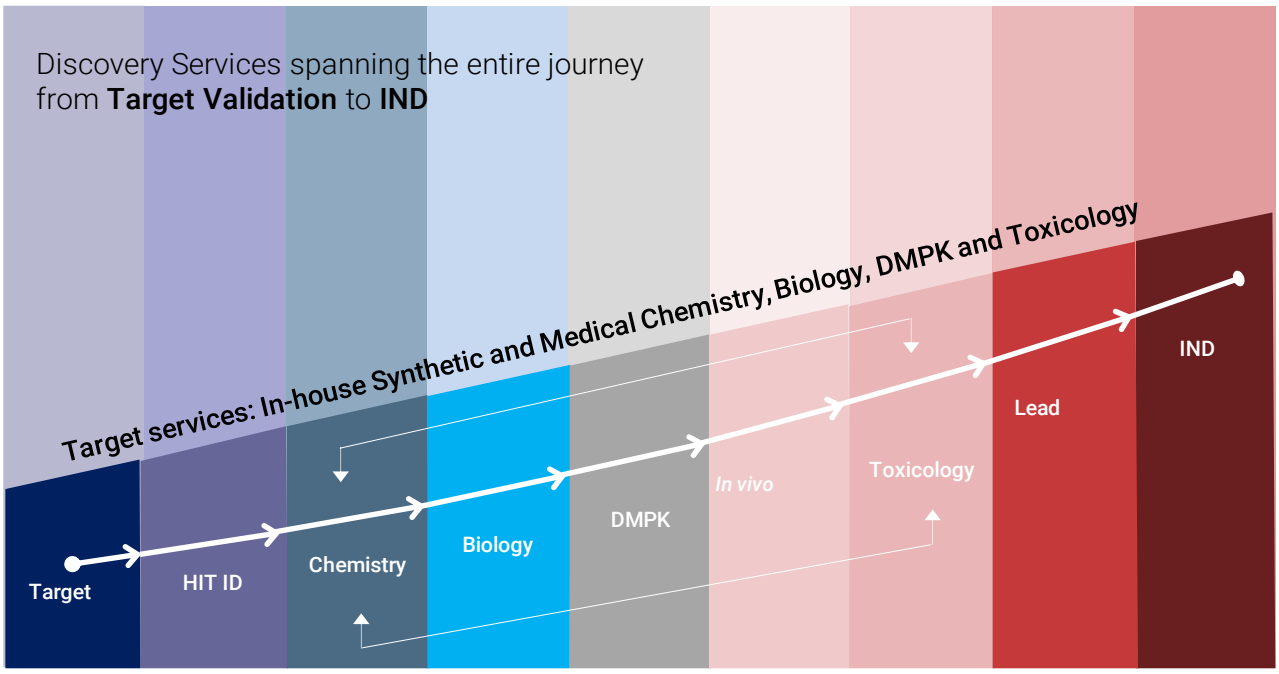
Sai's offerings within the discovery segment span the entire spectrum of early-stage research from target identification to delivery of drug candidates for further development

Sai has bridged gaps in its discovery offerings over the past decade

Founded in CY1999, Sai commenced its operations as a research and discovery-focused player, and since then we note, its discovery business has scaled up to be among the largest in India. Over the next few years, Sai focused on growing this business, with an emphasis on early-stage molecules, while its offerings included synthetic and medicinal chemistry. Over the next decade, it expanded its core offerings to DMPK and toxicology. Sai did not foray into biology services such as biological assay studies until CY2018. As of date, Sai's offerings within the discovery segment span the entire spectrum of early-stage research from target identification to delivery of drug candidates for further development. Moreover, with an increasing preference for integrated solutions among global innovators, Sai has started to take up integrated drug discovery projects, which combine an assortment of capabilities and service offerings.

Under its discovery services segment, Sai offers a variety of functions

Exhibit 10: Discovery services offerings, March fiscal year-end, 2025E



Source: Company, Kotak Institutional Equities

Sai's discovery business offers its clients a wide variety of services and capabilities

Sai's capabilities within discovery include standalone and integrated discovery services for innovator pharma and biotech companies located in the US, UK, EU, Japan and EMs. It has successfully completed discovery programs across therapeutic areas such as oncology, CNS disorders, inflammation, antivirals and rare diseases. In order to provide these services, Sai utilizes advanced production technologies such as flow chemistry, column chromatography, lyophilization, cryogenics and high-pressure reactions, solid-state characterization, and structure elucidation.

Small molecule chemistry offerings are the forte of Sai's discovery model

While Sai's discovery platform has multiple capabilities, historically its offerings have remained more centered around medicinal and synthetic chemistry, within small molecules. We highlight that the foray into DMPK, toxicology and biology is more recent for the company. In CY2010, Sai ventured into DMPK and toxicology studies. Later, in CY2018, Sai commenced operations in biology services.

While Sai's discovery platform has multiple capabilities, historically its offerings have remained more centered around medicinal and synthetic chemistry, within small molecules

Under its chemistry offerings, Sai has presence across various functionalities such as:

- **Synthetic chemistry and small-scale compound delivery:** A majority of Sai's efforts in a discovery program go into synthesizing sample quantities of the compounds designed by computational and medicinal chemists from Sai's customers or its teams. Sai sets up dedicated teams of highly qualified synthetic chemists for each customer's drug discovery programs. Backed by its expertise in chemistry and using a variety of lab techniques, Sai helps prepare sample quantities of the design compounds. Its offerings within synthetic chemistry span a vast range of chemotypes and include complex natural products such as macrocycles, carbohydrates and sugars, peptides, nucleosides, nucleotides and phosphoramidites.
- **Medicinal chemistry and computer-aided drug design (CADD):** Sai has an expert team of scientists capable of analyzing data and designing new molecules with the potential activity against selected disease targets. It uses its employees' training in medicinal chemistry and various off-the-shelf CADD software to design such candidate molecules. Sai offers its services as part of integrated drug discovery projects to lead or support its customers' molecule design efforts.
- **DMPK and toxicology:** Sai conducts DMPK studies to understand how a drug-like molecule may affect the human body after administration. Toxicology studies help assess the potential adverse impact of these molecules on the human body. Sai offers a comprehensive suite of in-vitro and in-vivo DMPK and toxicology study capabilities at its Hyderabad facility. It performs these studies as part of its integrated drug discovery programs on compounds synthesized by its own synthetic chemistry teams and on a standalone basis, and on compounds sent by its clients.
- **Lead candidate:** A lead candidate is a small molecule with pharmacological activity (efficacy in smaller animals) that has been chemically optimized and tested through biological assays, with sufficient target selectivity and favorable medicine-like properties that justify further development.
- **IND filing enabling studies:** This is the final step in the process where the prepared documentation about the drug (its components, usage and safety information) is submitted to the regulatory authorities for approval to test the drug in clinical trials. Sai offers a number of the tests, which are required to be carried out on the drug candidate for this regulatory submission, including cross-species profiling in in-vitro DMPK assays, drug-drug interactions, in-vivo pharmacokinetics, toxicology and toxicokinetics, and safety pharmacology.

Although chemistry forms the core of the bulk of Sai's drug discovery programs, its offerings in biology also constitute an important part of its portfolio. It also offers a range of services in biology, which include:

- **Target identification and validation:** The preliminary step in the new drug discovery process is the identification and validation of biological targets such as DNA, enzymes, receptors and ion channels for diseases by conducting laboratory experiments. Sai offers these services at its research facilities, i.e., Hyderabad and Greater Boston. In 9MFY25, Sai was involved in target identification and validation for nine drug discovery programs.

- **Hit identification (Hit ID):** Post-identification of the biological target, the next step is the process of finding NCEs, which can bind to the isolated biological target and modify its function in a test tube condition. An appropriate and successful Hit ID phase enables R&D all the way to the market.
- **Biological assay development:** Sai also offers the design and development of biological assays, which are laboratory testing methods, to evaluate the activity of a potential drug-like molecule against the selected disease target. This includes the utilization of state-of-the-art technologies to develop and implement a variety of biochemical, cellular, biophysical and pharmacological assays. Once the assay methods are developed at the start of the discovery program, every compound that is designed and synthesized is tested for its activity using the selected assay methods. Sai offers both standalone and integrated biology services, along with chemistry, to develop assays and test compounds sent by its customers. As of 9MFY25, Sai has developed and optimized 300+ such assays.

We note that while target identification, validation, biological assay development and assay testing are all conducted by Sai's biology scientists in Boston and Hyderabad, the bulk of its biology effort in terms of volume is involved in executing the assay tests.

Skilled scientific talent and state-of-the-art lab infrastructure are Sai's pillars of success

Sai's workforce, comprising skilled scientists and state-of-the-art laboratory infrastructure, supports its research and discovery operations. The company puts a great focus on developing its human capital through a slew of initiatives in place for hiring quality talent and establishing deep community connections. It also emphasizes technology and has installed high-throughput automated equipment in its biology and DMPK labs to deliver high-quality, high-volume data with very short turnaround times. While Sai's extensive labs provide the platform, the company's scientists utilize these resources, which enables Sai to pursue new and large-scale discovery programs.

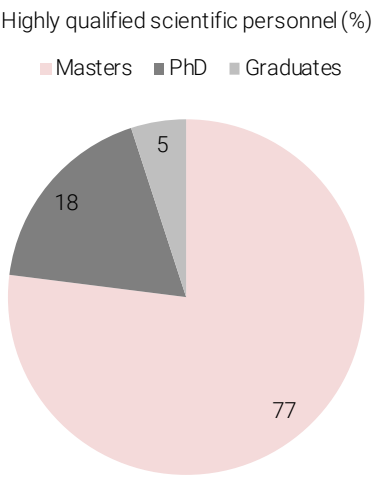
From a talent pool of ~650 scientists in discovery in FY2023, Sai has now scaled up to 1,100+ scientists in this segment

Robust talent pool of scientists forms the backbone of Sai's discovery model

The success of Sai's endeavors also relies on its talent pool, majority of whom hold advanced degrees, such as PhDs or master's degrees. Its qualified team of scientists and scientific staff, on average, has 8+ years of industry experience. Apart from their qualifications, Sai's scientists actively engage in ongoing education about the latest scientific and regulatory insights. Their collective expertise spans various disciplines, therefore equipping them to undertake and oversee a multitude of functions across its business segments. This multidisciplinary knowledge allows Sai to efficiently allocate resources to meet customers' needs and enhance overall efficiency. It has increased its scientist headcount quite aggressively over the past few years. From a talent pool of ~650 scientists in discovery in FY2023, Sai has now scaled up to 1,100+ scientists in this segment. As of date, at an overall level, Sai has a team of ~2,400 scientists, almost evenly spread across its CRO and CDMO segments.

~77% of Sai's scientific talent pool holds PhDs or Master's degrees

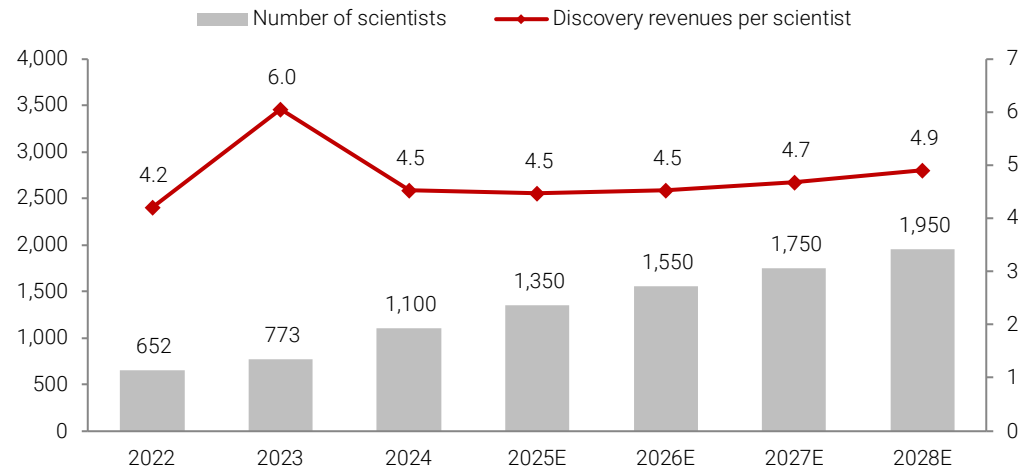
Exhibit 11: Scientist pool, March fiscal year-end, 2025E (%)



Source: Company, Kotak Institutional Equities

We expect Sai's productivity per scientist to gradually improve to ~Rs4.9 mn by FY2028E

Exhibit 12: Scientist base and sales per scientist, March fiscal year-ends, 2022-28E (Rs mn, #)



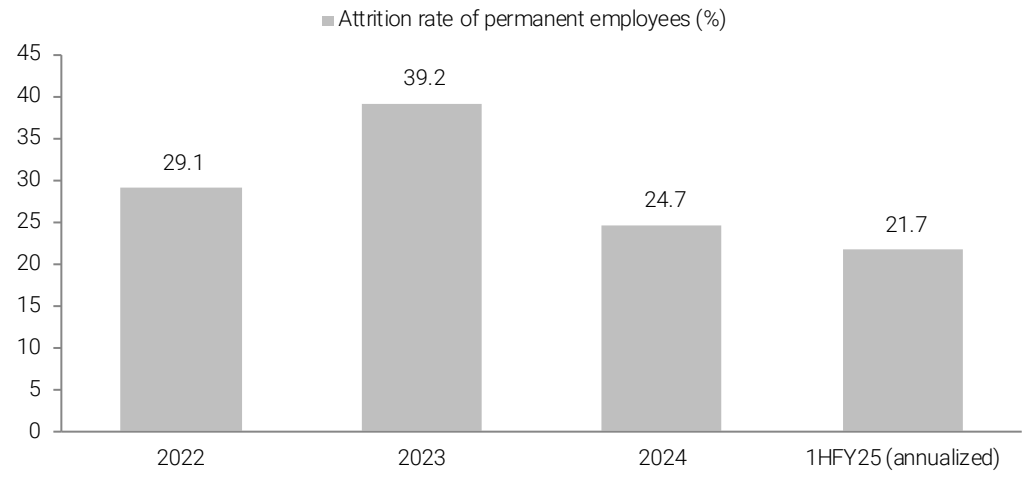
Source: Company, Kotak Institutional Equities estimates

Sai has come up with the 'Sai Nxt' initiative, which aims to strengthen its workforce by expanding the scientific talent pool, inducting global scientific and leadership talent, role-based integrated online training and shop floor transformation

Sai hones its talent pool through various initiatives, which involve training and upskilling its research scientist staff. The company competes with pharma and biotech firms, other CRDMO companies and research and academic institutions to hire these scientists. With a focus on talent hiring, Sai utilizes its recruitment channels, which include a combination of structured campus recruitment programs, lateral hiring programs and internal referrals. Furthermore, Sai offers learning and research opportunities to its employees through continuous training and upskilling programs. In CY2019, the company launched the 'Sai Gurukul' initiative to provide its employees with technical and compliance-related training through a digital platform. It has also come up with the 'Sai Nxt' initiative, which aims to strengthen its workforce by expanding the scientific talent pool, inducting global scientific and leadership talent, role-based integrated online training and shop floor transformation. Sai has also put in place other human resources initiatives, including establishing transparent performance evaluation systems to highlight areas of improvement and allow it to identify talent for promotion and offering visible career progression. Sai's successful employee training and retention strategies have helped restrict attrition rate to 20-25% in permanent employees over the past two years. There has not been any senior management churn in the company since FY2022.

Over the past two years, Sai's attrition rate for permanent employees remained in the range of 20-25%

Exhibit 13: Employee attrition rate, March fiscal year-ends, 2022-25E (%)



Source: Company, Kotak Institutional Equities

Post shutdown of the Pune unit, Sai's CRO setup is now based out of Hyderabad and Boston

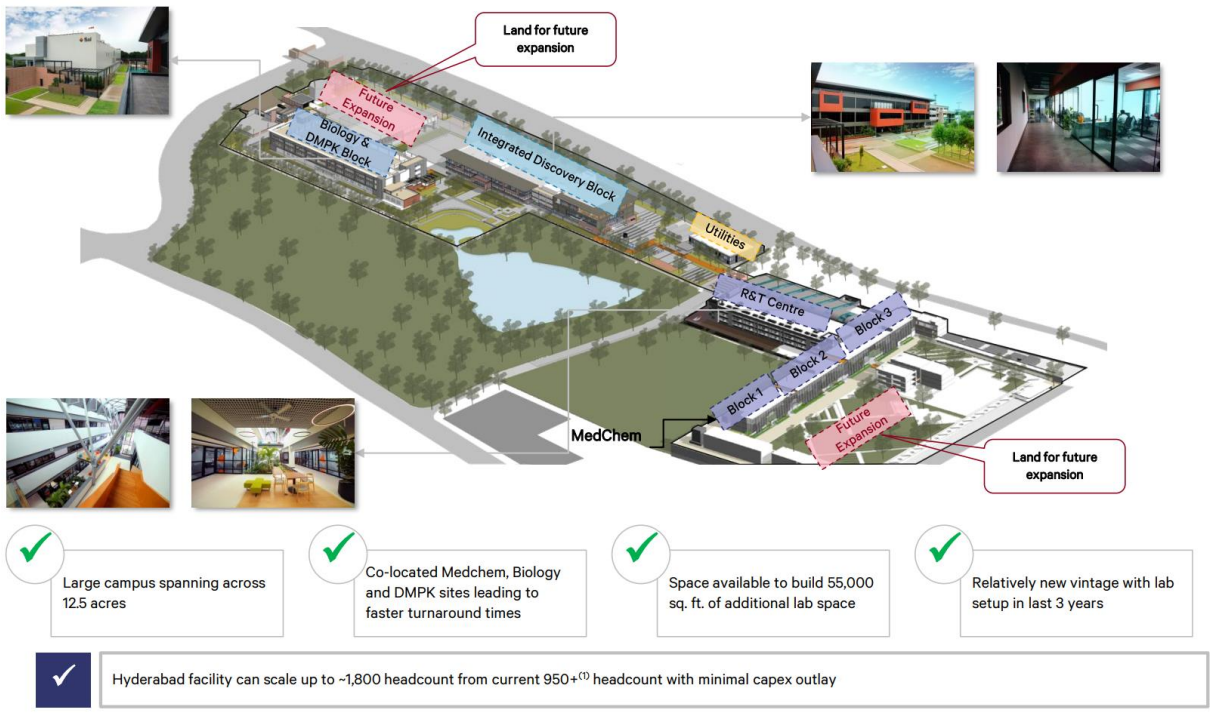
Earlier (pre-FY2019), before the Boston unit was commissioned, the Pune campus was Sai's primary facility

Currently, bulk of Sai's discovery operations are based out of its Hyderabad campus and to a small extent, its Watertown facility in Greater Boston. However, we note that Sai originally had two sites for carrying out its research and discovery operations. Earlier (pre-FY2019), before the Boston unit was commissioned, the Pune campus was Sai's primary facility. It was a larger site than Hyderabad, but the location did not provide Sai the flexibility to expand capacities. There were a couple of factors that led to the declining relevance of the Pune site. Firstly, connectivity was an issue. Mumbai, being the nearest big international airport, was the arrival location for most customers. Hence, clients would lose out on an entire day due to travel. Secondly, there was limited scope for brownfield expansion at this facility. Due to these logistical issues, Sai shut down its Pune facility. Furthermore, Sai switched its investment focus to Hyderabad and expanded the facility to turn it into a discovery hub. Thereafter, in FY2020, Sai set up the facility at Greater Boston, with a focus on biology. While the Hyderabad campus became more focused on chemistry projects, Sai utilized its Boston campus for conducting biology programs.

The Hyderabad campus is situated on a land parcel of ~12.5 acres. Currently, it houses a total of ~1,075 discovery scientists, but it can accommodate up to ~1,800 scientists. The facility is a fully integrated R&D campus, possessing capabilities and capacities for discovery, development and manufacturing. The R&D center at Hyderabad houses an analytical testing and release lab and the pilot manufacturing facility, both of which have been inspected by the US FDA.

Sai's Hyderabad campus spans an area of ~12.5 acres and has space available to construct additional ~55k sq. ft of lab space

Exhibit 14: Hyderabad facility, March fiscal year-end, 2025E



Source: Company, Kotak Institutional Equities estimates

The Boston discovery facility, established in FY2020, houses 20+ scientists. The facility hosts an exploratory biology laboratory and houses advanced cellular and biochemical analysis platforms. Over FY2024-25, Sai has developed and transferred eight biology assays at this facility, which enabled it to onboard eight drug discovery customers for conducting larger discovery programs in India. Since the commencement of the facility, Sai has worked on a total of 20+ biology assays at the Boston campus. We note that the programs onboarded here are relatively more niche and complex, thus leading to better realizations per discovery program.

We forecast ~18% discovery sales CAGR, for Sai, over FY2024-28E

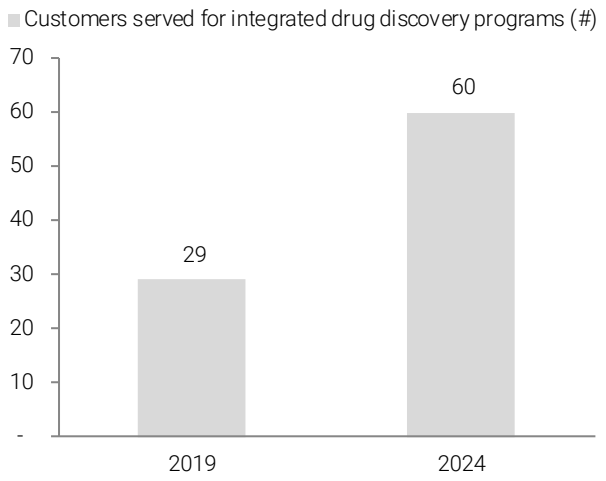
Sai's discovery sales reported a meagre ~12% CAGR over FY2015-19, with its discovery segment growing only ~2X from ~US$14 mn in FY2015 to ~US$27 mn in FY2020

For a few years prior to FY2020, growth in Sai's discovery business was muted due to a number of factors, inadequate capabilities and capacities at the Hyderabad facility, as well as, a relatively lower presence in biology. As a result, Sai's discovery sales reported a meagre ~12% CAGR over FY2015-19, with its discovery segment growing only ~2X from ~US$14 mn in FY2015 to ~US$27 mn in FY2020. During this period, Sai had just entered into biology and majority of its discovery revenues were coming from chemistry. Moreover, Sai had shifted its focus from growing its discovery segment to scaling up its nascent CDMO business. The company was also investing in developing the new platform technologies. After having invested in capabilities and capacities expansion and scientists addition at the Hyderabad campus as part of the 'Sai Nxt' initiative, and commissioning the Boston facility, FY2021 would have been a pivotal year for Sai, had it not been for Covid.

In FY2022, aided by the funding boom, a lot of discovery customers approached Sai for its services and this led to a ~40% yoy jump in FY2022 discovery sales for the company. Since then, Sai has expanded its discovery capabilities and improved its capacity utilization as well. Its global scientist staff increased from 617 in FY2022 to 934 in FY2024. Sai also added ~84k sq. ft of lab space and multiple new technical capabilities at Hyderabad. These enhancements enabled Sai to rapidly expand its customer base, who outsourced their integrated drug discovery programs to Sai. The number of such customers increased from 29 in FY2019 to 60+ in FY2024.

Number of customers served for integrated drug discovery programs has been rising over the past 5 years

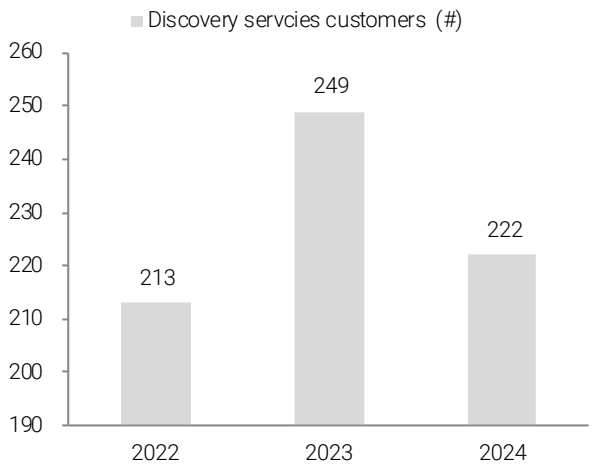
Exhibit 15: Customers served for integrated discovery, March fiscal year-ends, 2019-24 (#)



Source: Company, Kotak Institutional Equities

Slowdown in US biotech funding led to a decline in discovery services customers for Sai in FY2024

Exhibit 16: Total discovery customers, March fiscal year-ends, 2022-24 (#)



Source: Company, Kotak Institutional Equities

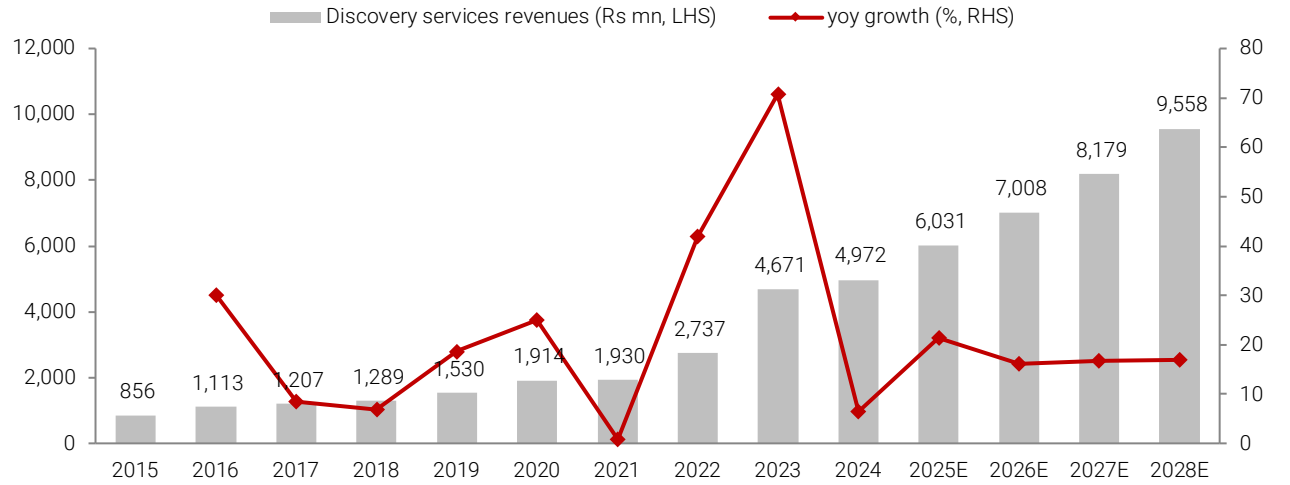
While FY2022 and FY2023 were fine years for Sai's discovery segment, FY2024 turned out to be one of the worst due to the severe crunch in US biotech funding. A lot of emerging small-to-mid-cap biotech firms that availed the services of CRDMOs went out of business or shut down their operations due to lack of funding. Eventually, the drought in the funding environment impacted 2-3 of Sai's existing clients, of which the largest one was generating annual revenues of ~US$6 mn for Sai. We expect a gradual alleviation of the funding environment in FY2026E, which would drive greater outsourcing among such small-to-mid-scale biotech firms.

We bake in a robust ~18% sales CAGR, for Sai's discovery segment, over FY2024-28E

We expect Sai to leverage its front-end scientific presence in Boston, where it provides exploratory biology services to engage with its current and prospective customers. The company's senior scientific staff in India and the US, in collaboration with its business development teams, have been developing tailored go-to-market strategies to meet its clients' specific needs and maximize the impact of its offerings. Sai continues to expand its capabilities in India in terms of physical infrastructure for chemistry, biology and DMPK services, increased technology automation in its processes to improve speed and efficiency. With gradual recovery in the biotech funding environment and easing of federal rates, we expect Sai to benefit hereon. Additionally, Sai intends to deepen engagements with global pharma companies through its technical and execution capabilities. It has initiated actions to leverage its existing relationships with the large pharma companies, which use Sai's CDMO services to cross-sell its discovery services. Accordingly, we bake in a robust ~18% sales CAGR, for Sai's discovery segment, over FY2024-28E.

We forecast a robust ~18% discovery sales CAGR, for Sai, over FY2024-28E

Exhibit 17: Discovery services revenues, March fiscal year-ends, 2015-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

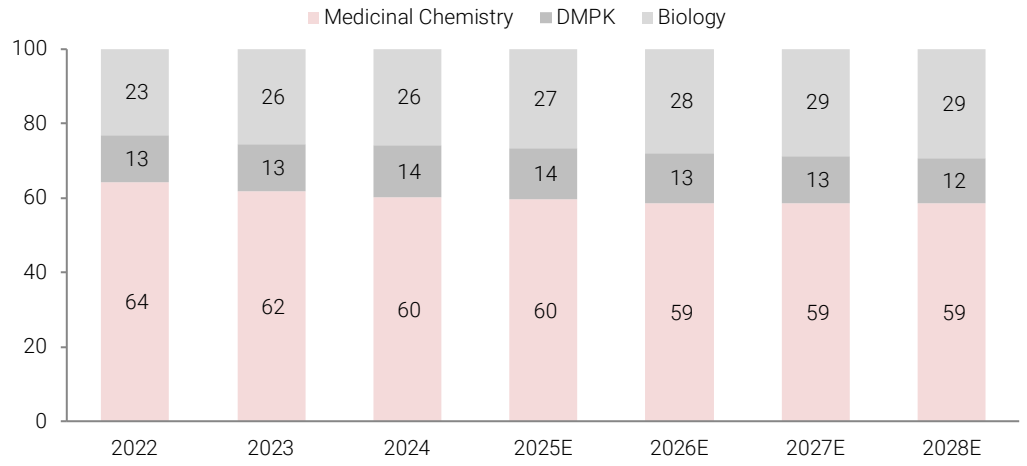
Increasing contribution of biology projects augurs well

We expect the ramp-up of the Boston facility to drive higher discovery sales from biology projects and eventually increase blended realizations for Sai

Sai's Boston facility is mainly geared toward onboarding new multinational clients for larger discovery programs, with a focus on biology. In terms of realizations, Sai earns more in its biology and DMPK projects as compared with medicinal and synthetic chemistry projects. In fact, owing to its strong discovery capabilities, Sai commands a premium pricing for such projects compared with most Indian peers. Most of these projects are charged on an hourly basis and based on the number of scientists allocated. For chemistry projects, we estimate Sai's billing rates are in the range of US$65-75k per annum per scientist. On the other hand, for biology projects, we estimate Sai charges US$85-95k per annum per scientist. We expect the ramp-up of the Boston facility to drive higher discovery sales from biology projects and eventually increase blended realizations for Sai.

We expect biology's contribution to Sai's discovery revenues to increase to ~29% by FY2028E

Exhibit 18: Discovery services sales split by function, March fiscal year-ends, 2022-28E (%)



Source: Company, Kotak Institutional Equities estimates

Sai has a dedicated tie-up with Schrodinger until CY2028E

Sai is one of the few Indian CROs to have a dedicated facility for one of its customers, Schrodinger. The tie-up between the two companies spans over a period of five years. In January 2023, Schrodinger entered into an exclusive collaboration with Sai to establish a specialized integrated drug discovery R&D center within Sai's premises on the Hyderabad campus. Sai had originally deployed a team of 75 members for this project. This facility is currently staffed with a team of ~90 professionals. This demonstrates its ability to serve customers with a comprehensive set of capabilities and long-term commitment by this particular customer. As per the contract, Sai's services include integrated discovery work streams, comprising offerings across medical and synthetic chemistry, process chemistry and in-vitro biology. We highlight that, Sai does not intend to be very aggressive in setting up such dedicated tie-ups.

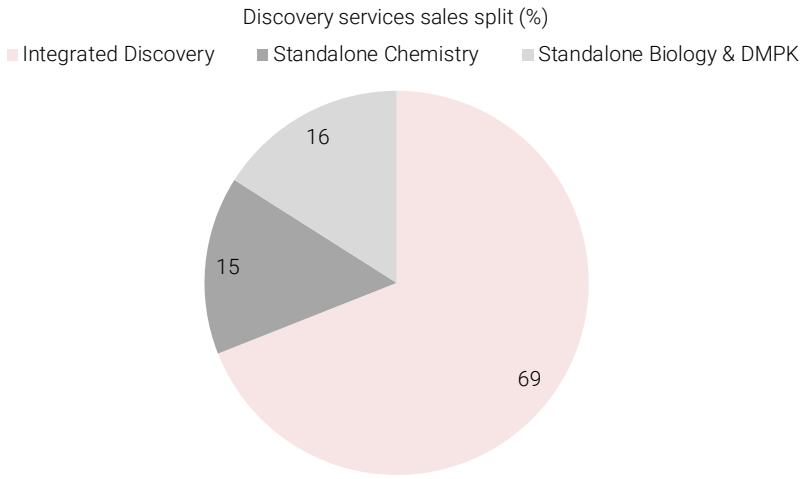
We expect higher traction in integrated projects, with combined chemistry and biology offerings

Sales from integrated projects accounted for ~69% of Sai's FY2024 discovery revenues

Due to its advanced, co-located technical competencies spanning biology, chemistry and DMPK services within its Hyderabad facility, Sai is a preferred partner for 'integrated drug discovery' projects, where all the scientific services are conducted by a single CRO for time and cost efficiencies. The company has biology capabilities across Hyderabad, India, and Boston, US, which drives an increasing share of customers to co-locate a majority of their discovery activities with it. Through its facility in Boston, Sai has developed and transferred 20+ total biology assays and has enabled it to onboard customers for conducting larger discovery programs in India. Sales from such integrated projects accounted for ~69% of Sai's FY2024 discovery revenues. This includes customers who outsourced its discovery programs to Sai on a full-time equivalent (FTE) basis, which is one of Sai's two models for the service fee arrangement. We highlight that this integrated offering is much more meaningful for CRO companies such as Sai, who from the beginning of the initial research phase and move on to the development and manufacturing phases. Being involved from the start allows Sai better control of the development process and guarantees a better success rate. With more clients opting for integrated services, we expect the contribution from integrated projects to inch up in the upcoming years.

As of 1HFY25, integrated discovery projects contributed to ~69% of Sai's discovery revenues

Exhibit 19: Discovery services sales split by project type, March fiscal year-end, 2025E (%)



Source: Company, Kotak Institutional Equities

3

Ramp-up of small molecule commercial manufacturing is key to Sai's success

Sai's CMC segment involves development and manufacturing of HPAPIs and intermediates globally. Having commenced operations predominantly only in FY2013, Sai has since scaled up its CMC segment and it now contributes ~66% of its overall sales. Backed by capacities at its Bidar and Manchester plants, Sai caters to global innovators and biotech firms, offering a broad spectrum of capabilities ranging across oligopeptides, HPAPIs, antibody drug conjugates (ADCs) to CAR-T and more. Its 'follow-the-molecule' strategy enables it to be present across the CDMO supply chain of innovators, right from the start of the molecule lifecycle. Sai's portfolio of products also comprises a rich commercial mix of 50 commercial + late phase products. We expect its growing commercial and late-phase portfolio, backed by Sai's capacity addition plans at Bidar and gradual scale-up at Manchester, to drive a ~16% CMC revenue CAGR, over FY2024-28E.

Development and manufacturing services ramp up to drive non-linear sales uptick

Sai's CMC business involves it providing for the development and scaling up of production of high-quality APIs and intermediates globally. Its manufacturing facilities are equipped with flexible and versatile infrastructure, tailored to fit the smaller volume but more complex chemistry coming out of the development pipelines in recent times. Its development and manufacturing portfolio comprises of 120 products in various stages of pre-clinical, Phase I and Phase II clinical trials. A bulk of its CDMO operations are based out of its flagship intermediates/API manufacturing center at Unit-IV (Bidar).

Sai's expertise in its CDMO operations lies primarily in small molecules and owing to the presence of both chemistry and biology offerings within the same facility, it has a better turnaround time for delivering project requirements

A range of functional offerings underline Sai's CDMO model

Sai's expertise in its CDMO operations lies primarily in small molecules. Owing to the presence of both chemistry and biology offerings within the same facility, Sai has a better turnaround time for delivering project requirements. Backed by a team of scientists and process engineers, Sai has delivered on a diverse set of NCE development programs for customers. Its CDMO operations comprise a variety of functional offerings in complex chemical synthesis, including route scouting, process development and scale-up to commercial scale. It manufactures APIs and intermediates and supplies them to customers globally.

- **Process research, route development and optimization:** During the development stage, Sai develops efficient, scalable and cost-effective manufacturing processes for drug candidates and produces drug substances or their precursors for customers to use in preparing samples for pre-clinical studies and various phases of clinical trials. The company's specialized capabilities in complex chemistry and analytical method development enable it to support virtually every type of small molecule drug candidates. It has specialized capabilities in developing advanced crystallization processes, which are enhanced by real-time monitoring through process analytical technology tools. Sai's operations are supported by analytical R&D laboratories, which are equipped with the latest technology to ensure high-quality results using multiple chromatographic, spectroscopic and solid-state analytical techniques. The company has a dedicated process engineering team that focuses on critical process parameters, batch cycle time and scale-up efficiency. This team works independently of the production function to guarantee successful 'transfer of technology' from the laboratory to the plant.

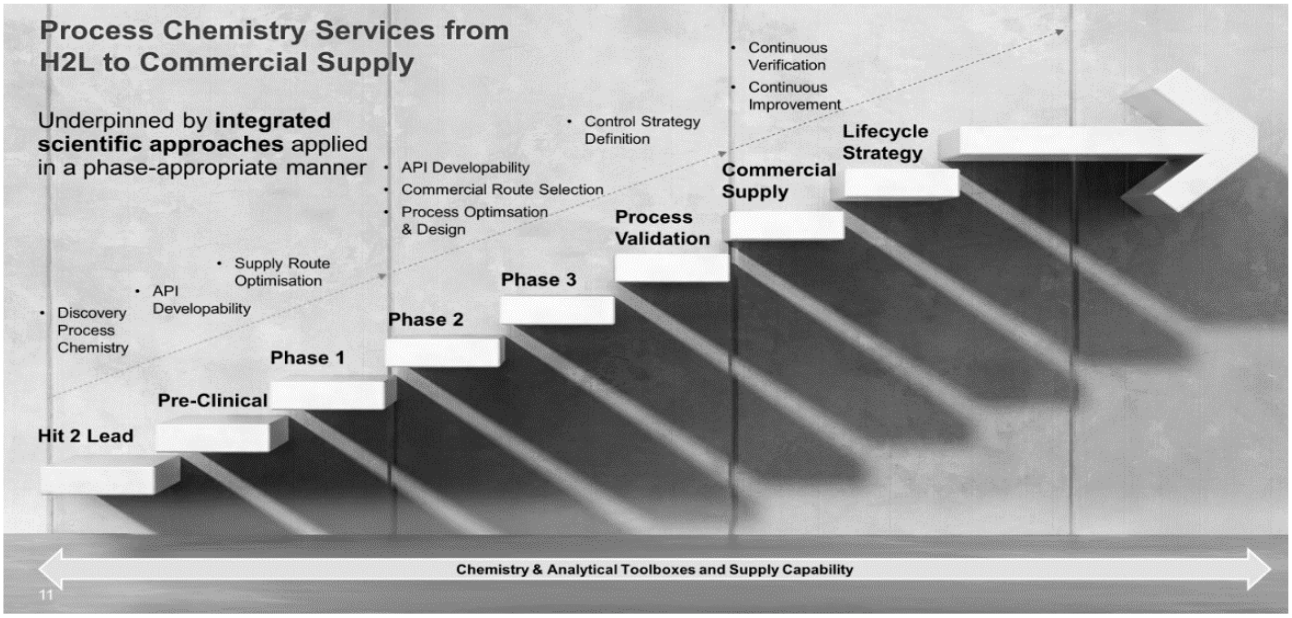
- **Early-phase material supply:** Sai's customers require APIs or intermediates for use in pre-clinical, Phase I or Phase II clinical trials. Toward this, the chemical processes developed in the laboratory by the company's scientists are replicated at a higher scale in its medium-scale pilot plant or large-scale manufacturing plant through a 'technology transfer' process. The company then undertakes a fee for service (purchase order) based on projects to produce and deliver specified quantities of materials as required by its customers.

- **Late-phase material supply, process validation and NDA filing support:** As drug candidates successfully progress from early phases to late phases of clinical trials, the quantity and quality of material required increases, as does the probability of regulatory approval and commercialization. At this time, manufacturing processes are expected to be finalized and submitted to regulatory authorities for approval and subsequent launch. Manufacturing processes often need to be 'validated', that is, the manufacturing plants need to demonstrate their ability to repeatably and reproducibly produce and analyze APIs and intermediates of specified quality at commercial scale. Regulatory agencies such as the US FDA may inspect the company's manufacturing facilities prior to approving drugs for commercialization.

- **Commercial material supply and lifecycle management:** Once Sai has demonstrated the manufacturing process for a late-phase or a commercial product in its commercial manufacturing plant, the company is ready to supply materials to customers on an ongoing basis. The company works based on purchase orders and long-term supply agreements with customers to manufacture and deliver APIs or intermediates in line with their requirements over multi-year periods. The company's R&D, manufacturing and supply chain teams continue to work on improving production efficiencies and procurement costs of these products as part of their lifecycle management.

Sai provides an array of services, ranging from developing scalable manufacturing processes to commercial supplies

Exhibit 20: List of functional offerings under the CDMO platform



Source: Company, Kotak Institutional Equities

Sai's CDMO segment offers its clients a wide variety of services and capabilities

Sai's CDMO capabilities allow it to meet a wide range of client demands, ranging from conventional small molecules to HPAPIs, peptide APIs, contrast agents to building blocks of oligonucleotides and other RNA-based therapeutics

Sai's capabilities within CDMO include standalone and integrated services for innovator pharma and biotech companies located in the US, UK, EU, Japan and EMs. It has successfully completed programs across therapeutic areas such as oncology, CNS disorders, inflammation, antivirals and rare diseases. In order to provide these services, Sai utilizes advanced production technologies such as flow chemistry, column chromatography, lyophilization, cryogenics and high-pressure reactions, solid state-characterization and structure elucidation. These capabilities allow it to meet a wide range of client demands, ranging from conventional small molecules to HPAPIs, peptide APIs, contrast agents to building blocks of oligonucleotides and other RNA-based therapeutics.

Below we list some of Sai's differentiated capabilities, all of which present growing opportunities in the global CDMO space:

- **HPAPIs:** HPAPIs are compounds that are known for their exceptional potency and biological activity, even when administered at very low doses. The demand for high-potency drugs has increased in recent years due to advances in clinical research and pharmacology, particularly in oncology. In the CRDMO space, these molecules are increasingly garnering market share, given their high efficacies and relatively lower complexities of manufacturing compared with large molecules. As of CY2024, the global HPAPI market stood at ~US$25+ bn, signaling ample opportunities for CRDMO players to scale up. Sai provides development and manufacturing services of HPAPIs at its Bidar facility.

- **Amidites:** A phosphoramidite, also known as an amidite, is a chemical compound used in the synthesis of oligonucleotides, which are short chains of nucleotides. Oligonucleotides consist of a nucleoside base (adenine, guanine, cytosine, thymine or uracil) attached to a phosphoramidite group, which enables covalent bonding with the growing chain of nucleotides during the synthesis process. These oligonucleotides are, in turn, used to treat various respiratory diseases such as asthma and COPD. Given the growing popularity of oligonucleotides, amidites are a crucial growth opportunity for biotech firms. Sai offers end-to-end services for amidites, spanning research, discovery, development and manufacturing. It has a dedicated facility for manufacturing amidites, with six reactors having capacities ranging from 0.5 kL to 1.5 kL. Owing to the growing global demand for oligonucleotides, Sai intends to set up another amidites block at its Bidar facility.

- **RNA therapeutics:** RNA therapeutics are a relatively newer class of medications based on ribonucleic acid (RNA). While these have been prevalent in clinical trials since the 1990s, recently they have come into frequent usage, given the better understanding of RNA functions and their crucial roles in acting on a variety of targets such as proteins and transcripts, thereby increasing the scope for therapeutic targets. Most RNA-based medications have been approved for clinical use, while others are still under investigation or preclinical trials. Currently, ~30% of RNA-based therapies are used to treat cardiometabolic disorders, followed by oncology and CNS. Given Sai's presence in oncology and CNS therapies, it has been working aggressively on further enhancing its RNA-based research capabilities.

- **Antibody drug conjugates (ADCs):** ADCs are a combination of mAbs and a cytotoxic payload, which is not only effective in terms of treating cancer, but also specific in its action on carcinogenic cells. The payload, which is a high-potent drug, is connected to the mAb using a linker. This is a fast-growing space and the ADC market is expected to grow to ~US$50 bn by CY2030E. Sai is involved in the discovery and manufacturing processes for ADC linkers and payloads.

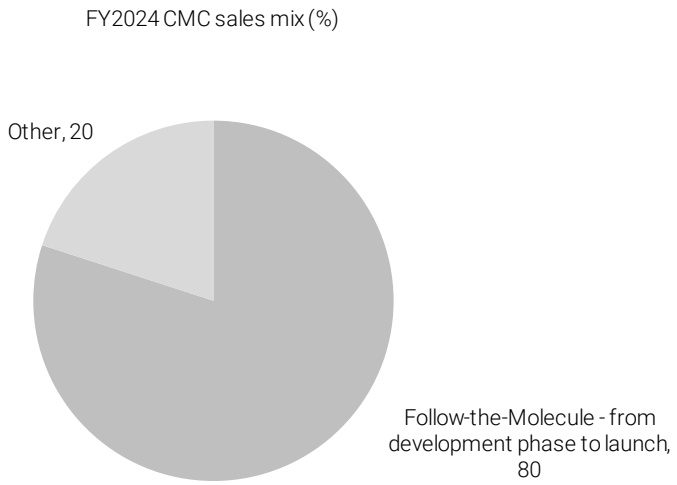
Higher commercial mix supported by capacity expansions to drive robust CDMO sales growth

In FY2024, Sai generated ~80% of its CMC revenues through the 'follow-the-molecule' approach

Sai provides end-to-end development and manufacturing services, covering the entire value chain for intermediates and APIs. Strong technical and R&D infrastructure, availability of skilled scientific talent and quality manufacturing with a clean track record of regulatory compliance are some of the key success factors for a CDMO and Sai offers strong value propositions to customers in this regard. The company provides comprehensive and sophisticated small molecule technology offerings through its skilled scientific talent and state-of-the-art laboratory infrastructure.

In FY2024, Sai generated ~80% of its CMC revenues through the 'follow-the-molecule' approach

Exhibit 21: CMC sales mix, March fiscal year-end, 2024 (%)



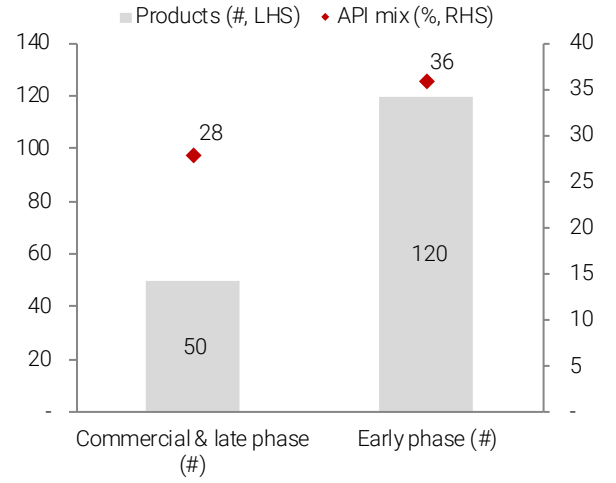
Source: Company, Kotak Institutional Equities

Healthy mix of commercial and under-development molecules at the intermediate and API stages

As on date, Sai's commercial portfolio comprises 38 products used in the production of 28 commercial APIs, including seven blockbusters (drugs with annual sales of US$1+ bn) and 12 products used in the production of 11 APIs, which were either undergoing or had completed Phase III clinical trials. The company has a portfolio of 120 products in various stages of development across pre-clinical (45+), Phase I (35+) and Phase II (30+) clinical trial stages. While a majority of these products are intermediates, we highlight that ~28% of the combined total of 50 late-phase (commercial, Phase III and post-Phase III products) and ~36% of the 120 early-phase products in Sai's portfolio are APIs. We highlight that 16 of these 50 late-phase products were tech-transferred to Sai's manufacturing facilities from another facility due to supply chain diversification, thereby highlighting the China+1 opportunity.

As of September 2024, 28% of Sai's late-phase and commercial products were APIs

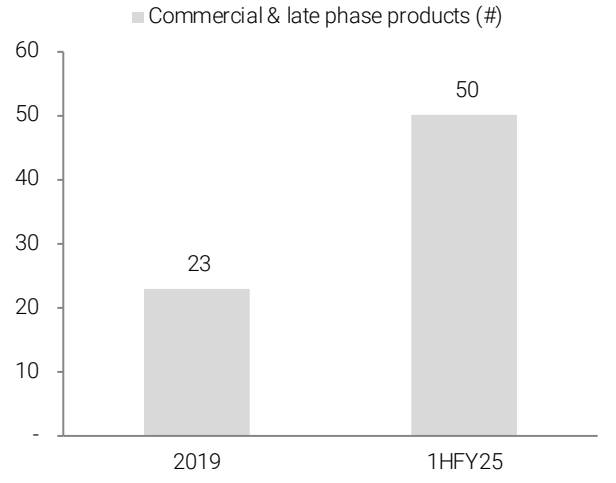
Exhibit 22: Sai's product portfolio, March fiscal year-end, 2025E (#, %)



Source: Company, Kotak Institutional Equities

Number of commercial and late-phase molecules has grown more than ~2X over the past five years

Exhibit 23: Sai's commercial and late-phase molecules, March fiscal year-ends, 2019-2025E (#)

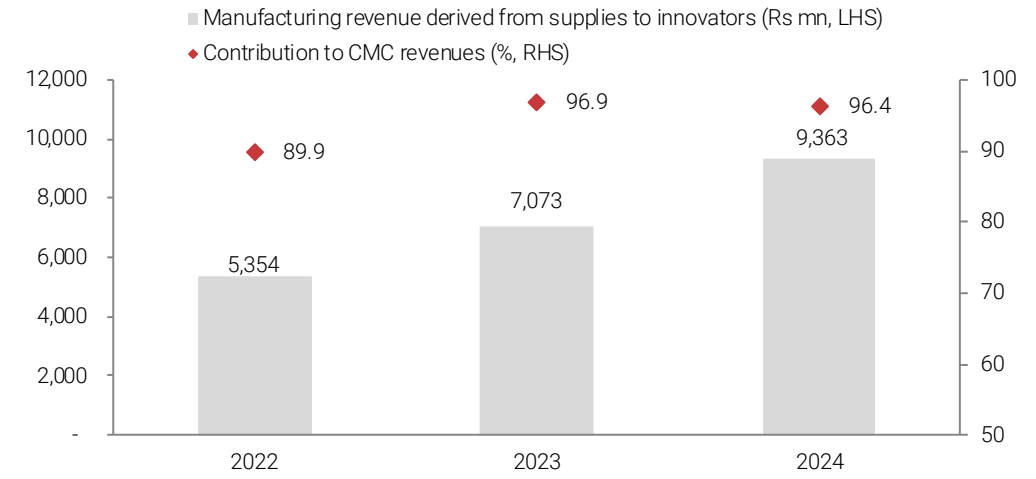


Source: Company, Kotak Institutional Equities

As on date, Sai's commercial portfolio comprises 38 products used in the production of 28 commercial APIs

In FY2024, Sai derived ~96% of its CMC revenues from innovator supplies

Exhibit 24: Innovator supplies and sales contribution to CMC, March fiscal year-ends, 2022-24 (Rs mn, %)



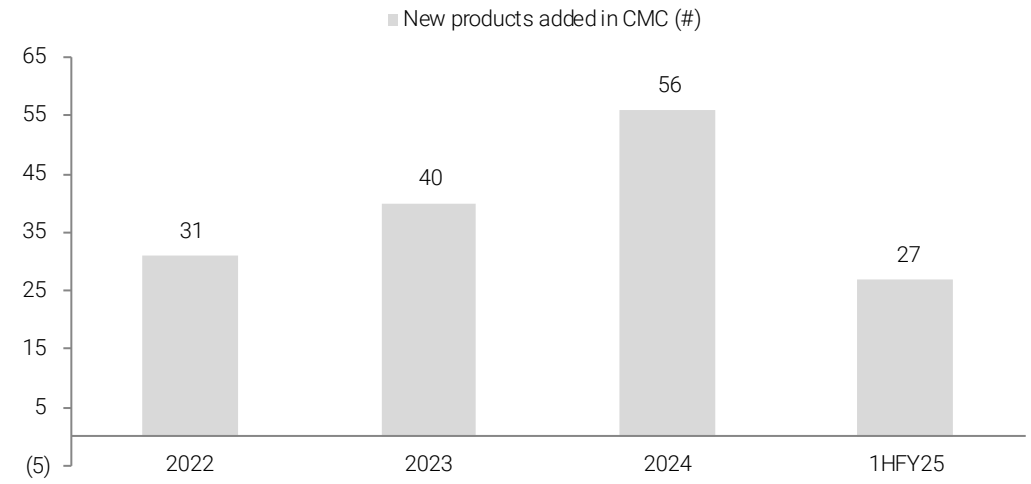
Source: Company, Kotak Institutional Equities

Incremental molecules going commercial to drive better per molecule sales

As highlighted earlier, within its portfolio, Sai has a total of 50 late-phase and commercial products. These products contributed ~60% to Sai's CMC revenues in FY2024. The balance ~40% is attributable to early-phase products, mainly in the pre-clinical, Phase I and Phase II stages. Although Sai's revenue per product for the late-phase and commercial molecules (~US$1.5 mn) is relatively lower than peers, we expect this contribution to only increase as more Phase II and Phase III products move on to Phase III and commercial stages, respectively. Higher contribution from late-phase molecules should also lead to higher revenue per client, which is currently pretty low (lower than US$1 mn) for Sai, compared with Indian peers.

Driven by healthy demand, Sai has added several new products to its CMC portfolio over recent years

Exhibit 25: New products added in CMC, March fiscal year-ends, 2022-25E (%)



Source: Company, Kotak Institutional Equities

Among Sai's existing portfolio, the largest product is Bilastine. It is an antihistamine medication used to treat hives (urticaria), allergic rhinitis and itchy inflamed eyes (allergic conjunctivitis) caused by an allergy. The innovator for this product is Faes Farma and its primary patent was set to expire in CY2036E. However, the company lost the patent litigation and since then there have been generic entries for Bilastine. Faes Farma markets products in the EU and other DMs such as Canada, Australia, Germany and Canada. Since the entry of generic competition, Bilastine has been subject to price cuts. However, the parent brand still enjoys significant brand equity. In fact, Faes Farma also launched an extension 'Bilaxten Colirio' and an orodispersible version in CY2023. The molecule has been able to continue growing strongly in a number of markets, with notable examples such as Turkey (+172% yoy in CY2023), Canada (+30% yoy in CY2023) and Japan, where the market share now exceeds ~20% and sales have grown 5%+ yoy in EUR terms, despite the aforementioned price cut imposed by authorities and a sharp depreciation of the yen. Global Bilastine sales stood at ~EUR120 mn in CY2023, compared with ~EUR110 mn in CY2022. In FY2024, we estimate Sai generated annual revenues of ~US$14 mn from the sale of Bilastine and we expect this to only increase in the upcoming years.

Apart from existing products like Bilastine, Sai also has a strong pipeline of products, comprising late-stage and commercial intermediates, which should drive an uptick in its CMC revenues

Bilastine is currently not approved in the US, primarily due to the termination of its development and commercialization by Inspire Pharma in CY2008. Although it is approved in 120+ countries, including those in the EU, Canada and Australia, the US FDA approval process has not been completed. In CY2021, Hikma entered into an agreement to begin the US FDA approval process for Bilastine, but as of now, it remains unapproved in the US, as Hikma also announced its decision to terminate the Bilastine licensing agreement with Faes Farma in the US. According to Faes Farma, this decision was influenced by the lengthening of the registration process with the US FDA and financial reasons due to the investments required (by Hikma) during this process.

Apart from existing products like Bilastine, Sai also has a strong pipeline of products, comprising late-stage and commercial intermediates, which should drive an uptick in its CMC revenues. Within its pipeline, there are 3-4 key products, which we would keenly monitor:

- **Product 1 (commercial):** For this product, Sai is the secondary supplier for the innovator and had started supplies in 2HFY25. It has a purchase order in place for the next 18 months and expects to get additional orders once the current one is completed. We expect a ramp-up of this product in FY2026-27E.
- **Products 2 & 3 (Phase III):** There are two intermediates, with the same end-API, having a PDUFA date scheduled soon. Once Sai starts commercial supplies for these intermediates, annual revenues from these two intermediates are likely to cross the US$8-10 mn mark for Sai.
- **Product 4 (commercial):** While this molecule was already commercial, the innovator had temporarily paused selling the product. However, as the innovator plans to resume sales, we believe that Sai could accrue additional sales of US$6-8 mn over FY2026-27E.

Pharma companies typically engage more than one manufacturer closer to commercialization or post-commercialization of the drug to mitigate the risk associated with relying on a single supplier. We highlight that owing to its strong capabilities in small molecule manufacturing, Sai remains well-poised to be selected as an alternative supplier for such projects. Hence, any such new project pertaining to commercial supplies of a molecule would add to Sai's existing portfolio and drive a further uptick in its CMC revenues.

Apart from Bidar, Sai carries out certain specific manufacturing steps at its Manchester facility

Sai's CDMO platform is supported by its advanced R&D capabilities at its two manufacturing facilities. It deploys sophisticated infrastructure and equipment, with a high degree of containment, automation and connectivity. While Sai's primary manufacturing unit is in Bidar, it had also set up a unit at Manchester for the purpose of onboarding international clients.

While Sai's primary manufacturing unit is in Bidar, it had also set up a unit at Manchester for the purpose of onboarding international clients

Furthermore, Sai's facilities have received several regulatory approvals and are subject to stringent quality standards and specifications according to customers. The company's manufacturing sites feature adaptable and multifaceted setups, including large-scale reactors for high-volume products and some production areas specifically designed to accommodate modern drug development pipelines that produce relatively smaller quantities but involve more intricate chemical processes.

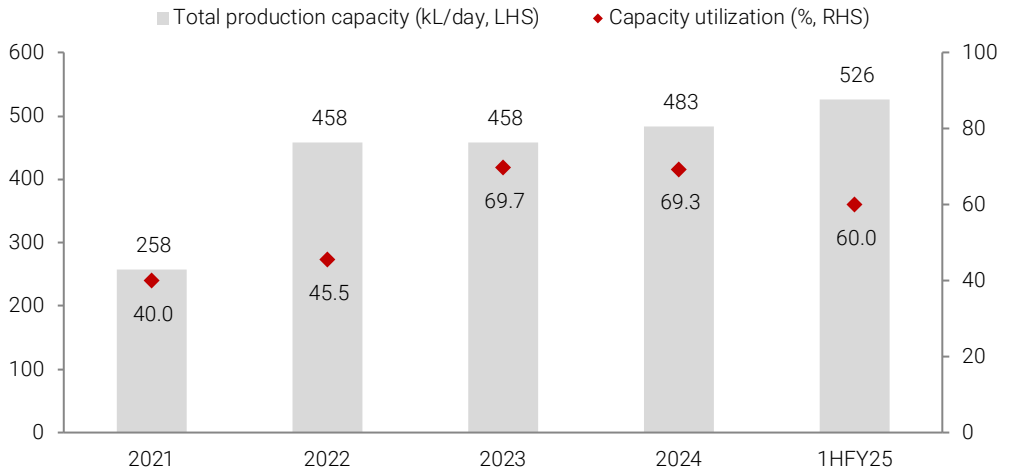
- **Bidar, India (the 'Unit IV Bidar facility'):** This serves as Sai's primary manufacturing facility and comprises 425 kL+ of reactor capacity and a team of ~600 scientists. The manufacturing blocks in Bidar are designed as multi-purpose production trains, which allow for quick changes across multiple production processes. This facility has received approvals pursuant to audits conducted by the US FDA, PMDA Japan and COFEPRIS Mexico, and it has undergone 250+ audits by customers. The facility has 11 production blocks, an amidite block, a high-potency block and a quality control lab. Sai intends to add another production block with 200 kL+ capacity at Bidar. The Bidar facility also has an extended unit, 'Unit VI', which has five reactors with volumes ranging from 0.25-2.00 kL and is used for manufacturing oncology APIs.

- **Manchester, UK (the 'Manchester facility'):** In FY2020, Sai had set up a pilot kilo lab, a GMP kilo lab and a process R&D lab at Alderley Park, Manchester, UK, for its CMC business. The facility is situated on a land parcel of ~20k sq. ft and serves as a 'Centre of Excellence (CoE)' for process and analytical development for Sai's expanding list of global clients, adding value to its NCE small molecule development programs. With a team of 60+ scientists, Sai provides development, scale-up and technology transfer to its India-based sites. In fact, this site has enabled Sai to develop and tech transfer 11+ manufacturing processes to its plants in India. Sai has also been garnering higher interest from UK and EU customers due to its offshore presence. Currently, this site generates annual revenues of US$8-9 mn. We note that although the Manchester facility is running at sub-optimal utilizations, Sai has the potential to easily ramp up its operations here without adding any further scientists or lab capacity.

In addition to the aforementioned facilities, Sai also has an intermediate manufacturing plant ('Unit III Bollaram facility') with 44 kL of reactor capacity in Bollaram near Hyderabad. The HPAPI R&D lab within the Hyderabad facility (Unit II), in conjunction with the HPAPI block in the Bidar facility (Unit IV) and the block at Unit VI, enables Sai to cater to the high-value and fast-growing oncology API market.

Sai has more than doubled its production capacity over the past four years

Exhibit 26: Sai's total production capacity, March fiscal year-ends, 2021-25E (kL/day, %)



Source: Company, Kotak Institutional Equities

We bake in ~16% CMC revenue CAGR, over FY2024-28E

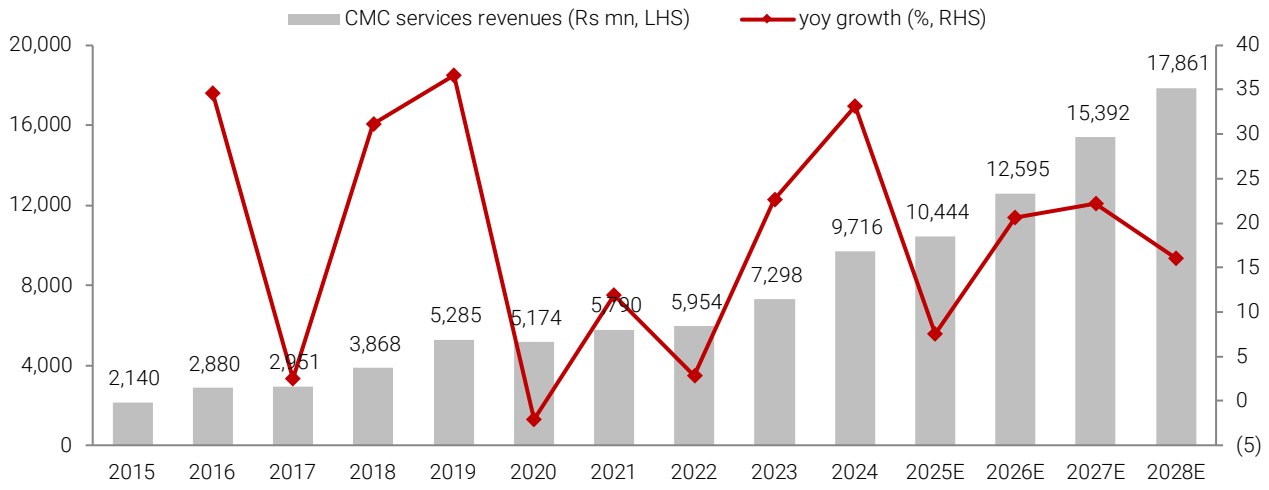
Apart from a growing commercial and late-phase product mix, we expect Sai's capacity addition plans at Bidar and a gradual scale-up at Manchester to drive robust ~16% CMC revenue CAGR over FY2024-28E

Sai expects to continue its 'follow-the-molecule' strategy through the MSAs with eight pharma companies that provide it with an ongoing flow of early-phase products. In addition, Sai plans to grow its commercial portfolio by continuing to support the advancement of the early-stage products in its portfolio to the late phase and eventual commercialization. Sai also continues to expand its pipeline of products through its business development team located in close proximity to customers in the US, the UK, Europe and Japan. Within its business development team, Sai employs ~20 people in sales and marketing, with a lot of these members having worked as scientists earlier. Moreover, 40% of this team comprises PhDs.

The company plans to focus on strengthening its position as an alternative supplier for clients, which are looking to add outsourcing sites in Asia and directly add late-phase and commercial products through technology transfer. We expect commercialization of new molecules in Sai's portfolio over FY2026-27E to drive growth for the CMC segment and factor in incremental cumulative sales of ~US$40 mn+ from new commercial supplies in FY2026/27E. Apart from a growing commercial and late-phase product mix, we expect Sai's capacity addition plans at Bidar and a gradual scale-up at Manchester to drive robust ~16% CMC revenue CAGR over FY2024-28E.

Sai offers pre-clinical to Phase III and commercial manufacturing solutions in small molecules

Exhibit 27: CMC business revenues, March fiscal year-end, 2015-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

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Key risks: Inability to scale up commercial footprint and high biotech reliance

Sai's low revenue per client and low revenue per molecule indicate that thus far, the company is yet to achieve meaningful commercial success. While we expect that to change, it is also critical for the funding environment to improve to drive meaningful growth, given Sai's high reliance on biotech firms. Other key risks include concentration of manufacturing operations at Bidar and continued margin drag from overseas facilities.

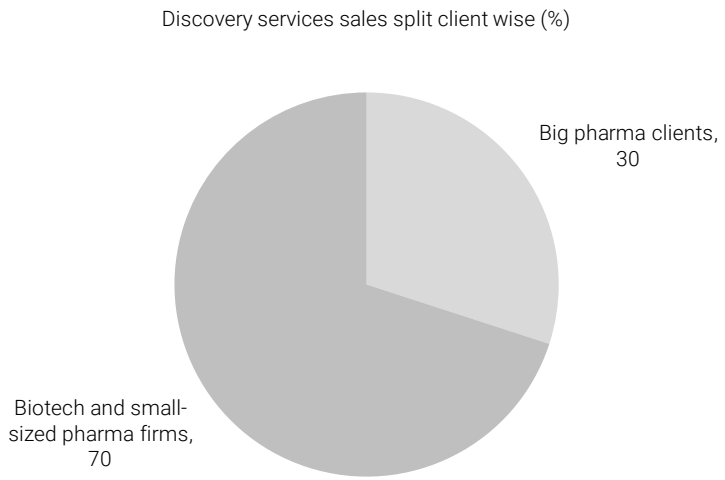
Sai generates ~70% of discovery and ~30% of CMC revenues from biotech clients

Although Sai caters to 18 out of top-25 big pharma customers, ~70% of its discovery and ~30% of its CMC sales are reliant on biotech and small-sized pharma firms, which are not fully scaled up and typically rely on PE/VC investments to run their operations. The investments also allow these firms to outsource clinical trials and other development and manufacturing processes to CRDMO players such as Sai. We highlight that the funding environment has been muted in FY2023 and FY2024. Hence, owing to its high biotech sales mix, Sai's discovery business felt the brunt of the impact, as it lost out on some clients, including a key biotech customer, which led to a loss of revenues of ~Rs220 mn. In fact, in FY2024, Sai's discovery revenues grew at a meager ~3% yoy in US$ terms. Apart from recovery in the funding environment, the other risk around biotech clients for Sai is the uncertainty regarding getting onboarded as a supplier once a clinical-stage biotech company is acquired. In such cases, the decision of retaining the existing suppliers of the acquired entity lies solely with the acquirer.

Eventually, slower R&D spends by big pharma and particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding could pose a downside risk to our sales growth assumptions for Sai's discovery services segment

Sai has a large reliance on biotech and small-sized pharma companies for discovery services

Exhibit 28: Discovery services—revenue mix, March fiscal year-end, 2024 (%)



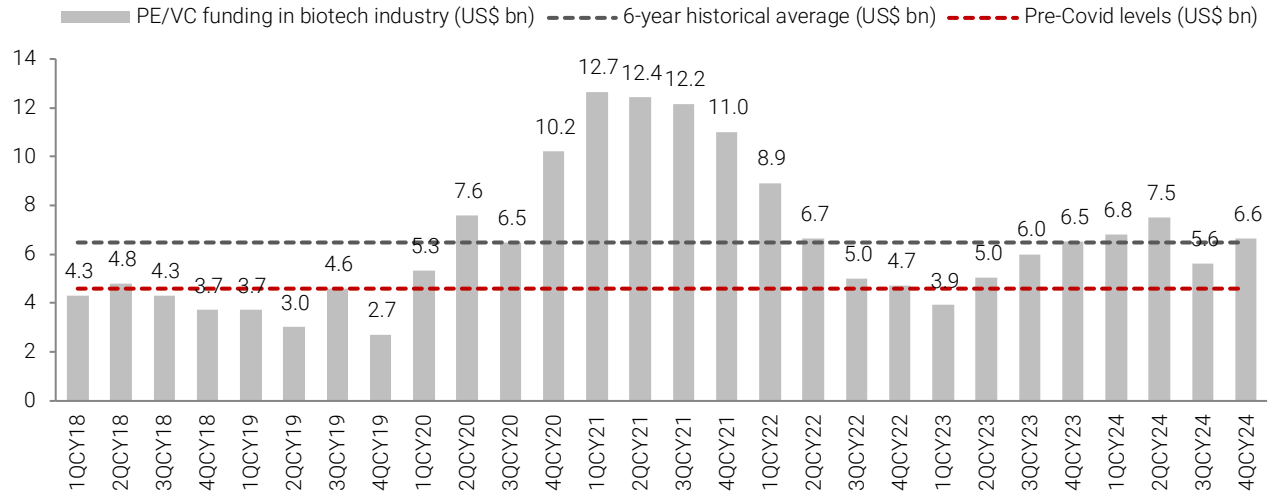
Source: Company, Kotak Institutional Equities

Slower-than-expected pickup in funding environment can impact discovery growth

It is estimated that small and mid-sized innovator companies in the US incur an annual cash burn of US$50-70 bn. To fund their R&D and clinical programs, these companies primarily rely on PE/VC funding. The PE/VC funding environment for the global biotech industry was subdued in FY2023 and FY2024, resulting in slowdown in incoming projects for global CROs. However, over the past one year, there has been a pickup in the funding environment and the annual value of deals in the biotech space is at a much higher level compared to the pre-Covid average. We note that, while the quantum of funding was at its peak in CY2021 and fell by ~50% in CY2022, over the past few quarters, there has been some recovery in the funding environment (crossed the 6-year historical average mark), thereby driving greater outsourcing by innovator pharma companies. Nevertheless, as per our discussions with various companies, the buoyancy in funding is still missing. This could result in slower R&D spends by big pharma and particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding to further their R&D programs. In addition, over the past year, Chinese CROs have reduced FTE pricing. Eventually, this could pose a downside risk to our sales growth assumptions for Sai's discovery services segment (KIE: ~18% sales CAGR, over FY2024-28E).

The global biotech funding environment has registered an uptick in the recent quarters; buoyancy is still missing though

Exhibit 29: PE/VC funding in biotech industry, December calendar year-ends, 2018-24 (US$ bn)



Source: Bay Bridge Bio, S&P Global, Global Data, Pharma Intelligence Center, Frost & Sullivan, Kotak Institutional Equities

Sai's manufacturing operations are highly concentrated in Bidar

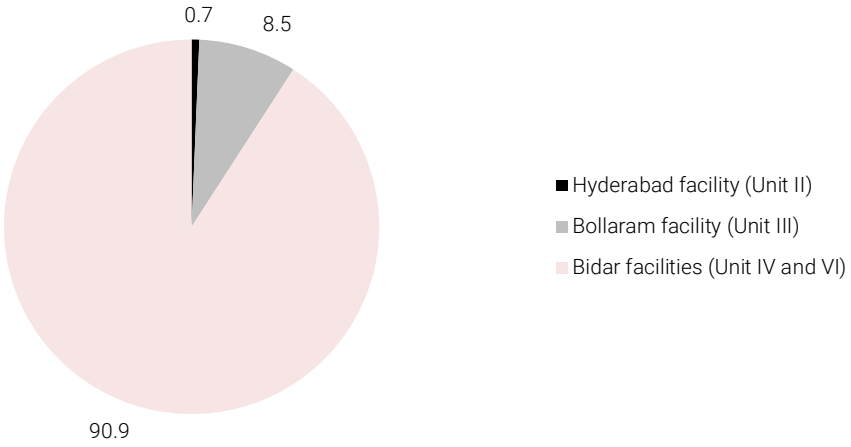
Sai's manufacturing setup is primarily concentrated in one facility in Bidar, Karnataka, and this concentration increases the company's vulnerability to any operational disruptions

Sai's manufacturing setup is primarily concentrated in one facility in Bidar, Karnataka. This concentration increases the company's vulnerability to any operational disruptions. Moreover, its facilities are subject to periodic inspections by regulatory authorities. Failure to comply with applicable regulations can result in fines, penalties, or a temporary shutdown of its manufacturing operations. To date, Bidar has had a clean compliance track record, due to which Sai has not yet experienced any interruptions.

In April 2024, the US FDA conducted an audit at Sai's Hyderabad facility, wherein the plant got one observation regarding the Laboratory Information Management System and associated verification procedures, which the company resolved successfully. Additionally, in June 2024, the US FDA conducted an audit at Sai's Bidar facility. The findings included one observation regarding adherence to standard operating procedures, which was remedied, after which, the US FDA issued an EIR**.** We note that any disruptions at Bidar could, in turn, adversely affect Sai's business prospects.

As of September-2024, ~91% of Sai's total capacity of ~526 kL is at Bidar

Exhibit 30: Capacity concentration, March fiscal year-end, 2025E (%)



Source: Company, Kotak Institutional Equities

Failure in scaling up overseas facilities may impact EBITDA margins

Sai had commenced its Boston and Manchester facilities in CY2020, wherein Sai employs ~100+ scientists in total. Although these facilities act as a feeder for Sai's Indian facilities, driving growth through new projects, these facilities are running at lower utilizations, leading to losses and an eventual drag on Sai's EBITDA margins. In our view, losses from these facilities had an impact of ~150-200 bps on Sai's EBITDA margins over FY2022-24. As these facilities scale up and generate incremental sales, we believe there lies ample scope for the operating leverage to drive overall EBITDA margin expansion.

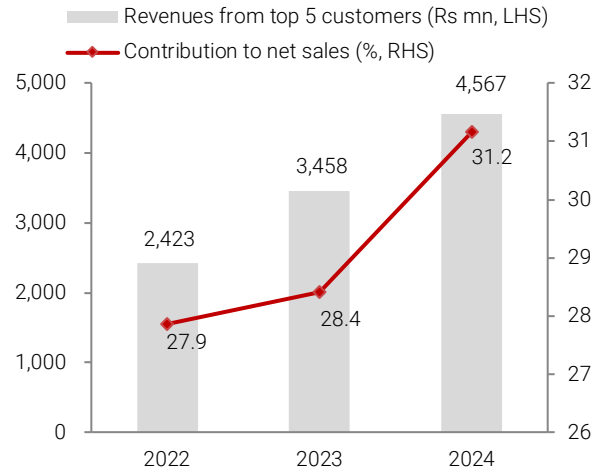
Sai generated ~31% of its overall FY2024 revenues from top-5 clients

Compared with most other CRDMO companies, Sai has a relatively lower customer concentration, with its top-5 clients contributing to ~31% of its overall FY2024 revenues

Compared with most other CRDMO companies, Sai has a relatively lower customer concentration. In FY2024, Sai's top-5 clients contributed to ~31% of its overall revenues. If there is any significant cutback in spending for Sai's outsourcing services by its key customers due to industry consolidation, deterioration of their financial conditions, R&D budget cuts, pending regulatory approvals or other reasons and the company is unable to obtain suitable work orders of a comparable size and terms in substitution, its business, financial condition and results of operations may be materially and adversely affected. Specifically with respect to Sai's discovery services segment, while its revenue is not contingent upon the completion of specific milestones, the company's performance is determined by its productivity, which is measured in terms of the quantity and quality of its output. On the other hand, within Sai's CMC business vertical, revenue is tied to the successful completion of pre-agreed specifications with customers. The company's failure to achieve such desired quantity or quality in a timely manner for its discovery business customers or pre-agreed specifications required by its CMC business customers may negatively impact its financial condition and results of operations. We highlight that although revenue contribution from the top-5 customers has increased in FY2024 compared with FY2022, revenue contribution from the largest customer has declined over the same period.

Revenues from top-5 customers amounted to ~31% of total sales for Sai in FY2024

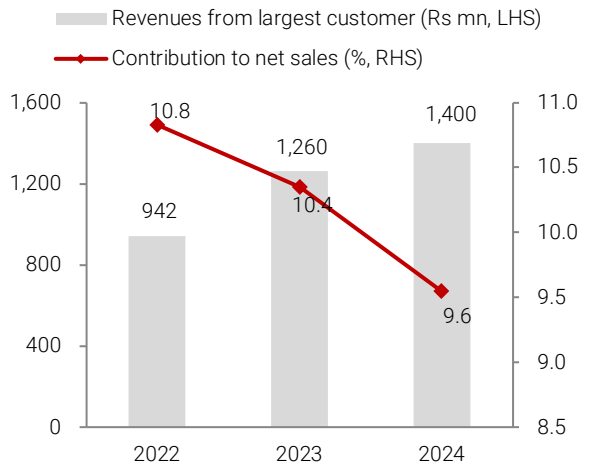
Exhibit 31: Revenues from top-5 customers, March fiscal year-ends, 2022-24 (Rs mn, %)



Source: Company, Kotak Institutional Equities

Revenues from the largest customer amounted to ~10% of total sales for Sai in FY2024

Exhibit 32: Revenues from largest customer, March fiscal year-ends, 2022-24 (Rs mn, %)



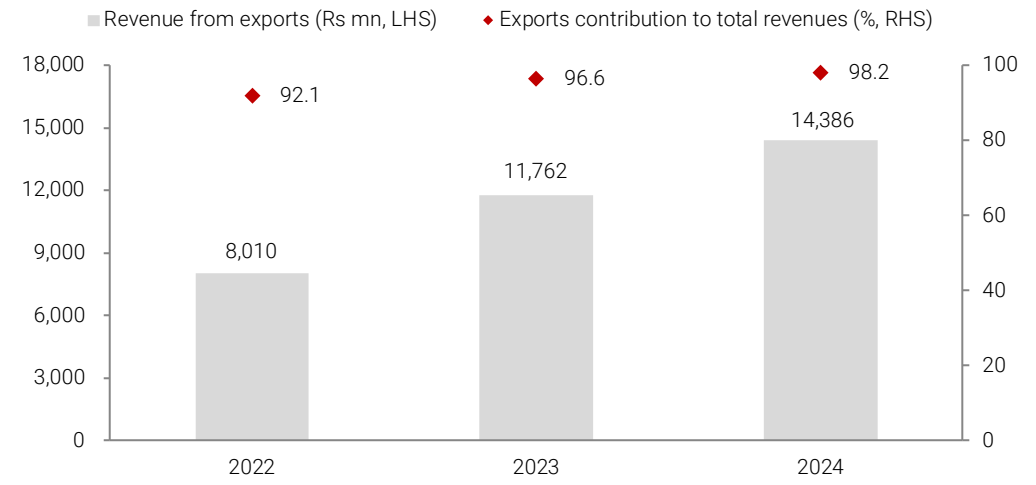
Source: Company, Kotak Institutional Equities

Unfavorable currency movements may impact Sai's operations

Although Sai's reporting currency is INR, it transacts a significant portion of its business in several other currencies, primarily US$. In FY2024, Sai generated ~98% of its revenues from exports, and therefore, unfavorable currency movements may affect Sai's operational performance.

In FY2024, Sai generated ~98% of its revenues from exports

Exhibit 33: Sai's export sales, March fiscal year-ends, 2022-24 (Rs mn, %)



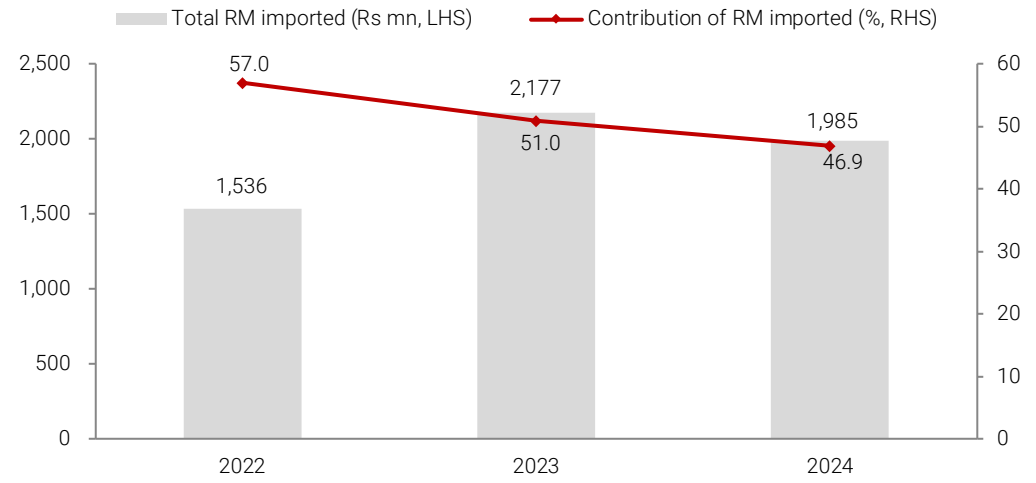
Source: Company, Kotak Institutional Equities

Additionally, Sai also procures a significant portion of its raw materials from outside India and, as a result, incurs such costs in currencies other than the INR, primarily in US$. Therefore, INR depreciation may impact Sai's COGS and affect operational profitability. Although the sales recorded in US$ might provide partial natural hedge, unfavorable currency may still have an impact.

Typically, Sai hedges a maximum of 70% of its net foreign exchange exposure for a period of up to one year, which is revised upwards or downwards, as appropriate, on a rolling basis

Sai imported 46%+ of its raw materials, over FY2022-24

Exhibit 34: Sai's RM imports, March fiscal year-ends, 2022-24 (Rs mn, %)



Source: Company, Kotak Institutional Equities

Typically, Sai hedges a maximum of 70% of its net foreign exchange exposure for a period of up to one year, which is revised upwards or downwards, as appropriate, on a rolling basis. Most of its current outstanding exposure is hedged through forward contracts and currency swaps.

5

Financials: We bake in a robust 38% EPS CAGR over FY2024-28E

We expect Sai to deliver robust 17%, 29% and 38% overall sales, EBITDA and EPS CAGRs, respectively, over FY2024-28E, driven primarily by commercialization of new molecules in the CMC business, along with a pickup in discovery services revenues. EBITDA margins expanded from 13.9% in FY2022 to 19.5% in FY2024 due to sales growth and therefore, operating leverage; however, margins still remain relatively subdued due to lower utilizations at overseas facilities and recent investments in scientific staff. We expect EBITDA margins to improve hereon, led by higher sales leading to operating leverage, along with higher utilizations at facilities and forecast ~960 bps EBITDA margin expansion over FY2024-28E. While we do not expect Sai to generate FCF over FY2025-28E owing to high capex, we expect return ratios for Sai to improve and forecast 12.3% RoAE and 11.8% RoIC in FY2028E.

We build in ~17% overall revenue CAGR for Sai over FY2024-28E

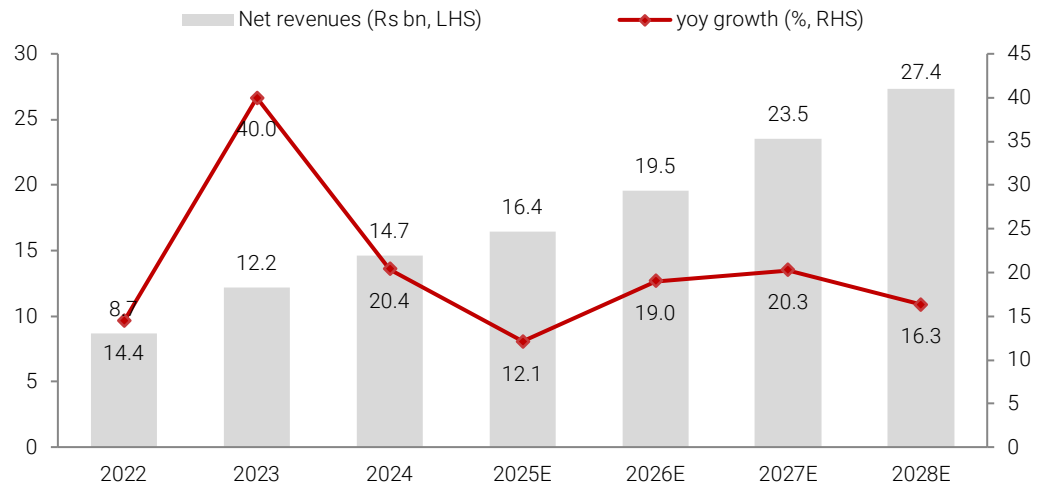
Sai's consolidated revenues have reported a ~16% CAGR over FY2014-24, led by mid-teens growth in its discovery and CMC segments

Sai's consolidated revenues have reported a ~16% CAGR over FY2014-24, led by mid-teens growth in its discovery and CMC segments. Although Sai started its operations as a CRO in CY1999, led by its strategy of focusing on scaling up its CMC segment over CY2014-18, Sai defocused on discovery services, which led to slower growth over the same period. Over this period, Sai commercialized six molecules. Later, as Sai had to shift its discovery facility in Pune to Hyderabad, it impacted its discovery growth until CY2022. There have also been other challenges including loss of few key clients due to a subdued biotech funding environment. With an improving funding environment and favorable industry tailwinds, we expect a pick-up in discovery services revenues. We expect improved utilizations of its Hyderabad and Boston facilities, a higher biology sales mix and continued scientist additions to drive a robust ~18% discovery sales CAGR, for Sai, over FY2024-28E.

With a strong focus on scaling up its CMC services segment, Sai reported a good sales growth over FY2013-19. Within its CMC services, till CY2018, Sai commercialized six molecules. Over FY2022-24, within CMC services, growth was led by early-phase revenues, which reported a sales CAGR of 35%, along with a 24% sales CAGR in the late phase and commercial revenues over the same period. We expect commercialization of new molecules over FY2026-28E to drive growth for CMC services and factor in incremental annual revenues of ~US$40 mn from new commercial supplies in FY2026/27E. Accordingly, we forecast ~16% sales CAGR for CMC services over FY2024-28E.

We build in ~17% overall sales CAGR for Sai over FY2024-28E

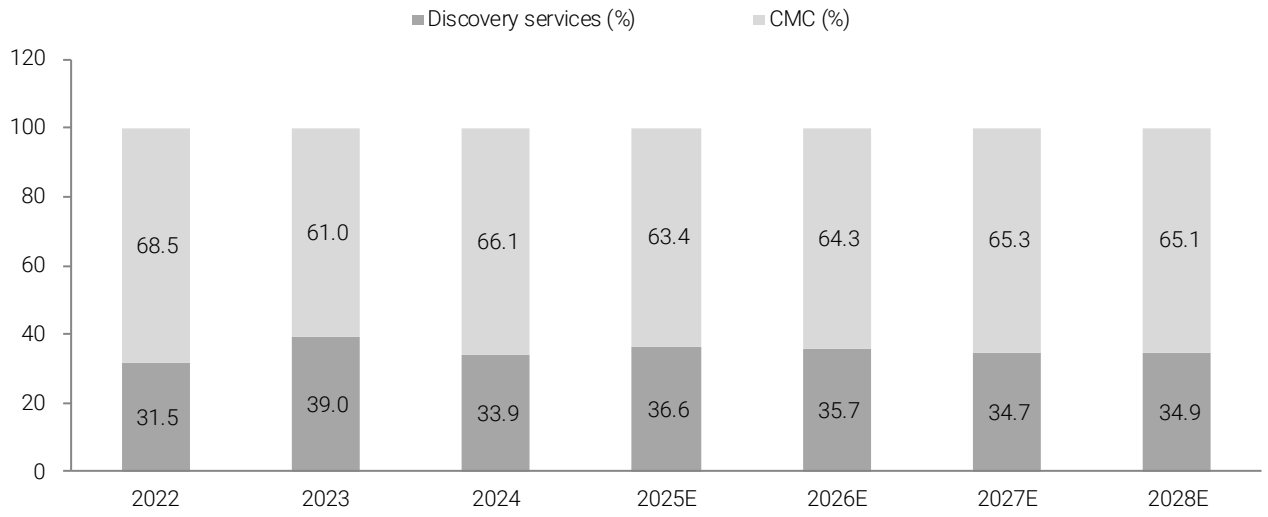
Exhibit 35: Overall revenues, March fiscal year-ends, 2022-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect Sai's sales contribution from CMC services to be at ~63-65% over FY2025-28E

Exhibit 36: Business mix, March fiscal year-ends, 2022-28E (%)



Source: Company, Kotak Institutional Equities estimates

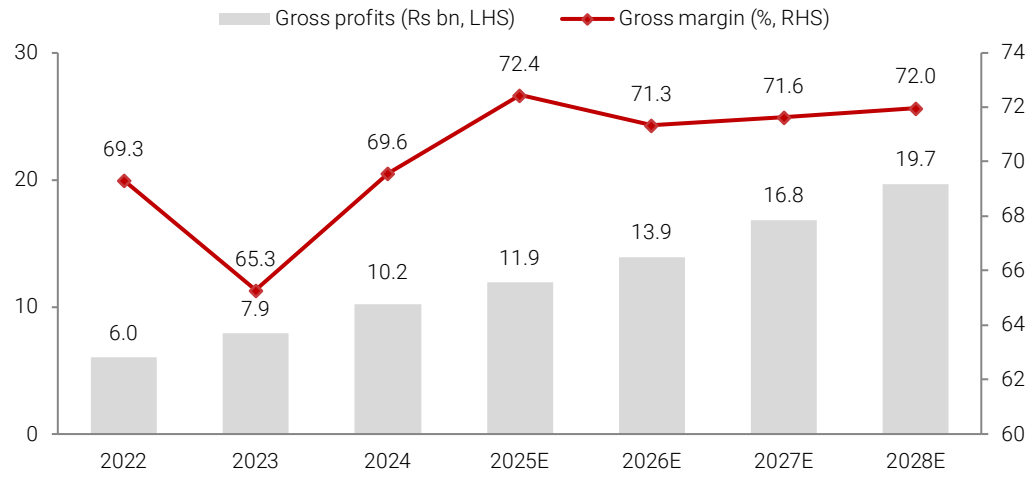
We expect EBITDA margins to improve hereon, led by higher utilizations at facilities and forecast ~960 bps EBITDA margin expansion, over FY2024-28E

We expect operating leverage to drive EBITDA margin expansion of ~960 bps over FY2024-28E

Although on a low base, EBITDA margins expanded from 13.9% in FY2022 to 19.5% in FY2024 on account of sales growth and therefore, operating leverage. However, margins still remain subdued compared with Sai's peers due to lower utilizations at facilities, recent investments in scientific staff and a few one-time costs. In our view, as revenues scale up on the back of recent investments in scientific staff and capacity addition, Sai will benefit from economies of scale, thereby deriving operating leverage. Accordingly, we expect EBITDA margins to improve hereon, led by higher utilizations at facilities and forecast ~960 bps EBITDA margin expansion, over FY2024-28E.

We expect a ~240 bps gross margin expansion, over FY2024-28E

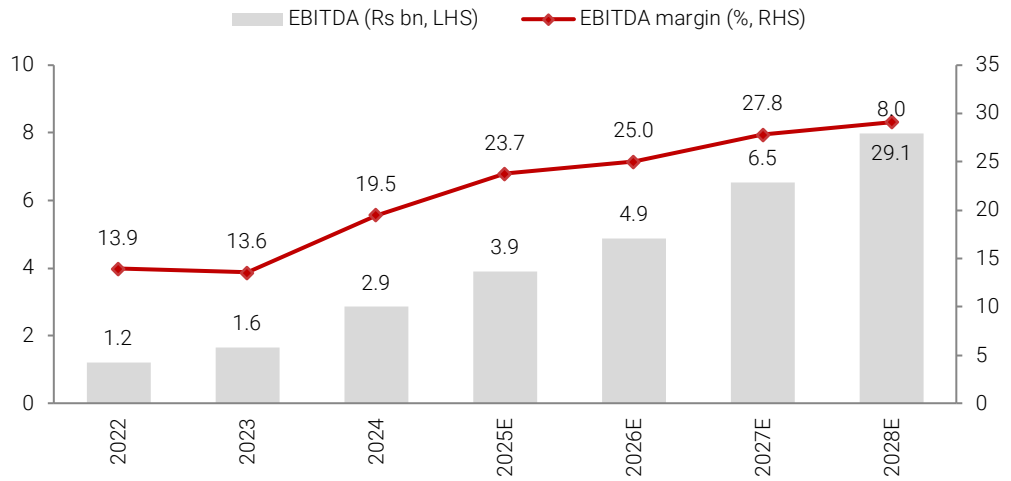
Exhibit 37: Overall gross profits, March fiscal year-ends, 2022-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect overall EBITDA margins for Sai to improve to 29.1% in FY2028E

Exhibit 38: Overall EBITDA, March fiscal year-ends, 2022-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

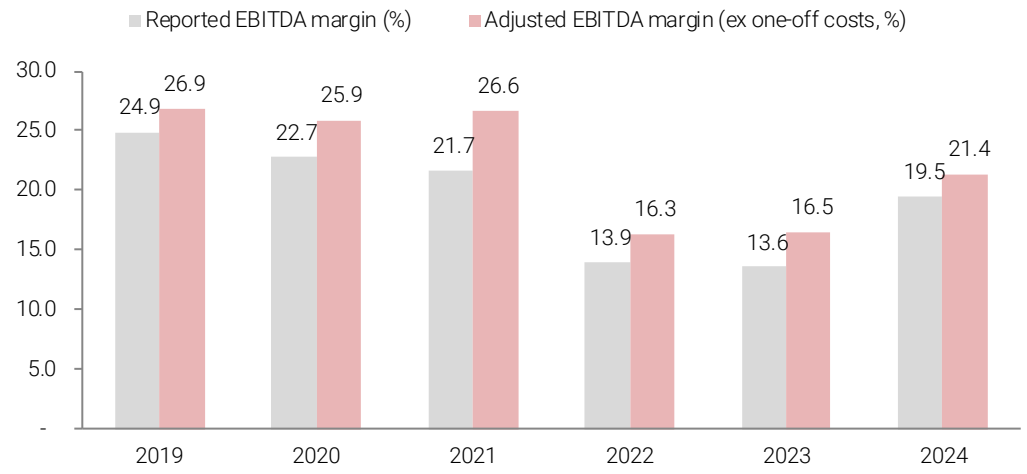
Sai's EBITDA margins had been impacted by a few one-offs, over FY2022-24

The transition from Pune to Hyderabad led to incremental costs, as Sai had to hire extra people, along with incurring costs of running centers at the same time, which impacted Sai's EBITDA margins in FY2020

A few years back, Sai took a major decision to consolidate its discovery services offerings in Hyderabad. Although Pune was a larger site than Hyderabad, Sai was not able to get space for expansion in Pune. As Sai wanted to expand its discovery services offering, it shifted its Pune facility to Hyderabad, where it carried out the expansion of its existing facility. This decision was also supported by clients who were facing connectivity issues, pertaining to the Pune facility. This transition from Pune to Hyderabad led to incremental costs, as Sai had to hire extra people, along with incurring costs of running centers at the same time, which impacted Sai's EBITDA margins in FY2020. There were also certain one-time legal expenses incurred by the company in FY2024.

In our view, Sai's adjusted EBITDA margins (excluding one-time costs) stood at ~21.4% in FY2024

Exhibit 39: Sai's reported and adjusted EBITDA margins, March fiscal year-ends, 2019-24 (%)



Source: Company, Kotak Institutional Equities estimates

Sai's overseas facilities have led to a drag on EBITDA margins over FY2020-24

Sai commenced operations at its Boston and Manchester facilities in CY2020, wherein Sai employs ~100+ scientists. Although these facilities act as a feeder for Sai's Indian facilities, driving growth through new projects, these facilities are running at lower utilizations, leading to losses and an eventual drag on Sai's EBITDA margins. In our view, losses from these facilities had an impact of ~150-200 bps on Sai's EBITDA margins over FY2022-24.

Historically, Sai's bottom line has remained subdued due to its subscale operations relative to its investments in infrastructure and staff

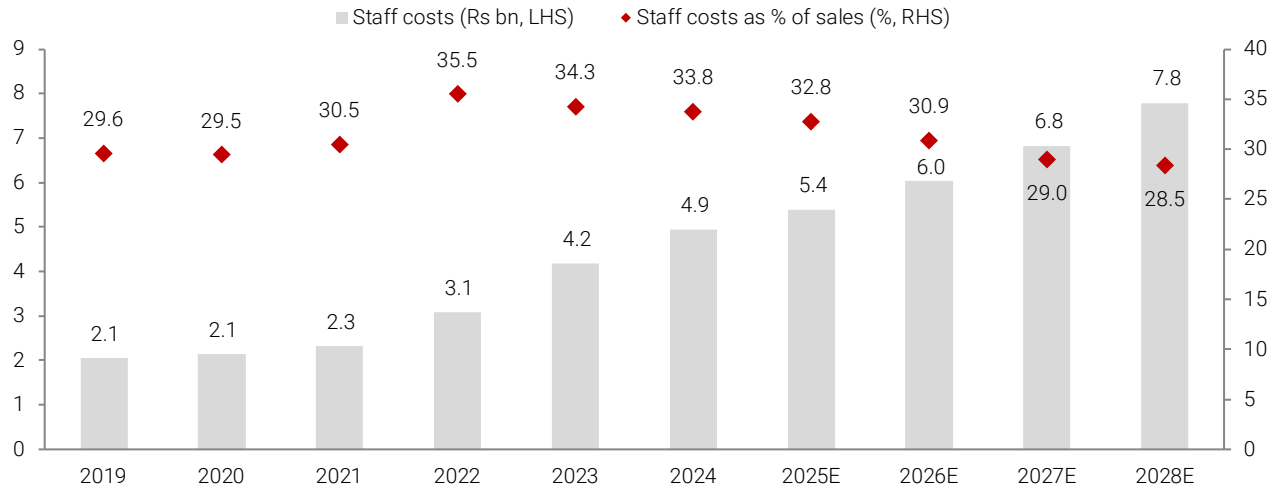
As these facilities scale up and generate incremental sales, we believe there lies ample scope for operating leverage to drive EBITDA margin expansion for Sai. Accordingly, we factor in higher sales and asset turns from these facilities over FY2025-28E. Overall, we bake in ~24/25/28/29% EBITDA margins for Sai in FY2025/26/27/28E, led by higher sales leading to operating leverage, along with higher utilizations across facilities and forecast ~960 bps EBITDA margin expansion, over FY2024-28E.

On a low base, we expect Sai to report robust 38% EPS CAGR, over FY2024-28E

Historically, Sai's bottom line has remained subdued due to its subscale operations relative to its investments in infrastructure and staff. This is evident from the high employee costs for Sai, particularly over FY2022-24, as it added staff across its discovery and CMC segments.

As sales pick up, we expect Sai to start reaping benefits from its investments in recent years

Exhibit 40: Staff costs and staff costs as a percentage of sales over the years, March fiscal year-ends, 2019-28E (Rs bn, %)



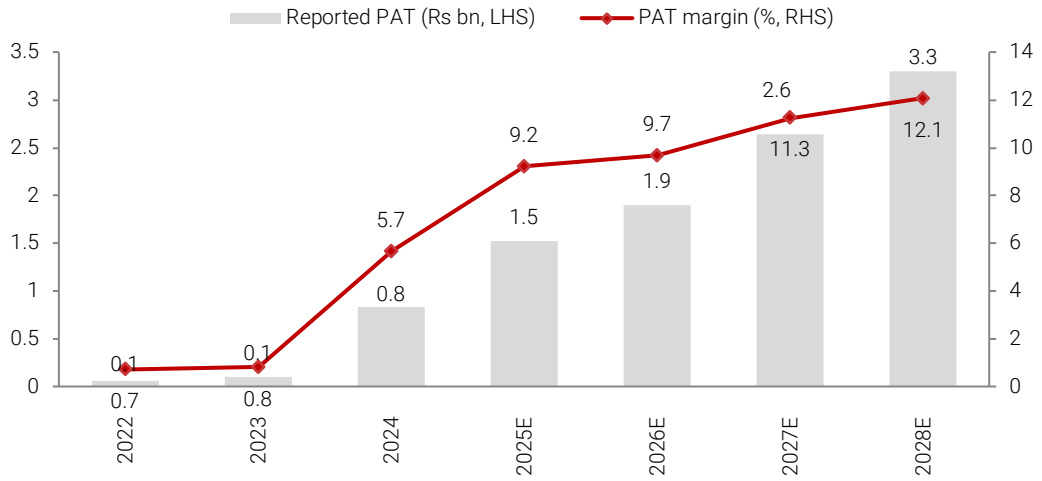
Source: Company, Kotak Institutional Equities estimates

Further exacerbated by finance costs, Sai reported PAT margins of ~6% in FY2024. However, as sales pick up, margins should improve, as seen in 9MFY25, wherein Sai reported PAT margins of 7.3% (+470 bps yoy). This is despite the inherent seasonality in the business, wherein EBITDA/PAT contribution is highly concentrated in 2H.

As sales grow and Sai starts to reap benefits from its investments in recent years, we expect significant improvement in Sai's profitability. Accordingly, we forecast ~38% EPS CAGR, for Sai, over FY2024-28E.

We forecast a robust ~41% PAT CAGR for Sai over FY2024-28E

Exhibit 41: Adjusted PAT, March fiscal year-ends, 2022-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

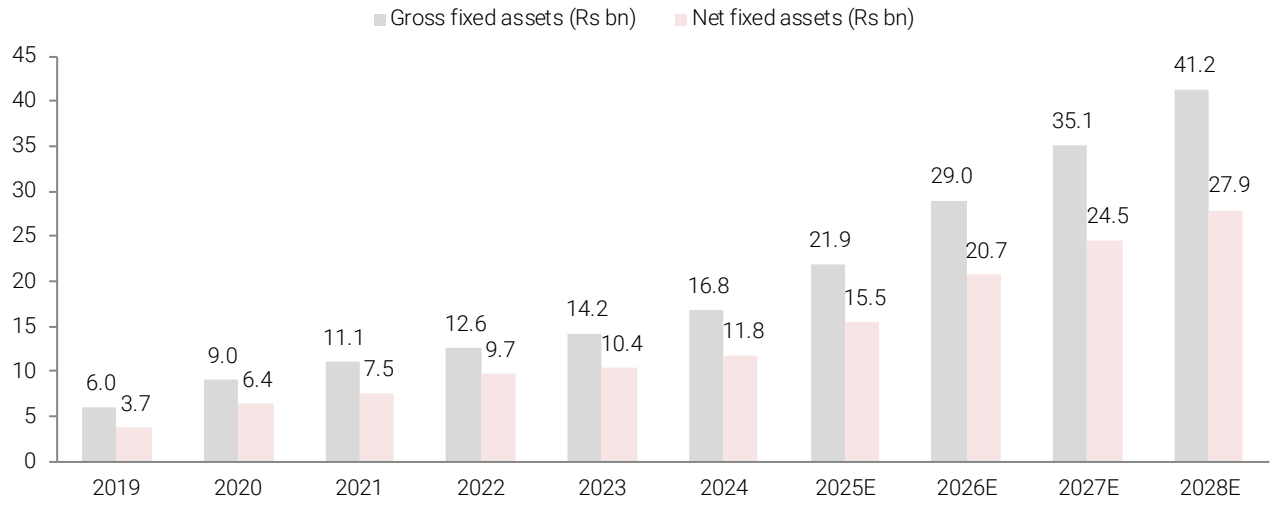
Sai has incurred cumulative capex of Rs11 bn, over FY2020-24 for expanding its capacities and capabilities across its offerings

Further capex to take a toll on cash generation

Sai generated Rs2.6 bn of OCF in FY2024, which grew at ~20% yoy, with EBITDA-OCF conversion of ~92%. We note that Sai has incurred cumulative capex of Rs11 bn, over FY2020-24 for expanding its capacities and capabilities across its offerings. Over the past five years, Sai has added more than 400 scientists at its Hyderabad R&D center and drug discovery segment, increased reactor volume capacity in Bidar by 70%+ along with the addition of a new high-potency facility and a new API manufacturing block, expanded capacity and added personnel at Manchester, and has added new platforms at its Boston biologics facility. These investments in capacities and platforms led to a significant increase in the asset base, as Sai's gross fixed assets quadrupled over FY2018-24.

Driven by investments across offerings, Sai's gross fixed assets have grown ~3X over FY2018-24

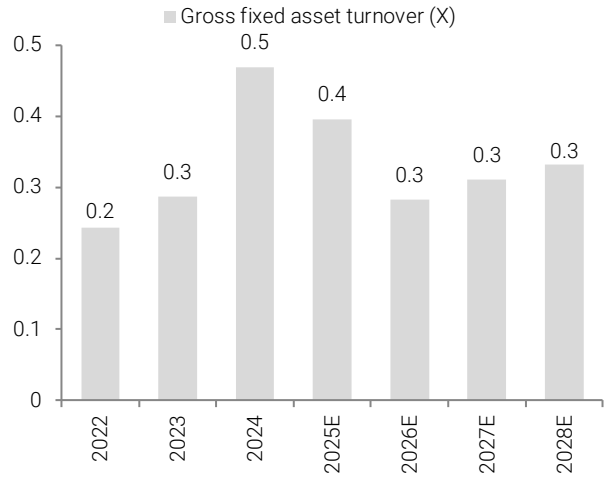
Exhibit 42: Gross and net fixed assets, March fiscal year-ends, 2019-28E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Sai – gross fixed asset turnover

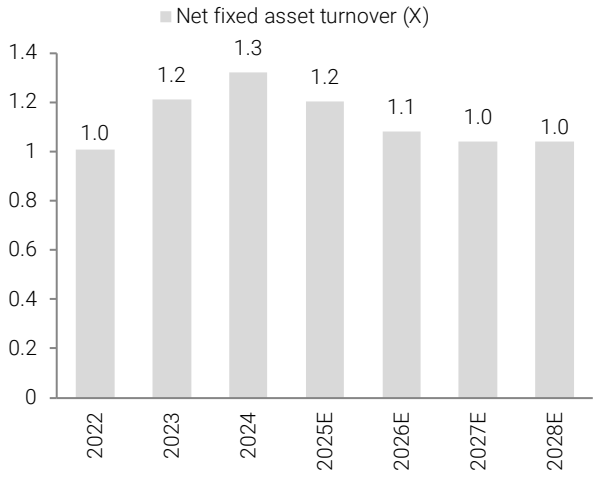
Exhibit 43: March fiscal year-ends, 2022-28E (X)



Source: Company, Kotak Institutional Equities estimates

Sai – net fixed asset turnover

Exhibit 44: March fiscal year-ends, 2022-28E (X)

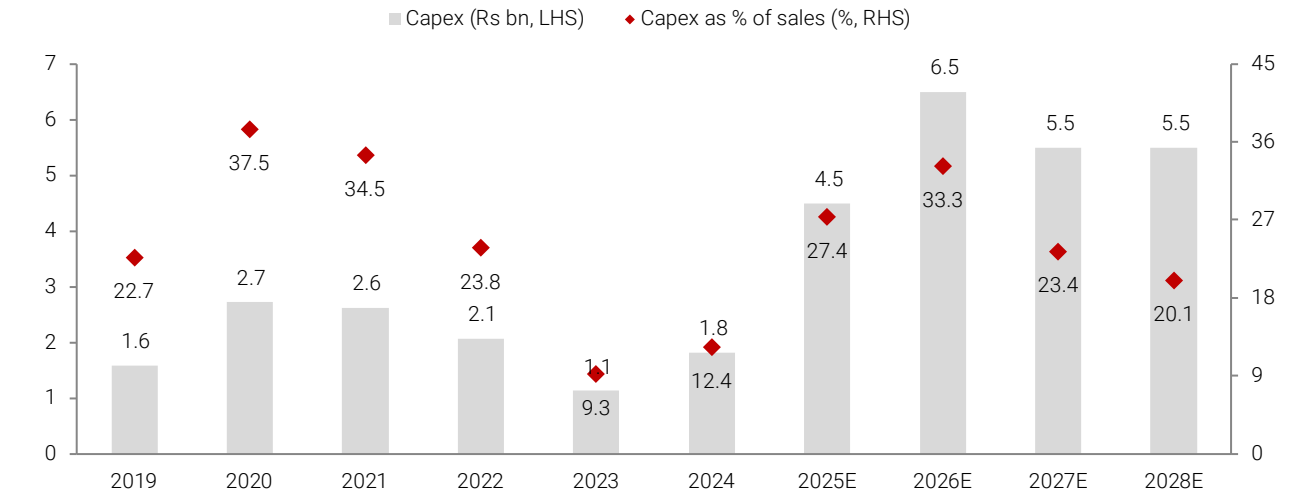


Source: Company, Kotak Institutional Equities estimates

Based on incoming demand, Sai plans to expand its manufacturing capacity in Bidar by ~200kL and plans to incur cumulative capex of ~Rs16-17 bn over the next three years. Hence, we bake in capex of Rs4.5/6.5/5.5 bn in FY2025/26/27E for Sai. Accordingly, we do not expect Sai to generate meaningful FCF over FY2025-28E, despite healthy growth in EBITDA.

We expect Sai's capex intensity to increase hereon

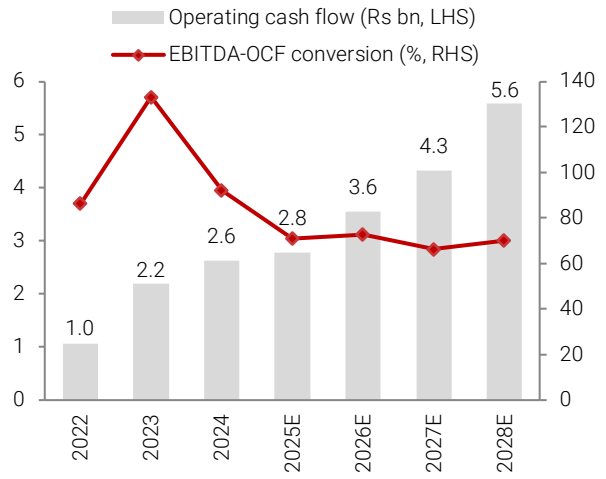
Exhibit 45: Capex over the years, March fiscal year-ends, 2019-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

Sai – operating cash flow

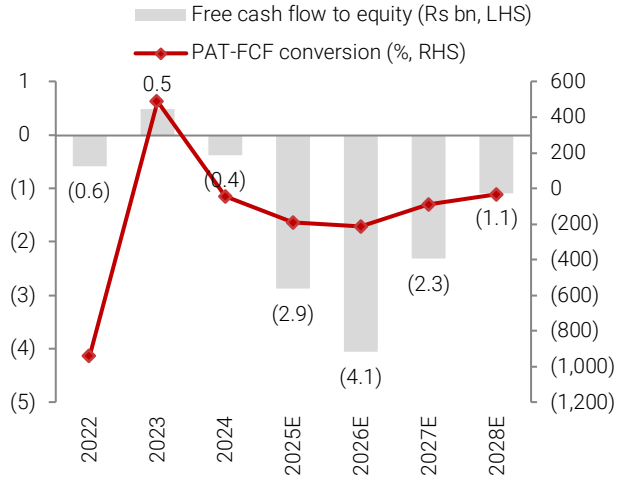
Exhibit 46: March fiscal year-ends, 2022-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

Sai – free cash flow to equity

Exhibit 47: March fiscal year-ends, 2022-28E (Rs bn, %)

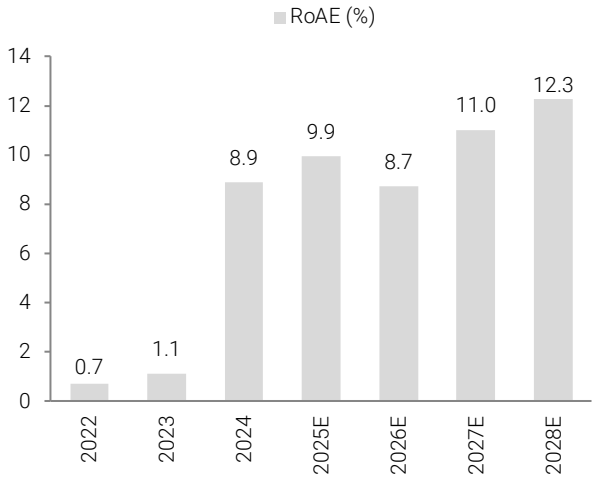


Source: Company, Kotak Institutional Equities estimates

However, as sales pick up, resulting in improvement in operating margins, we expect Sai to deliver healthy return ratios over the medium term and forecast 12.3% RoAE and 11.8% RoIC in FY2028E. We do not bake in any improvement in Sai's net fixed asset turnover compared with FY2024 levels of 1.3X, owing to continued elevated capex.

We forecast 12.3% RoAE by FY2028E

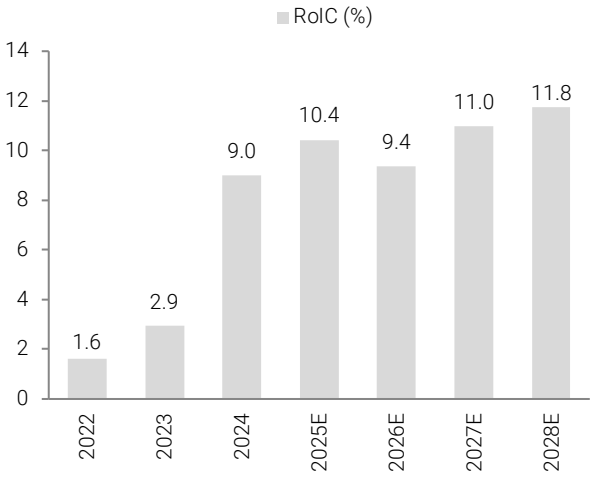
Exhibit 48: RoAE, March fiscal year-ends, 2022-28E (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 11.8% RoIC by FY2028E

Exhibit 49: RoIC, March fiscal year-ends, 2022-28E (%)

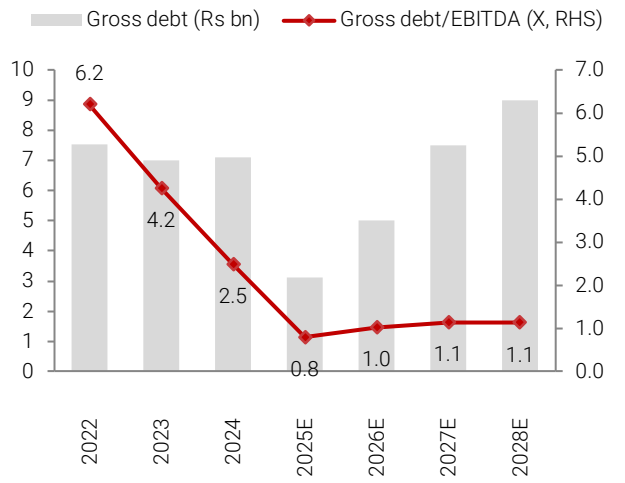


Source: Company, Kotak Institutional Equities estimates

We highlight that Sai has repaid bulk of its debt by utilizing IPO proceeds of Rs9.5 bn. However, as Sai plans to continue to invest to add capacities, we do not expect Sai to generate FCF over the medium term. Hence, we believe there is a possibility of the company raising fresh debt for funding its medium-term capex plans.

Sai – gross debt metrics

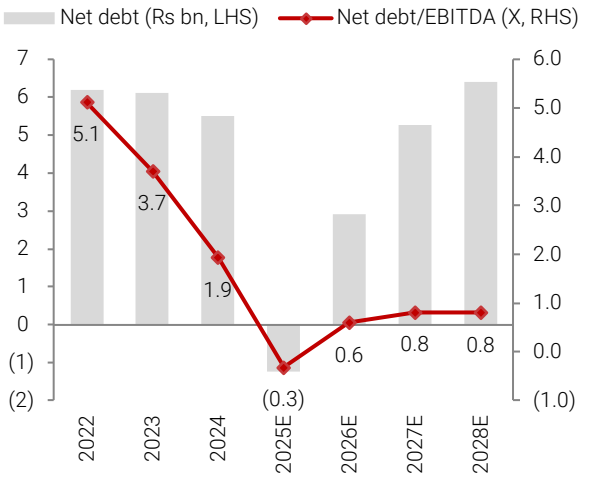
Exhibit 50: March fiscal year-ends, 2019-28E (Rs bn, X)



Source: Company, Kotak Institutional Equities estimates

Sai – net debt metrics

Exhibit 51: March fiscal year-ends, 2019-28E (Rs bn, X)



Source: Company, Kotak Institutional Equities estimates

We bake in overall sales, EBITDA and adjusted EPS CAGRs of 17%, 29% and 38%, respectively, for Sai over FY2024-28E

Exhibit 52: Consolidated profit and loss statement, March fiscal year-ends, 2022-28E (Rs mn, %)

	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss							
Net revenues	**8,696**	**12,171**	**14,652**	**16,425**	**19,548**	**23,511**	**27,352**
Cost of goods sold	(2,668)	(4,226)	(4,457)	(4,526)	(5,606)	(6,673)	(7,667)
Gross profit	**6,028**	**7,946**	**10,194**	**11,899**	**13,942**	**16,838**	**19,686**
Staff costs	(3,090)	(4,173)	(4,949)	(5,394)	(6,042)	(6,827)	(7,783)
SG&A expenses	(1,726)	(2,123)	(2,391)	(2,605)	(3,015)	(3,476)	(3,935)
EBITDA	**1,213**	**1,649**	**2,855**	**3,900**	**4,886**	**6,534**	**7,967**
Depreciation & amortisation	(902)	(994)	(1,194)	(1,423)	(1,885)	(2,281)	(2,678)
EBIT	**311**	**655**	**1,661**	**2,476**	**3,001**	**4,253**	**5,289**
Other income	281	280	291	354	254	280	305
Interest expense	(496)	(771)	(859)	(809)	(734)	(1,006)	(1,188)
Share in associates	–	–	–	–	–	–	–
Exceptional items	–	–	–	–	–	–	–
Profit before tax	**97**	**164**	**1,092**	**2,021**	**2,522**	**3,528**	**4,406**
Tax & deferred tax	(35)	(64)	(264)	(504)	(627)	(882)	(1,101)
Less: minority interest	–	–	–	–	–	–	–
Net income (reported)	**62**	**100**	**828**	**1,518**	**1,895**	**2,645**	**3,305**
FD no. of shares (mn)	189	189	189	208	208	208	208
EPS (reported) (Rs)	**0.3**	**0.5**	**4.4**	**7.3**	**9.1**	**12.7**	**15.9**
Growth (%)							
Revenue	14.4	40.0	20.4	12.1	19.0	20.3	16.3
EBITDA	(26.3)	36.0	73.1	36.6	25.3	33.7	21.9
PAT	(89.8)	60.5	728.9	83.3	24.9	39.6	24.9
Margins (%)							
Gross margin	**69.3**	**65.3**	**69.6**	**72.4**	**71.3**	**71.6**	**72.0**
Staff costs	35.5	34.3	33.8	32.8	30.9	29.0	28.5
SG&A expenses	19.8	17.4	16.3	15.9	15.4	14.8	14.4
EBITDA margin	**13.9**	**13.6**	**19.5**	**23.7**	**25.0**	**27.8**	**29.1**
Tax rate	35.8	39.1	24.2	24.9	24.9	25.0	25.0
PAT margin (reported)	**0.7**	**0.8**	**5.7**	**9.2**	**9.7**	**11.3**	**12.1**

Source: Company, Kotak Institutional Equities estimates

We believe there remains a possibility of Sai raising fresh debt for funding its medium-term capex plans

Exhibit 53: Consolidated balance sheet, March fiscal year-ends, 2022-28E (Rs mn, %)

	2022	2023	2024	2025E	2026E	2027E	2028E
Assets							
PPE	7,429	7,776	9,264	12,673	17,659	21,288	24,560
CWIP	1,887	1,510	1,069	1,069	1,069	1,069	1,069
Intangibles	81	114	138	207	269	325	375
Goodwill	—	—	—	—	—	—	—
Right of use assets	2,211	2,479	2,397	2,596	2,762	2,896	2,997
Other non-current financial assets	31	45	59	59	59	59	59
Other non-current assets	550	303	374	374	374	374	374
Non-current assets	**12,189**	**12,227**	**13,300**	**16,977**	**22,193**	**26,011**	**29,434**
Cash & equivalents	1,303	863	1,588	2,335	1,087	1,234	1,598
Current investments	—	—	—	2,000	1,000	1,000	1,000
Debtors	2,429	2,841	2,562	2,872	3,106	3,736	4,346
Inventories	1,269	1,395	874	980	1,071	1,288	1,499
Other current financial assets	1,444	1,785	795	891	1,060	1,275	1,484
Other current assets	3,009	2,756	3,632	4,072	4,846	5,828	6,781
Current assets	**9,454**	**9,640**	**9,451**	**13,149**	**12,171**	**14,361**	**16,707**
Total assets	**21,642**	**21,866**	**22,751**	**30,126**	**34,363**	**40,373**	**46,141**
Liabilities and equity							
Long-term borrowings	2,972	2,610	2,772	1,772	3,000	5,000	6,500
Lease liabilities	2,141	2,331	2,175	2,212	2,090	2,237	2,505
Long-term provisions	189	167	195	195	195	195	195
Other non-current financial liabilities	28	37	13	13	13	13	13
Other non-current liabilities	626	625	863	863	863	863	863
Non-current liabilities	**5,956**	**5,771**	**6,019**	**5,055**	**6,161**	**8,308**	**10,076**
Short-term borrowings	4,541	4,383	4,329	1,329	2,000	2,500	2,500
Creditors	1,992	2,089	1,994	2,235	2,660	3,199	3,722
Short-term provisions	59	72	84	94	112	134	156
Income tax liabilities	26	34	—	—	—	—	—
Other current financial liabilities	94	228	318	356	424	510	593
Other current liabilities	188	409	257	288	343	412	479
Current liabilities	**6,900**	**7,215**	**6,981**	**4,302**	**5,538**	**6,755**	**7,451**
Total liabilities	**12,857**	**12,986**	**13,000**	**9,357**	**11,699**	**15,064**	**17,527**
Share capital	179	180	181	208	208	208	208
Other equity	8,606	8,701	9,571	20,561	22,456	25,101	28,406
Total equity	**8,786**	**8,881**	**9,751**	**20,769**	**22,664**	**25,309**	**28,614**
Minority interest	—	—	—	—	—	—	—
Total liabilities and equity	**21,642**	**21,866**	**22,751**	**30,126**	**34,363**	**40,373**	**46,141**

Source: Company, Kotak Institutional Equities estimates

Given the high planned capex, we do not expect meaningful FCF generation for Sai over FY2025-28E

Exhibit 54: Consolidated cash flow statement, March fiscal year-ends, 2022-28E (Rs mn, %)

	2022	2023	2024	2025E	2026E	2027E	2028E
Cash flow from operating activities							
Profit before tax	**97**	**164**	**1,092**	**2,021**	**2,522**	**3,528**	**4,406**
Depreciation & amortisation	902	994	1,194	1,423	1,885	2,281	2,678
Finance costs	496	771	859	809	734	1,006	1,188
Other income	(202)	(131)	(180)	(354)	(254)	(280)	(305)
Changes in working capital	(246)	349	(385)	(631)	(704)	(1,327)	(1,286)
Income taxes paid	(81)	(41)	(139)	(504)	(627)	(882)	(1,101)
Others	84	88	187	—	—	—	—
Net cash generated from / (used in) operating activities	**1,049**	**2,194**	**2,628**	**2,765**	**3,555**	**4,325**	**5,580**
Cash flow from investing activities							
Capex	(2,069)	(1,131)	(1,817)	(4,500)	(6,500)	(5,500)	(5,500)
Other income	1,074	502	159	354	254	280	305
Others	(42)	(371)	(237)	(2,500)	500	(500)	(500)
Net cash generated from / (used in) investing activities	**(1,037)**	**(1,018)**	**(1,896)**	**(6,746)**	**(5,846)**	**(5,820)**	**(5,795)**
Cash flow from financing activities							
Dividend	—	—	—	—	—	—	—
Interest paid	(501)	(785)	(859)	(809)	(734)	(1,006)	(1,188)
Issuance of equity	31	21	16	9,500	—	—	—
Change in net debt	1,425	(897)	305	(4,000)	1,898	2,500	1,500
Principal payment of lease liabilities	(236)	(345)	(441)	(498)	(523)	(366)	(256)
Others	—	—	—	535	402	513	524
Net cash generated from / (used in) financing activities	**719**	**(2,006)**	**(979)**	**4,727**	**1,043**	**1,641**	**580**
Change in cash & equivalents	**731**	**(830)**	**(246)**	**747**	**(1,248)**	**147**	**364**
Beginning cash	764	1,303	863	1,588	2,335	1,087	1,234
Adjustments	(192)	391	971	—	—	—	—
Ending cash	**1,303**	**863**	**1,588**	**2,335**	**1,087**	**1,234**	**1,598**
Key cash flows							
Operating cash flow (ex-interest costs)	548	1,409	1,769	1,956	2,821	3,320	4,391
Free cash flow to firm	**(267)**	**960**	**275**	**(2,268)**	**(3,504)**	**(1,564)**	**(199)**
Free cash flow to equity	839	(406)	(71)	(6,875)	(2,157)	182	409
Free cash flow to equity (adjusted for net debt)	**(585)**	**491**	**(376)**	**(2,875)**	**(4,055)**	**(2,318)**	**(1,091)**
Cash conversion (%)							
OCF as % of EBITDA	86.5	133.0	92.1	70.9	72.8	66.2	70.0
FCFE as % of PAT	(940.4)	491.8	(45.4)	(189.5)	(214.0)	(87.6)	(33.0)
Capex as % of sales	23.8	9.3	12.4	27.4	33.3	23.4	20.1

Source: Company, Kotak Institutional Equities estimates

6

Company profile: Prominent CRDMO with an expanding commercial footprint

Sai commenced operations in CY1999 as a CRO firm; since then, it has grown to be one of India's foremost CRDMO service providers, with a focus on innovator molecules. It offers end-to-end services across the drug discovery, development and manufacturing value chain for small molecule new chemical entities (NCE) to global biotech and pharma innovators. With a robust 300+ customer base and backed by a team of ~2,400 scientists as of 9MFY25 and an offshore presence in the US and UK, Sai has proven its mettle in the rather competitive Indian CRDMO space. Aided by an increasing contribution from the CMC business and more molecules moving to the commercial stage, Sai remains well-poised to deliver robust EBITDA and EPS CAGRs of ~29% and ~38%, respectively, over FY2024-28E.

Integrated CRDMO led by a solid management team

Kanumuri Ranga Raju founded the company in CY1999 and he, along with his son, Mr Krishnam Raju Kanumuri, has driven the company's growth

Kanumuri Ranga Raju founded the company in CY1999 and he, along with his son, Mr Krishnam Raju Kanumuri, has driven the company's growth through expansion, acquisitions and mergers. Sai was originally incorporated as 'Sai Dru Syn Laboratories Limited' at Hyderabad, Telangana as a public limited company. The company received the certificate of commencement of business from the Registrar of Companies, Andhra Pradesh, at Hyderabad on February 17, 1999. Subsequently, the name of the company was changed from 'Sai Dru Syn Laboratories Limited' to 'Sai Life Sciences Limited' pursuant to a shareholders' resolution in an extraordinary general meeting held on December 11, 2003. Thereafter, the name of the company was changed from 'Sai Life Sciences Limited' to 'Sai Advantium Pharma Limited' on August 16, 2006, as the company had entered into a partnership with a scientist who had acquired a discovery lab named Advantium Pharma. The scientist left in CY2007, but the name was kept the same for some time. Subsequently, the name of the company was changed from 'Sai Advantium Pharma Limited' to its present name, 'Sai Life Sciences Limited', pursuant to a shareholders' resolution in an extraordinary general meeting held on April 20, 2012.

Sai commenced its operations in CY1999 as a CRO

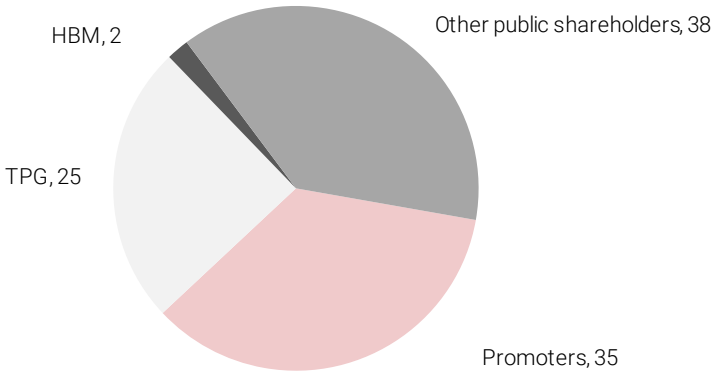
Exhibit 55: Timeline of key events, December calendar year-ends, 1999-2024

Calendar Year	Events
1999	Incorporation of the company
2002	Inauguration of R&D labs in ICICI Knowledge Park, Hyderabad.
2004	Strategic acquisitions of Prasad Drugs Limited, the current Unit III Bolarum Facility
2006	Investment by Advantium LLC in the company to set up discovery services to expand the company's business.
	Acquired Merrifield Pharma Private Limited, the current Unit IV Bidar Facility
2007	Acquisition of shares of the company held by Advantium LLC by Sequoia Capital India Investments III
2008	Investment by MPM Investment Mauritius in the company
2014	Acquisition of shares of the company held by MPM Investment Mauritius and Sequoia Capital India Investment III by Tata Capital Healthcare Fund 1 and HBM Private Equity India
2019	Opened biology facility in Boston, US
	Launched Sai Nxt, an initiative aiming to transform the organization into a new generation CDMO
2020	Addition of cellular analysis platforms at its discovery biology facility in Cambridge, Massachusetts, US
2021	Opened new 75,000 sq. ft discovery biology facility at its integrated R&D campus at Unit II Hyderabad Facility
2022	Inauguration of the first set of new discovery chemistry labs as part of the new integrated discovery block at Unit II Hyderabad Facility
	Announced the launch of BIOVIA Electronic Lab Notebook application
2024	Initiated API developability & formulations (D&F) capabilities at Unit II Hyderabad
2024	Listing on Indian stock exchanges

Source: Company, Kotak Institutional Equities

As of December 2024, promoters own 35.24% stake in Sai

Exhibit 56: Shareholding pattern, March fiscal year-end, 2025E



Source: Company, Kotak Institutional Equities

Sai's facilities are located across India, the US and the UK

Exhibit 57: Registered properties, March fiscal year-end, 2025E

	Location	Registered owner	Area (acres/sq. ft./sq. m.)	Leased/Owned	Usage
Property					
Corporate office	Telangana, India	Sai Life Sciences Limited	25,151 square feet	Leased	Corporate office
Unit II Hyderabad Facility	Telangana, India	Sai Life Sciences Limited	5 acres	Leased	R&D
Unit II Hyderabad Facility	Telangana, India	Sai Life Sciences Limited	1.5 acres	Leased	R&D
Unit II Hyderabad Facility	Telangana, India	Sai Life Sciences Limited	6 acres	Leased	R&D
Unit III Bollaram Facility	Telangana, India	Sai Life Sciences Limited	0.74 acres	Owned	Manufacturing
Unit III Bollaram Facility	Telangana, India	Sai Life Sciences Limited	1.23 acres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	7,072 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	6.32 acres	Owned	Green Belt Area
Unit IV Bidar Facility	Karnataka, India	Sai Life Pharma Private Limited	4,698 square metres	Leased	Open Land
Unit IV Bidar Facility	Karnataka, India	Sai Life Pharma Private Limited	8,142 square metres	Leased	Open Land
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	8,296 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	8,044 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	7,974 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	8,124.5 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	8,166.17 square metres	Owned	Manufacturing
Unit VI Bidar Facility	Karnataka, India	Sai Life Sciences Limited	8,064 square metres	Owned	Manufacturing
Unit IV Bidar Facility	Karnataka, India	Sai Life Sciences Limited	2,020 square metres	Owned	ET plant
Greater Boston Facility	US	Sai Life Sciences Inc	11,422 square feet	Leased	Business Development Office, R&D
Manchester Facility	UK	Sai Life Sciences Limited, UK	20,000 square feet	Leased	Business Development Office, R&D

Source: Company, Kotak Institutional Equities

Helmed by the promoter family and a well-diversified Board

Led by the promoter family, Sai also has a strong professional management team. The management team comes from diverse backgrounds and various fields of expertise, comprising scientists, engineers, finance professionals, lawyers and management school graduates. Sai's CEO Mr Krishnam Raju Kanumuri, joined the company in CY2004, and has been driving the business since then. Sai's CFO Mr Sivaramakrishnan Chittor has been with the company for more than 15 years. Mr Siva also worked as a COO during FY2018-2021. Sai's current COO Mr Sauri Gudlavalleti, joined the company in late CY2021. Using his background in operations and prior experience in pharma companies, Sai has improved its delivery timelines since he joined. This is evident in the robust ~30% sales CAGR over FY2022-24, compared with 13% sales CAGR over FY2016-22.

Sai is managed by an experienced promoter group and professional team

Exhibit 58: Management hierarchy, March fiscal year-end, 2025E

Name	Position	Description	Remuneration paid in FY2024 (Rs mn)
Kanumuri Ranga Raju	Chairman and Whole time Director	He is the Chairman and Whole time Director of company's Board. He holds a bachelor's degree in pharmacy from University of Mysore, a bachelor's and a master's degree of science in pharmacy from Massachusetts College of Pharmacy, Boston. He was also a director on the board of Chemrich Fine Chemicals Private Limited. He has more than 25 years of experience in pharma industry.	25.78
Krishnam Raju Kanumuri	Managing Director and Chief Executive Officer	He is the Managing Director and Chief Executive Officer of company's Board. He was awarded a degree of master of business administration from the University of Kansas. He also attended the 1995 summer school in markets course from the London School of Economics and Political Science. He was a director on the board of Laxmi Acqua Culture Private Limited. He has more than 13 years of experience in business management.	32.90
Sivaramakrishnan Chittor	Chief Financial Officer	He joined the company on January 21, 2009 as the senior vice president & head of finance. He is responsible for strategic planning, operational oversight and financial management of the Company. He is a member of the Institute of Chartered Accountant of India. He has passed the final examination held by the Institute of Company Secretaries of India. He was last associated with Zavata as its senior vice president – shared services.	43.70
Runa Karan	Company Secretary, Compliance Officer and Legal Head	She joined the company on April 10, 2008 as the company secretary. She is responsible for functional areas of company secretarial and other aspects pertaining to legal compliances at the company. She holds a bachelor's degree in commerce (special) from St. Francis College for Women, Osmania University and a law degree from Faculty of Law, Osmania University. She is a member of the Institute of Company Secretaries of India. She was previously associated with Avon Organics Limited as its company secretary.	3.65
Sauri Gudlavalleti	Chief Operations Officer	He joined the company on January 17, 2022. He is responsible for overseeing the operations of CMC and Discovery Business Units of the company. He holds a bachelor's degree of technology in mechanical engineering from India Institute of Technology, Madras and a master's degree of science in mechanical engineering from Massachusetts Institute of Technology, Cambridge. He also holds post graduate diploma in management for executive from the Indian Institute of Management, Ahmedabad. He was previously associated with McKinsey & Company as its associate principal.	46.89
Muniandi Damodharan	Chief Quality Officer - Global Quality and Regulatory Affair	He joined the company on June 03, 2014. He is responsible for planning, administration and monitoring of consistent readiness of all quality management, regulatory requirements and quality improvement processes. He holds a master's degree of science in chemistry and a doctor's degree of philosophy in chemistry from the Jiwaji University, Gwalior. He was previously associated with Max India Limited as its senior officer in R&D, and Ranbaxy Laboratories Limited as its regional quality head of API division and Nicholas Piramal India Limited as its general manager of quality control. He was also associated with Shasun Chemicals and Drugs Ltd as its deputy general manager in the quality control department with J.K. Pharmachem Limited as its assistant manager of quality assurance department and with GSK as its assistant manager of quality assurance.	22.18
Chopperla Srikrishna	Senior Vice President and Head of Safety	He joined the company on September 8, 2011. He is responsible for establishment and implementation of comprehensive health and safety systems and procedures, and other safety related aspects at the company. He holds a bachelor's degree of science from S.D.S Autonomous College of Arts & Applied Sciences, Shreeramnagar, a master's degree of technology in environmental management from Jawaharlal Nehru Technological University, Hyderabad, a postgraduate diploma in environmental education and management from University of Hyderabad, and a diploma in industrial safety from Annamalai University. He was previously associated with Matrix Laboratories Limited as its general manager of environment, health and safety department.	10.56
Dean David Edney	Senior Vice President & Global Head – Process R&D	He joined the company on January 6, 2020. He is responsible for overseeing the global process R&D services. He holds a degree of doctor of philosophy from University of Nottingham, England. He was previously associated with GlaxoSmithKline Services Unlimited and The Wellcome Foundation Limited in the capacity of development chemist.	18.79
A Vasanthamurugesh	Senior Vice President – Manufacturing and Technology Transfer	He joined the company on August 7, 2014. He is responsible for determining the strategic direction of the Company's manufacturing facilities. He holds a bachelor's degree of chemical engineering from Faculty of Engineering and Technology, Annamalai University. He was previously associated with OmniActive Health Technologies Limited as its vice president of manufacturing, Piramal Healthcare Limited as its general manager – technical services, Jubilant Organosys Ltd as its senior manager – process engineering and Malladi Project Management Centre Private Limited as its assistant manager.	13.39
Rajesh Vinodrai Naik	Senior Vice President – HR and Administration	He joined the company on June 19, 2017. He is responsible for functional areas of talent management and human resources and other aspects pertaining to statutory labour compliances of the company. He holds a master's degree of science in organic chemistry and doctor's degree of philosophy in science from the University of Bombay. He also holds diplomas in marketing management and business management from S. P. Mandali's Prin. L. N. Welingkar Institute of Management Development & Research. He was previously associated with Cadila Pharmaceuticals Limited as its joint president of its chemical strategic business unit department.	12.52
Tuneer Ghosh	Senior Vice President & Head – Business Development CMC	He joined the company on January 19, 2015. He is responsible for leading and managing business development to achieve revenue targets, enhance market presence, mentor team, and ensure effective operations for long-term growth of CMC division of company. He holds a bachelor's degree in chemical engineering from Jadavpur University. He was previously associated with Aurobindo Pharma Limited as its general manager of operations, ecologic Technologies (P) Ltd as its business partner- technology commercialization, CHEMAF S.P.R.L as its chief operating officer, ACE Limited FZE as its chief operating officer, Dr. Reddy's Laboratories Ltd as its director, Shalina Laboratories Pvt Ltd as its director of technical department, and Amal Products Limited as its manager of production.	43.77
Maneesh Raghunath Pingle	Senior Vice President & Head – Business Development Discovery	He joined the company on Feb 27, 2019. He is responsible for leading and managing business development to achieve revenue targets, enhance market presence, mentor team, and ensure effective operations for long-term growth of discovery division of the company. He holds a doctor's degree of philosophy from the Purdue University, Indiana. He was previously associated with Weill Cornell Medical College as its assistant professor of microbiology and immunology.	36.19
Bugga Venkata Naga Bala Subrahmanya Sarma	Senior Vice President & Head – Discovery	He joined the company on November 16, 2002. He is responsible for providing scientific leadership and strategic direction for efficient project execution and business growth withing the discovery division of company. He holds a master's degree of science in chemistry from University of Hyderabad, Hyderabad and doctor's degree of philosophy in science from Osmania University, Hyderabad. He was a visiting fellow of the chemical biology program, Steacie Institute of Molecular Sciences, National Research Council Canada. He was also associated with gvk bioSciences Private Limited.	17.89

Source: Company, Kotak Institutional Equities

Sai has two ESOP schemes, namely 'ESOP 2008' and 'Management ESOP 2018'. As of December 31, 2024, under the latest ESOP scheme, there are a total of ~660k options outstanding, which can be exercised at a price of Rs127.30/share. These ESOPs upon conversion would account for ~8% of Sai's fully diluted share capital. Currently, the ESOP pool extends to 40-50 employees.

Outstanding ESOPs upon conversion would account for ~8% of Sai's fully diluted share capital

Exhibit 59: ESOP details, March fiscal year-end, 2025 (#)

Particulars	Number of options/equity shares
ESOPs outstanding at the beginning of FY2025	779,628
Options granted	444,500
Options forfeited/lapsed/cancelled	104,892
Options exercised	275,500
Total number of Equity Shares of face value of Rs1 each that would arise as a result of exercise of options	2,755,000
Options vested (including options that have been exercised)	98,600
Total number of options outstanding in force	843,736

Source: Company, Kotak Institutional Equities

Shareholding and ESOP details of Sai's key managerial personnel

Exhibit 60: KMP—shareholding & ESOP details, March fiscal year-end, 2025 (#)

	Number of equity shares	Number of equity shares that would arise as a result of full exercise of options vested	Number of employee stock options not vested
Directors			
Kanumuri Ranga Raju	169,340	—	—
Krishnam Raju Kanumuri	3,008,400	—	—
Total	**3,177,740**	**—**	**—**
Key managerial personnel			
Sivaramakrishnan Chittor	2,400,000	—	110,000
Runa Karan	50,000	—	2,500
Total	**2,450,000**	**—**	**112,500**
Senior management personnel			
Muniandi Damodharan	475,000	—	20,000
Sauri Gudlavalleti	300,000	—	220,000
Rajesh Vinodrai Naik	150,000	—	10,000
Chopperla Srikrishna	140,000	—	16,000
Dean David Edney	—	300,000	20,000
A Vasanthamurugesh	375,000	—	20,000
Tuneer Ghosh	575,000	—	27,500
Maneesh Raghunath Pingle	—	300,000	32,500
Bugga Venkata Naga Bala Subrahmanya Sarma	250,000	337,500	22,500
Total	**2,265,000**	**937,500**	**388,500**

Source: Company, Kotak Institutional Equities

Sai's Board of Directors comprises of 6 members, including 3 independent directors

Exhibit 61: Board of Directors, March fiscal year-end, 2025E

Name	Position	Description	Remuneration paid in FY2024 (Rs mn)
Kanumuri Ranga Raju	Chairman and Whole time Director	He is the Chairman and Whole-time Director of the company's Board. He holds a bachelor's degree in pharmacy from University of Mysore, a bachelor's and a master's degree of science in Pharmacy from the Massachusetts College of Pharmacy, Boston. He was also Director on the Board of Chemrich Fine Chemicals Private Limited. He has more than 25 years of experience in pharma industry.	25.78
Krishnam Raju Kanumuri	Managing Director and Chief Executive Officer	He is Managing Director and Chief Executive Officer of the company's Board. He was awarded a degree of Master of Business Administration from the University of Kansas. He also attended the 1995 summer school in markets course from the London School of Economics and Political Science. He was a director on the Board of Laxmi Acqua Culture Private Limited. He has more than 13 years of experience in business management.	32.90
Mitesh Daga	Non-Executive Director (Nominee of TPG)	He is a Non-Executive Director of the company. He holds a degree of Bachelor of Technology in Chemical Engineering from Indian Institute of Technology, Delhi, and is also a holder of the Chartered Financial Analyst Charter issued by the CFA Institute. He is a partner at TPG Capital Asia. Previously, he was associated with Advent India PE Advisors Private Limited as its assistant director, Zephyr Peacock Management India Private Limited as its associate, and CapitalOne Services (India) Private Limited as its manager.	NA
Ramesh Ganesh Iyer	Independent Director	He is Independent Director of the company's Board. He holds a degree of Doctor of Letters from ITM Vocational University, Vadodara. He has previously worked with Finance Industry Development Council. He has also been associated with Mahindra Manulife Investment Management Private Limited, Mahindra and Mahindra Financial Services Limited, MOCIL Limited and MFC Auto Parts Private Limited as their director.	NA
Suchita Sharma	Independent Director	She is Independent Director of company's Board. She holds a bachelor's degree of Arts in Economic honors from University of India and passed the final exam for master's degree in Commerce from Chaudhary Charan Singh University, Meerut. She is also a fellow member of the Institute of Chartered Accountants of India. She was previously associated with Price Waterhouse Chartered Accountants LLP as its partner. She was also associated with BBSR & Associates LLP in the capacity of its director.	NA
Dr Dinesh V Patel	Independent Director	He is Independent Director of company's Board. He received his Ph.D. in Chemistry from Rutgers University, New Jersey and his M.Sc. and B.Sc. in Chemistry from S. P. University, Vallabh Vidyanagar, India. He has 38 years of executive, entrepreneurial, and scientific experience that span the pharma, biotech and biopharma industries. He has served as a member of the Board of Directors and as the President and CEO Officer of Protagonist Therapeutics since December 2008. Prior to joining Protagonist, he served from 2006 to 2008 as the President and CEO of Arête Therapeutics, a privately held company focused on novel drugs for metabolic syndrome. Previously, he was the CEO and Co-founder of Miikana Therapeutics, an oncology based company, from 2003 until acquired by Entremed in 2005.	NA

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Syngene International (SYNG)

Pharmaceuticals

BUY

CMP (₹): **720** Fair Value (₹): **875** Sector View: **Neutral** NIFTY-50: **23,658** **March 24, 2025**

Ahead of the curve

Syngene is India's foremost CRO, with a distinct innovation focus. We expect CRO growth to pick up hereon, led by a faster discovery commercial engine (~1 year of spare capacity available) and gradual alleviation of the funding environment. After losing out on projects for want of discovery capacities in FY2022, Syngene has been slightly aggressive in investing ahead of time. It has also established itself as a reliable early-stage CDMO and is witnessing a surge in pilot projects, which should drive higher utilizations at Mangaluru and Unit-III over the medium term. We expect it to deliver healthy 14%/13% EBITDA/EPS CAGRs, over FY2024-28E. Initiate with BUY with an FV of Rs875.

Initiate with BUY rating; FV at Rs875 provides ~22% upside to CMP

We initiate coverage on Syngene with a BUY rating and a DCF-based FV of Rs875, which offers an upside of ~22% to CMP. Our FV implies a ~23X FY2027E EV/EBITDA multiple for Syngene. In our view, Syngene offers a healthy blend of best-in-class expertise in discovery, compelling biologics offering and attractive valuations. It is one of India's most prominent CRDMOs, with 5,656 scientists (almost half the FTE count in India) and a robust client base of 400+. Compared to its Indian peers, Syngene's USP lies in its integrated offering, leading to a 60:40 CRO:CDMO mix. Its 'follow-the-molecule' strategy allows it to be present throughout the lifecycle of a molecule, as evident from the 18-20 active integrated projects under its 'SynVent' platform.

Slightly higher aggression in CRO—a welcome deviation from the past

Since Covid, there have been two key changes in Syngene's approach. Earlier, it did not have any sales personnel outside India. Over the past 2-3 years, the company has built a strong 45+ member sales team, many of whom are located outside India. Secondly, after having run out of discovery capacities in FY2022 amid a surge in demand, the company has been investing slightly ahead of time to build its discovery footprint and improve the turnaround time. Also, it has been cataloging its capabilities more efficiently to showcase those to clients. While Syngene is amid a leadership transition currently, we expect the new leadership to continue to steer it toward chasing growth more assertively.

We expect Syngene to deliver healthy 14% EBITDA CAGRs over FY2024-28E

At peak utilization, we believe Syngene can generate annual incremental CDMO sales of ~Rs25 bn (~67% of FY2025E overall sales) from its existing Bengaluru, Mangaluru, Unit III and US facilities over the next 4-5 years. Aided by traction in CRO and better utilization at these facilities, we expect Syngene to deliver healthy 14%/14%/13% overall sales/EBITDA/EPS CAGRs over FY2024-28E. Led by a robust cumulative FCF generation of ~Rs21 bn over FY2025-28E, we expect return ratios for Syngene to improve to 14.6% RoAE and 17.3% RoIC in FY2028E.

Key risks: Muted funding, capacity underutilization and client concentration

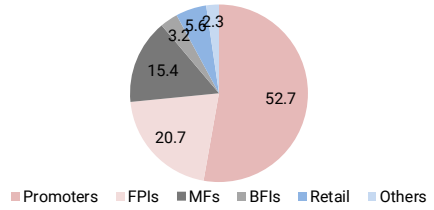
Slower pickup in funding, pricing aggression by Chinese CROs, underutilization of Mangaluru and acquired facilities, high client concentration, as well as, any repercussions from BIOS' balance sheet stress are the key risks for Syngene.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	720/875/BUY
52-week range (Rs) (high-low)	961-608
Mcap (bn) (Rs/US$)	290/3.4
ADTV-3M (mn) (Rs/US$)	591/6.9

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	3	(15)	3
Rel. to Nifty	(2)	(15)	(4)
Rel. to MSCI India	(1)	(11)	(2)

Forecasts/Valuations	2025E	2026E	2027E
EPS (Rs)	11.6	12.5	16.6
EPS growth (%)	(10.4)	8.0	32.6
P/E (X)	62.2	57.6	43.4
P/B (X)	6.3	5.8	5.3
EV/EBITDA (X)	26.9	22.6	18.1
RoE (%)	10.5	10.5	12.8
Div. yield (%)	0.5	0.5	0.6
Sales (Rs bn)	38	43	51
EBITDA (Rs bn)	10	12	15
Net profits (Rs bn)	4.7	5.0	6.7

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of March 24, 2025

Full sector coverage on KINSITE

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We expect Syngene to report RoIC and RoE of 17.3% and 14.6%, respectively, in FY2028E

Exhibit 1: Financial snapshot, March fiscal year-ends, 2019-28E (Rs mn, %)

	Net revenues		EBITDA			EPS (adjusted)		RoIC	RoE	P/E	EV/EBITDA
Financial snapshot	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	Growth (%)	(Rs mn)	Growth (%)	(%)	(%)	(X)	(X)
2019	18,256	28.3	5,387	29.5	36.9	8.4	7.8	22.1	18.0	86.2	50.6
2020	20,119	10.2	6,035	30.0	12.0	8.9	6.7	20.2	17.1	80.7	45.1
2021	21,843	8.6	6,547	30.0	8.5	9.4	4.8	15.2	15.0	77.0	41.6
2022	26,042	19.2	7,413	28.5	13.2	10.4	11.7	12.2	13.8	68.9	36.8
2023	31,929	22.6	9,762	30.6	31.7	11.5	10.1	14.9	13.4	62.6	27.9
2024	34,886	9.3	10,702	30.7	9.6	12.9	12.2	14.5	13.2	55.8	25.5
2025E	37,565	7.7	10,478	27.9	(2.1)	11.6	(10.4)	10.5	10.5	62.2	26.9
2026E	43,482	15.8	12,288	28.3	17.3	12.5	8.0	10.5	10.5	57.6	22.6
2027E	51,190	17.7	15,052	29.4	22.5	16.6	32.6	13.9	12.8	43.4	18.1
2028E	59,908	17.0	17,941	29.9	19.2	21.0	26.7	17.3	14.6	34.3	15.2

Source: Company, Kotak Institutional Equities estimates

We forecast ~14% overall sales CAGR, for Syngene, over FY2024-28E

Exhibit 2: Business segments, March fiscal year-ends, 2019-28E (Rs mn, %)

	Units	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Overall											
Dedicated centers	Rs mn	5,872	6,295	6,949	8,232	9,231	9,356	9,824	10,315	10,934	11,481
yoy growth	%	*26.4*	*7.2*	*10.4*	*18.5*	*12.1*	*1.4*	*5.0*	*5.0*	*6.0*	*5.0*
Discovery services	Rs mn	5,363	6,427	7,576	8,998	11,456	11,403	12,201	14,519	17,133	20,217
yoy growth	%	*29.3*	*19.8*	*17.9*	*18.8*	*27.3*	*(0.5)*	*7.0*	*19.0*	*18.0*	*18.0*
Development and manufacturing services	Rs mn	7,021	7,397	7,318	8,812	11,242	14,127	15,540	18,648	23,123	28,210
yoy growth	%	*29.1*	*5.4*	*(1.1)*	*20.4*	*27.6*	*25.7*	*10.0*	*20.0*	*24.0*	*22.0*
Net revenues	**Rs mn**	**18,256**	**20,119**	**21,843**	**26,042**	**31,929**	**34,886**	**37,565**	**43,482**	**51,190**	**59,908**
yoy growth	%	*28.3*	*10.2*	*8.6*	*19.2*	*22.6*	*9.3*	*7.7*	*15.8*	*17.7*	*17.0*

Source: Company, Kotak Institutional Equities estimates

We forecast ~14% and ~13% EBITDA and EPS CAGRs, respectively, for Syngene, over FY2024-28E

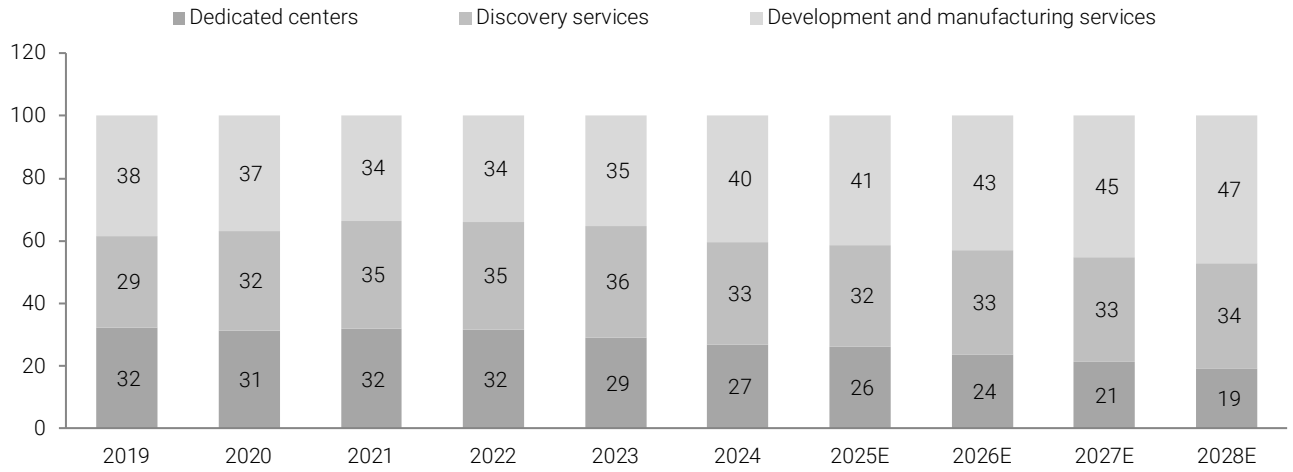
Exhibit 3: Consolidated summary financials, March fiscal year-ends, 2019-28E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss										
Net revenues	**18,256**	**20,119**	**21,843**	**26,042**	**31,929**	**34,886**	**37,565**	**43,482**	**51,190**	**59,908**
Gross profit	**12,943**	**14,925**	**16,578**	**18,552**	**23,327**	**25,584**	**27,385**	**31,916**	**37,625**	**44,032**
EBITDA	**5,387**	**6,035**	**6,547**	**7,413**	**9,762**	**10,702**	**10,478**	**12,288**	**15,052**	**17,941**
Depreciation & amortisation	(1,642)	(2,193)	(2,745)	(3,097)	(3,665)	(4,259)	(4,514)	(5,777)	(6,323)	(6,928)
EBIT	**3,745**	**3,842**	**3,802**	**4,316**	**6,097**	**6,443**	**5,964**	**6,511**	**8,729**	**11,013**
Interest expense	(323)	(346)	(277)	(241)	(452)	(472)	(527)	(617)	(709)	(802)
Profit before tax	**4,154**	**5,169**	**4,692**	**4,844**	**5,936**	**6,208**	**6,446**	**6,708**	**8,906**	**11,311**
Tax & deferred tax	(838)	(1,048)	(643)	(886)	(1,292)	(1,108)	(1,549)	(1,681)	(2,242)	(2,867)
Net income (reported)	**3,316**	**3,553**	**3,747**	**4,209**	**4,644**	**5,191**	**4,654**	**5,027**	**6,664**	**8,444**
EPS (reported) (Rs)	**8.4**	**8.9**	**9.4**	**10.4**	**11.5**	**12.9**	**11.6**	**12.5**	**16.6**	**21.0**
Balance sheet										
Fixed assets (incl. goodwill)	16,105	21,314	22,885	24,819	25,788	32,446	38,040	38,285	38,562	39,062
Cash & equivalents	1,652	1,930	3,233	2,618	895	857	914	1,790	6,320	9,797
Inventories	434	252	596	1,794	3,328	2,385	2,568	2,973	3,500	4,096
Total assets	**37,035**	**41,629**	**48,832**	**55,638**	**58,310**	**61,516**	**66,482**	**72,749**	**81,014**	**91,181**
Borrowings	5,524	3,089	7,723	7,896	5,753	1,417	1,000	1,000	1,000	1,000
Total liabilities	**17,351**	**19,871**	**20,618**	**22,662**	**22,130**	**18,938**	**20,414**	**23,201**	**26,505**	**30,100**
Shareholders' equity	**19,684**	**21,758**	**28,214**	**32,976**	**36,180**	**42,578**	**46,068**	**49,547**	**54,509**	**61,081**
Total liabilities and equity	**37,035**	**41,629**	**48,832**	**55,638**	**58,310**	**61,516**	**66,482**	**72,749**	**81,014**	**91,181**
Cash flow statement										
Operating cash flow before working capital changes	**4,483**	**6,330**	**6,645**	**7,603**	**8,417**	**8,608**	**8,929**	**10,607**	**12,810**	**15,075**
Changes in working capital	(1,143)	441	367	(1,797)	(182)	1,813	95	211	274	310
Capex	(2,977)	(6,300)	(4,408)	(4,753)	(5,066)	(4,920)	(5,000)	(5,500)	(6,000)	(6,750)
Acquisitions	–	(131)	(57)	(2)	(299)	(5,720)	(4,728)	–	–	–
Other income	–	891	620	263	540	815	689	814	886	1,100
Payment of lease liabilities	–	(109)	(146)	(183)	(251)	(367)	(585)	(704)	(832)	(968)
Free cash flow to firm	**363**	**1,122**	**3,021**	**1,131**	**3,159**	**229**	**(600)**	**5,427**	**7,139**	**8,767**
Free cash flow to equity	(1,436)	(774)	3,674	876	224	(4,516)	(1,417)	4,965	6,609	8,168
Ratios										
Gross margin (%)	**70.9**	**74.2**	**75.9**	**71.2**	**73.1**	**73.3**	**72.9**	**73.4**	**73.5**	**73.5**
EBITDA margin (%)	**29.5**	**30.0**	**30.0**	**28.5**	**30.6**	**30.7**	**27.9**	**28.3**	**29.4**	**29.9**
RoAE (%)	**18.0**	**17.1**	**15.0**	**13.8**	**13.4**	**13.2**	**10.5**	**10.5**	**12.8**	**14.6**
RoCE (%)	12.0	11.8	10.3	8.7	10.6	10.9	8.6	8.5	10.4	11.8
RoIC (%)	22.1	20.2	15.2	12.2	14.9	14.5	10.5	10.5	13.9	17.3
Net fixed asset turnover (X)	**1.5**	**1.2**	**1.1**	**1.2**	**1.3**	**1.3**	**1.1**	**1.0**	**1.2**	**1.4**
Net debt / EBITDA (X)	**(1.0)**	**(1.1)**	**(0.8)**	**(0.5)**	**(0.7)**	**(0.8)**	**(0.8)**	**(0.8)**	**(1.0)**	**(1.2)**

Source: Company, Kotak Institutional Equities estimates

We expect Syngene's sales contribution from development and manufacturing services to increase to ~47% by FY2028E

Exhibit 4: Business mix, March fiscal year-ends, 2019-28E (%)



Source: Company, Kotak Institutional Equities estimates

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Valuation: Initiate coverage on Syngene with a BUY

We initiate coverage on Syngene with a BUY rating and a DCF-based FV of Rs875, which offers an upside of ~22% to CMP. Our FV implies ~23X FY2027E EV/EBITDA and ~53X FY2027E P/E multiples for Syngene. In our view, Syngene offers a healthy blend of best-in-class expertise in discovery, compelling biologics offering and attractive valuations. It is one of India's most prominent CRDMOs, with 5,656 scientists (almost half the FTE count in India) and a robust client base of 400+. Compared to its Indian peers, Syngene's USP lies in its integrated offering, leading to a 60:40 CRO:CDMO mix. Its 'follow-the-molecule' strategy allows it to be present throughout the lifecycle of a molecule, as evident from the 18-20 active integrated projects under its 'SynVent' platform.

We expect Syngene to offer ~22% upside from CMP

Our FV implies a ~23X FY2027E EV/EBITDA multiple for Syngene

The company offers a broad spectrum of capabilities, ranging across ADCs, HPAPIs, oligopeptides, CAR-T, etc. Its 'follow-the-molecule' strategy allows it to be present throughout the lifecycle of a molecule, as evident from the 18-20 active integrated projects under its 'SynVent' platform. While dedicated centers would continue to be a stable revenue source, we expect discovery growth to ramp up, led by higher productivity of scientists and alleviation of the US biotech funding environment. Driven primarily by better capacity utilization in its CDMO business, and resultant operating leverage, we expect Syngene to deliver healthy 14%/14%/13% overall sales/EBITDA/EPS CAGRs over FY2024-28E. Led by robust FCF generation of ~Rs21 bn over FY2024-28E, we expect return ratios for Syngene to stay healthy at 14.6% RoAE and 17.3% RoIC in FY2028E.

Our DCF model bakes in 10-year sales/EBITDA CAGRs, of ~17%/18% for Syngene

Exhibit 5: Syngene – DCF valuation, March fiscal-year ends, 2024-50E (Rs mn, %)

	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2038E	2040E	2042E	2044E	2046E	2048E	2050E
Free cash flow profile																
Net revenues	**34,886**	**37,565**	**43,482**	**51,190**	**59,908**	**83,556**	**114,428**	**153,443**	**202,046**	**261,428**	**332,340**	**413,355**	**502,204**	**595,842**	**690,166**	**780,226**
%yoy growth	*9.3*	*7.7*	*15.8*	*17.7*	*17.0*	*17.9*	*16.7*	*15.5*	*14.5*	*13.5*	*12.5*	*11.2*	*9.9*	*8.6*	*7.3*	*6.0*
Pre-Ind AS-116 EBITDA	**10,335**	**9,893**	**11,583**	**14,221**	**16,973**	**23,939**	**33,127**	**44,882**	**59,705**	**78,036**	**100,201**	**125,867**	**154,428**	**185,009**	**216,367**	**246,942**
Pre-Ind AS-116 EBITDA margin (%)	*29.6*	*26.3*	*26.6*	*27.8*	*28.3*	*28.7*	*29.0*	*29.3*	*29.6*	*29.9*	*30.2*	*30.5*	*30.8*	*31.1*	*31.4*	*31.7*
Gross block	49,474	67,570	74,070	81,070	88,820	107,354	132,852	167,208	212,628	271,640	346,970	441,179	556,280	693,620	853,625	1,035,580
Depreciation & amortisation	(4,259)	(4,514)	(5,777)	(6,323)	(6,928)	(7,515)	(9,300)	(11,705)	(14,884)	(19,015)	(24,288)	(30,883)	(38,940)	(48,553)	(59,754)	(72,491)
%gross block	*(8.6)*	*(6.7)*	*(7.8)*	*(7.8)*	*(7.8)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*	*(7.0)*
EBIT	6,076	5,379	5,806	7,898	10,045	16,424	23,827	33,178	44,821	59,021	75,913	94,984	115,488	136,456	156,613	174,451
EBIT margin (%)	*17.4*	*14.3*	*13.4*	*15.4*	*16.8*	*19.7*	*20.8*	*21.6*	*22.2*	*22.6*	*22.8*	*23.0*	*23.0*	*22.9*	*22.7*	*22.4*
NOPAT	**4,992**	**4,087**	**4,351**	**5,909**	**7,500**	**12,252**	**17,775**	**24,751**	**33,436**	**44,030**	**56,631**	**70,858**	**86,154**	**101,796**	**116,834**	**130,140**
Tax rate (%)	*(17.8)*	*(24.0)*	*(25.1)*	*(25.2)*	*(25.3)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*	*(25.4)*
Capex	(4,920)	(5,000)	(5,500)	(6,000)	(6,750)	(10,027)	(13,731)	(18,413)	(24,246)	(31,371)	(39,881)	(49,603)	(60,264)	(71,501)	(82,820)	(93,627)
%sales	*(14.1)*	*(13.3)*	*(12.6)*	*(11.7)*	*(11.3)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*	*(12.0)*
Working capital	(1,242)	(1,337)	(1,548)	(1,822)	(2,133)	(3,008)	(4,119)	(5,524)	(7,274)	(9,411)	(11,964)	(14,881)	(18,079)	(21,450)	(24,846)	(28,088)
%sales	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*	*(3.6)*
Change in working capital	1,319	95	211	274	310	456	589	741	921	1,119	1,329	1,499	1,629	1,699	1,690	1,590
Free cash flow to firm	**5,650**	**3,696**	**4,839**	**6,507**	**7,988**	**10,196**	**13,933**	**18,783**	**24,996**	**32,793**	**42,367**	**53,637**	**66,458**	**80,547**	**95,458**	**110,594**
Discount factor				1.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	20.00	22.00	24.00
Discounted free cash flow to firm				**5,836**	**6,425**	**6,597**	**7,251**	**7,863**	**8,416**	**8,881**	**9,230**	**9,399**	**9,367**	**9,132**	**8,705**	**8,112**

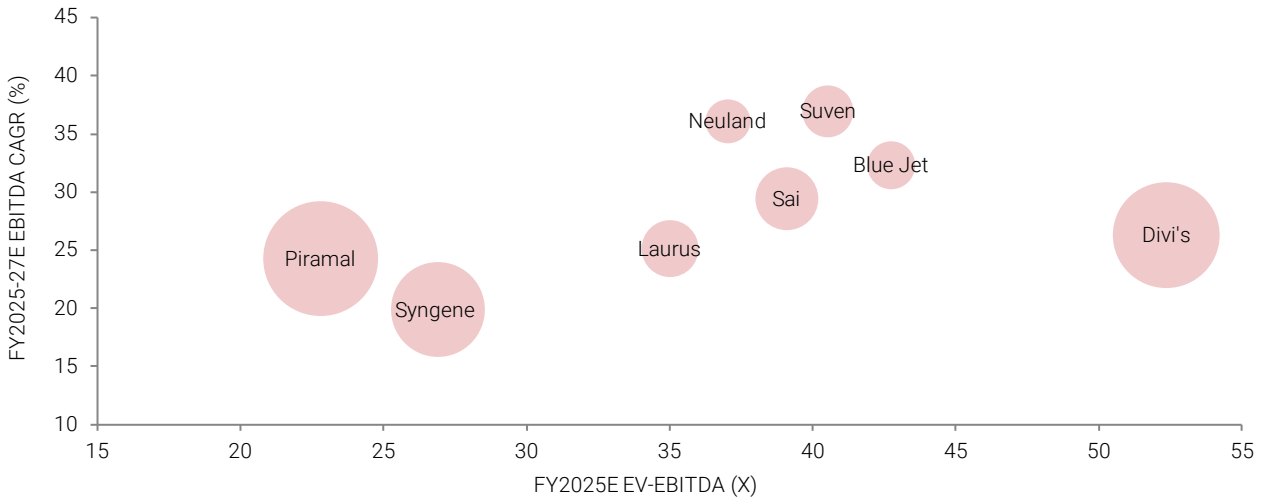
Asset valuation	
WACC (%)	**11.5**
Terminal growth rate (%)	*5.5*
Enterprise value	**339,903**
Net debt	(11,889)
Equity value	**351,792**
Minority interest	-
Equity value attributable to parent	**351,792**
Number of shares (mn)	402
Fair value per share (Rs)	**875**

Source: Company, Kotak Institutional Equities estimates

Valuations for Syngene are well below its Indian CRDMO counterparts

Syngene is trading at a relatively higher discount to its domestic peers

Exhibit 6: EV/EBITDA vs EBITDA CAGR for Indian CRDMOs, March fiscal-year ends, 2025-27E (%, X)



Notes:

(a) We have used Bloomberg estimates for Suven and Neuland; for rest of the companies, we have used KIE estimates.

(b) Size of the bubble indicates relative size of CRDMO revenues for these companies.

Source: Companies, Kotak Institutional Equities estimates

Most Indian CRDMOs continue to trade at a premium to their global counterparts

Exhibit 7: Valuations for Global CRDMO companies, March fiscal-year ends, 2024-27E

	Country	EV (US$ mn)	PER (X) 2024	PER (X) 2025E	PER (X) 2026E	PER (X) 2027E	EV/Sales (X) 2024	EV/Sales (X) 2025E	EV/Sales (X) 2026E	EV/Sales (X) 2027E	EV/EBITDA (X) 2024	EV/EBITDA (X) 2025E	EV/EBITDA (X) 2026E	EV/EBITDA (X) 2027E
Global CRDMO valuations														
Asymchem Laboratories Tian-H	China	2,779	NA	18.7	14.6	11.8	2.6	3.4	2.9	2.5	7.1	15.1	11.6	9.4
Hangzhou Tigermed Consulti-A	China	6,759	23.0	40.9	31.6	26.1	6.6	7.2	6.5	5.8	20.8	30.1	25.0	21.6
Joinn Laboratories China	China	1,643	40.4	94.4	44.3	31.7	5.1	5.8	5.5	4.5	24.0	74.7	34.6	20.6
Pharmaron Beijing	China	6,699	30.1	26.7	25.9	22.2	4.2	3.9	3.5	3.1	16.2	17.0	14.6	13.0
Wuxi Apptec	China	25,112	20.5	16.8	15.1	13.2	4.6	4.3	3.8	3.4	14.0	11.5	10.2	9.0
Wuxi Biologics Cayman	China	13,787	32.1	30.7	25.6	22.3	5.9	5.5	4.9	4.3	19.4	17.0	14.5	12.5
Blue Jet Healthcare	India	1,789	95.8	54.2	38.6	33.2	21.5	15.2	10.7	9.2	66.8	42.8	28.8	24.4
Concord Biotech	India	1,999	56.4	50.7	40.1	32.1	16.8	14.9	12.0	10.0	39.6	36.2	29.5	24.6
Divi's Laboratories	India	17,906	98.0	72.4	58.4	45.4	19.5	16.4	14.3	11.9	69.5	52.4	42.3	32.9
Gland Pharma	India	2,797	34.2	35.3	26.3	21.1	4.2	4.1	3.5	3.1	18.0	18.2	15.0	12.5
Jubilant Pharmova	India	1,902	183.7	21.3	26.5	19.1	2.4	2.2	2.1	1.8	18.0	14.1	12.3	10.0
Laurus Labs	India	4,246	208.0	107.3	67.4	52.3	7.2	6.7	5.8	5.2	46.7	35.0	26.5	22.4
Neuland Laboratories	India	1,776	50.9	58.0	34.5	25.0	10.0	9.8	7.4	5.8	32.9	37.0	23.1	17.2
Piramal Pharma	India	3,899	1,625.2	560.1	117.9	53.8	4.1	3.6	3.2	2.8	27.8	22.8	18.5	14.7
Sai Life Sciences	India	1,890	168.3	101.3	81.1	58.1	11.0	9.8	8.3	6.9	55.6	39.1	32.1	24.3
Suven Pharmaceuticals	India	3,425	99.6	86.2	63.4	46.8	28.3	13.7	8.4	6.9	72.2	40.5	25.1	19.6
Syngene International	India	3,341	55.8	62.2	57.6	43.4	8.2	7.6	6.6	5.6	25.5	26.9	22.6	18.1
Celltrion	South Korea	29,106	90.4	37.1	26.2	19.2	12.0	9.5	7.9	7.2	46.9	23.7	18.0	14.7
Samsung Biologics	South Korea	52,414	70.8	59.6	48.1	41.5	16.9	14.0	12.0	10.5	40.1	34.8	29.1	25.5
Lonza Group Ag	Switzerland	49,952	64.8	34.2	28.8	24.1	6.7	5.7	5.2	4.6	27.5	20.0	17.3	14.9
Charles River Laboratories	United States	11,240	841.5	18.0	16.4	14.7	2.8	2.9	2.8	2.6	17.1	11.8	11.3	10.2
Iqvia Holdings	United States	45,313	24.7	15.8	14.1	12.7	2.9	2.8	2.7	2.5	13.0	11.9	11.1	10.3
Labcorp Holdings	United States	25,481	26.5	14.7	13.3	11.9	2.0	1.8	1.7	1.7	13.1	10.7	10.1	9.4
Thermo Fisher Scientific	United States	224,790	31.6	22.5	20.3	18.1	5.2	5.1	4.8	4.5	20.8	19.7	18.2	16.7

Notes:

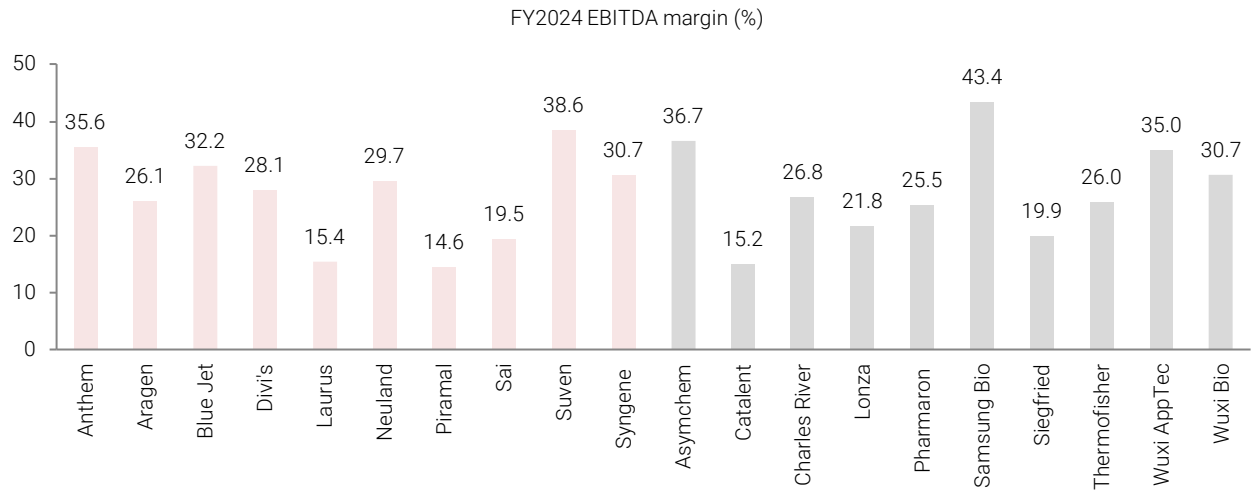
(a) We have used KIE estimates for companies under our coverage; for the rest, we have used Bloomberg estimates.

(b) 2024-27 March fiscal year-ends for Indian companies, 2023-26 December calendar year-ends for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

As of FY2024, Syngene had the fourth highest EBITDA margin among Indian CRDMO companies

Exhibit 8: Global CRDMO EBITDA margins comps, March fiscal year-end, 2024 (%)



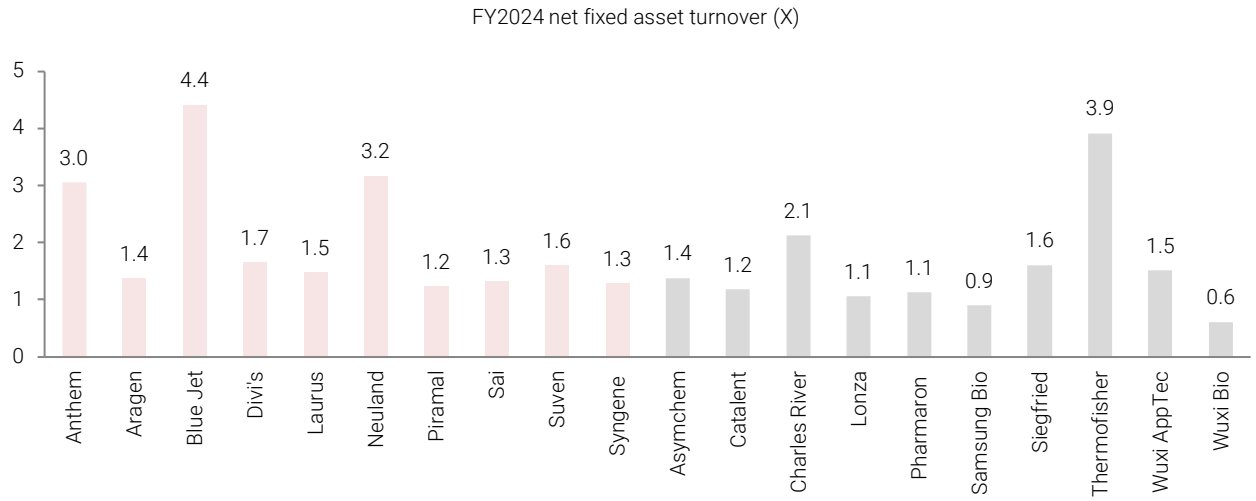
Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

Owing to underutilization at Mangaluru, Syngene's FY2024 net fixed asset turnover lagged behind its Indian CRDMO peers

Exhibit 9: Global CRDMO net fixed asset turnover comps, March fiscal year-end, 2024 (X)



Notes:

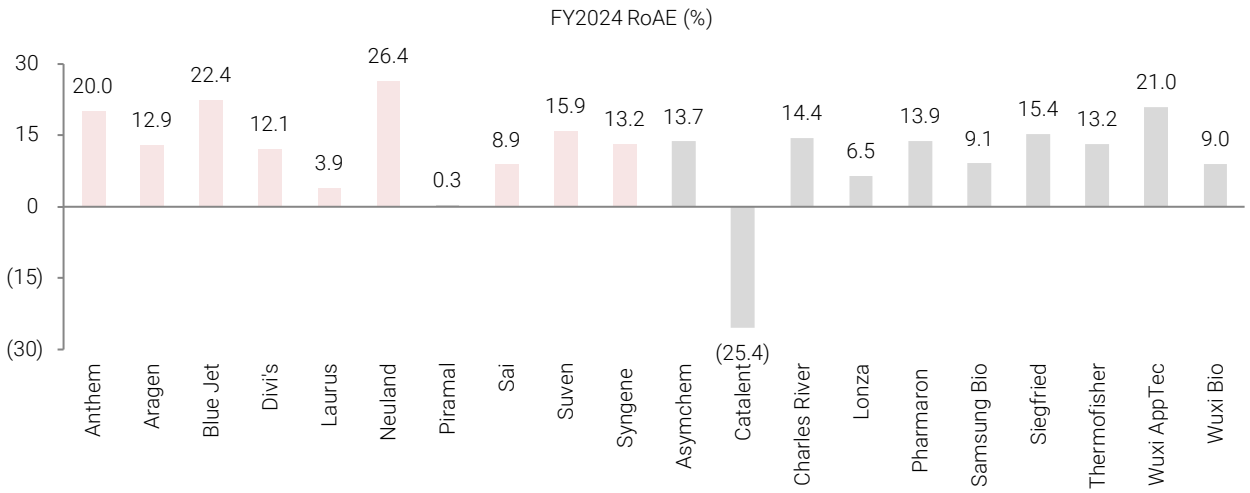
(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) Net fixed asset turnover = Revenue/average net fixed assets (excl. CWIP).

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

As of FY2024, Syngene had the fifth highest RoE among Indian CRDMO companies

Exhibit 10: Global CRDMO RoAE comps, March fiscal year-end, 2024 (%)



Notes:

(a) March fiscal year-end for Indian companies, June fiscal year-end for Catalent and December calendar year-end for global companies.

(b) RoAE = PAT/average equity.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

2

Innovation-focused CRO with a 'follow-the-molecule' strategy

Syngene is one of India's most prominent CRO players, with a distinct focus on innovation. It has adopted a 'follow-the-molecule' strategy, which allows it to be present throughout the lifecycle of a molecule, evident from the 18-20 active integrated projects under its 'SynVent' platform. With ~5,656 scientists, of which 60%+ are in discovery, and a robust client base of 400+, the company has established relationships with big pharma companies, emerging biopharma, as well as, small and mid-cap biotech firms. With dedicated centers continuing to provide a stable revenue stream, we expect Syngene's overall CRO growth to ramp up, led by higher productivity of scientists, gradual alleviation of the US biotech funding environment and a faster commercial engine (45+ business development personnel hired in the past 2-3 years; ~1 year of spare capacity available) and forecast a ~11% sales CAGR, for Syngene's CRO business over FY2024-28E.

Dedicated centers provide a stable revenue stream with elevated 35%+ EBITDA margins

Back in FY2008, Syngene was the first Indian CRO company to start the concept of dedicated centers. Under this model, it has exclusive tie-ups with clients. These dedicated centers are generally multi-disciplinary, full time equivalent (FTE)-based engagements, and provide a turnkey solution for clients seeking to establish and operate a dedicated research center on a large scale without the need for long-term capital investments. Clients are thereby provided with customized and ring-fenced infrastructure, as well as dedicated scientific and support teams. This service enables seamless integration into the client's internal research network while maintaining the flexibility to scale operations up or down as needed. Each R&D Center is staffed by a dedicated, multi-disciplinary team of scientists and support personnel. The research activities and investments are collaboratively carried out by both Syngene and the client. At times, clients may also contribute towards the purchase of certain assets. Although these assets are reflected as part of Syngene in the company's balance sheet, on termination of the agreement, clients can take over these assets. These agreements usually range over a period of 3-5 years. Currently, under this division Syngene has tie-ups with three clients—Bristol Myers Squibb, Baxter and Amgen.

Currently, under the dedicated centers model, Syngene has tie-ups with three clients—Bristol Myers Squibb, Baxter and Amgen

Syngene has dedicated tie-ups with three big pharma companies

Syngene commenced the dedicated centers model by onboarding Bristol Myers Squibb (BMS) as its first client in FY2008. Since then, it had added other players such as Abbott, Baxter, Herbalife and Amgen. However, after the end of tenure of the first agreement, Abbott and Herbalife did not renew the contracts. Currently, Syngene has three big pharma companies as clients, namely, BMS, Baxter and Amgen, for whom it has set up dedicated centers.

- **Bristol-Myers Squibb (BMS):** In FY2008, Syngene entered into a strategic alliance with BMS, focused on novel research in small and large molecules, almost after a decade of onboarding BMS as a client. The companies together set up the Biocon Bristol-Myers Squibb Research and Development Center (BBRC), spanning across lab space of ~250k sq. ft. At this center, Syngene has currently hired ~550 scientists and offers integrated capabilities across medicinal and process chemistry, biology, biotechnology, biomarkers, analytical research, drug metabolism and pharmacokinetics, etc. Over time, this dedicated center has become BMS' largest R&D presence in Asia. From this center, Syngene has produced 10+ drug candidates for further study and advanced new compounds for first-in-human studies. Over the past 16 years, this contract has been renewed multiple times, and the scope of R&D has also expanded. In FY2021, both parties renewed their contracts for a duration of 10 years.

  Baxter: While client relationships with Baxter date back to FY2008, Syngene entered into the dedicated tie-up with Baxter in FY2014, focused on R&D of medical products and devices for patients globally. Syngene set up a center with a laboratory space of ~70k sq. ft., wherein it has been working on product and analytical development, pre-clinical evaluation in parenteral nutrition and renal therapy. At this center, Syngene currently employs ~200 scientists. After the first agreement expired, both companies renewed their partnership, and Syngene commissioned additional lab space for Baxter, as well as extended the contract term. The most recent contract renewal occurred in FY2024.

- **Amgen:** In FY2013, Syngene onboarded Amgen as a client for its discovery business. Thereafter, it entered into a multi-year collaborative agreement with Amgen in FY2017 and commissioned a dedicated facility, Syngene Amgen R&D Center (SARC). As per the tie-up with Amgen, Syngene's focus is similar to its agreement with BMS, i.e., medicinal and process chemistry, biologics, bioprocess, drug metabolism, pharmacokinetics, etc. The research facility was originally set up with a laboratory space of ~25k sq. ft. Since then, Syngene has expanded its capacity to ~60k sq. ft. of lab space and currently hires ~185 scientists. Both parties renewed the agreement in FY2022, for a duration of five years. As per the renewed contract, Syngene intends to build a dedicated lab to provide additional capacity for scaling up its API research capabilities. In addition to SARC, Amgen has also commenced a GCC (technology and innovation center) in Hyderabad in FY2025. The site is aimed at accelerating Amgen's digital capabilities through AI and data science to further advance its pipeline of medicines. We note Amgen's plans for the tech center have negligible overlap with its current contract with Syngene. Nevertheless, Amgen intends to invest an additional amount of ~US$200 mn in CY2025E, with more such investments planned over the medium term.

We bake in a ~5% sales CAGR, for Syngene's dedicated center business over FY2024-28E, lower than the cumulative R&D CAGR of BMS, Baxter and Amgen, over CY2019-24

Higher R&D spends for Syngene's clients to drive mid-single-digit growth for dedicated centers

Given the dedicated centers model is a B2B and highly client-centric, the most suitable approach to gauge the outlook would be to look at the asset pipeline and R&D spends of Syngene's clients. These companies have several pipeline assets across key therapeutic areas. We bake in a ~5% sales CAGR, for Syngene's dedicated center business over FY2024-28E, lower than the cumulative R&D CAGR of BMS, Baxter and Amgen, over CY2019-24. We note that, the dedicated model provides a stable revenue source and distinct earnings visibility for Syngene. Also, the business is characterized by relatively slower ramp-up, compared to Syngene's remaining two business segments, as well as lack of any inflection point.

Syngene's three dedicated clients have several assets under development across key therapeutic areas

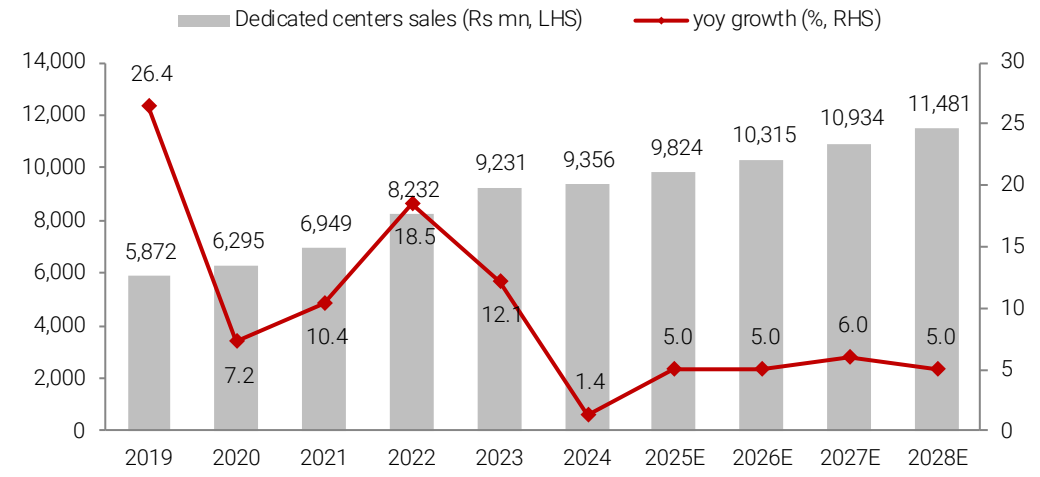
Exhibit 11: R&D pipeline and spends of Syngene's dedicated clients, December calendar year-ends, 2019-24 (%)

	BMS	Baxter	Amgen
R&D pipeline			
Asset count	54	16	22
Focus therapies	Oncology, Hematology, Immunology, Neuroscience, Cardiovascular	Infusion Therapies & Technologies, Advanced Surgery, Care & Connectivity Solutions, Front Line Care, Injectables & anesthesia	General medicine, Rare disease, Inflammation, Oncology
CY2019-24 R&D CAGR (%)	**10.6**	**(0.2)**	**7.7**
Cumulative CY2019-24 R&D CAGR (%)		**9.1**	

Source: Companies, Kotak Institutional Equities

We expect Syngene's dedicated centers business to report a ~5% CAGR over FY2024-28E

Exhibit 12: Dedicated centers sales, March fiscal year-ends, 2019-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

Discovery services with integrated offerings and robust client base remain Syngene's forte

We highlight that Syngene is one of the top Indian players in the CRDMO space, especially when it comes to the research and discovery model. Syngene's discovery services span across the entire spectrum of early-stage research, from target identification to delivery of drug candidates for further development, across both small and large molecules. It mainly follows the FTE model in this vertical, particularly for synthetic chemistry projects. Over the past few years, it has also started to offer integrated solutions or integrated drug discovery projects (IDD), under its SynVent platform, which combine multiple capabilities inside discovery services.

Syngene is one of the top Indian players in the CRDMO space, especially when it comes to the research and discovery model

In the discovery services segment, Syngene conducts early-stage research, from identifying biological targets relevant to diseases in patient populations to delivering drug candidates for further development. Within this segment, Syngene's capabilities encompass chemistry, biology, safety assessment, and computational and data sciences. It caters to traditional small molecule therapeutics, biologics, and specialty modalities such as peptides, oligonucleotides, antibody drug conjugates (ADCs), and targeted degradation/stabilization. SynVent, a part of discovery services, is a platform for integrated drug discovery that offers clients complete project delivery capabilities, utilizing the company's differentiated technologies and scientific expertise.

Under its discovery services business, Syngene offers a variety of functions

Exhibit 13: Discovery services offerings, March fiscal year-end

	Target identification and validation	Hit validation	Hit to lead	Lead optimization	IND enabling
Biology, DMPK and Pharmacology	**Target ID** • Pathway analysis • Omics • Knock-in / knock-out	**In vitro assays:** • Biochemical • Orthogonal • HTS Formats	**In vitro assays:** • Cellular mechanistic • Cellular functional • Relevant off-target(s) **In vitro ADME assays:** • Protein binding • Metabolism • CYP inhib/induct	**In vivo assays/studies:** • PK (R/NR) • PD, PK/PD • Efficacy	**Later translational:** • PK/PD/efficacy • Refinement of patient selection hypothesis • Biomarkers
	Hypotheses: • Therapeutic • Mechanistic • Target engagement		**Research Operating Plan:** • Assay priority • Key studies • Critical path	**Hypothesis:** • Patient selection	
Synthetic, Medicinal and Analytical Chemistry	**HTS/DEL/fragments/virtual screening** • Library design/synthesis/maintenance • Hit validation, resynthesis • Series qualification, prioritization		**Optimization:** • Biochem/cell potency • Selectivity • Phys/chem properties • In vitro/vivo tool cmpds	**Optimization:** • Tgt optimal h-profile • Candidate selection • Backup strategy	
Safety Assessment			**In vitro Safety:** • hERG • Ion channels	**Tax-suitable Formulation (maximize exposure)**	DRF tox (R/NR) Bioanalysis GLP tox (R/NR) GLP bioanalysis
	Computational and Data Sciences Iterative data analysis and interpretation, models, hypothesis generation				

Source: Company, Kotak Institutional Equities

Syngene has extensive capabilities in its discovery business, across small and large molecules

Syngene's capabilities in the discovery services business include recombinant DNA engineering, cell line development, next-generation sequencing, and protein sciences for large molecules. Below we list down some of Syngene's key capabilities, most of which are fast-emerging trends in the pharma space.

- **Chimeric Antigen Receptor (CAR)-T:** CAR-T, primarily used for treating blood cancer ailments, is a type of treatment, wherein T-cells, taken from a patient's blood, are genetically modified in the lab to specifically target the carcinogenic cells. Several pharma companies have indicated their emphasis on developing CAR-T capabilities. CAR-T involves genetic modification and is a rather new treatment process. Hence, there exists significant headway for growth in the CAR-T CRDMO space, which is captured in the potential market opportunity of US$4-5 bn. Syngene has honed its expertise in CAR-T, in discovery and pre-clinical research, which includes hypothesis testing, validation of novel biological targets, and investigation of new treatment options, similar to CAR-T. It is also involved in clinical trial monitoring and providing data management services to clinicians, who administer CAR-T treatments.

- **Oligonucleotide:** Oligonucleotides are used to treat various respiratory diseases such as asthma and Chronic Obstructive Pulmonary Disease (COPD). The mode of action for these drugs are RNA interference or gene silencing. While Syngene is involved in the discovery process of oligonucleotides, it has also developed capabilities for providing synthesis services, across the spectrum, from research to development and manufacturing of chemically synthesized oligonucleotides (DNA/RNA, siRNA, miRNA, Antisense oligonucleotides).

- **Proteolysis Targeting Chimera (PROTAC):** A PROTAC is a molecule, which is used to selectively remove unwanted proteins. Given the complexity, it is a novel and rapidly evolving technology in anti-cancer therapeutics. Syngene has best-in-class end-to-end discovery, development and manufacturing expertise in PROTAC. Syngene's PROTAC platform includes services such as target validation, hit identification, hit to lead optimization, IND-enabling and formulation development. Syngene has ~15 global clients, who have reached out to the company for PROTAC projects. Currently, Syngene is further expanding its PROTAC capabilities to support projects, based on molecular glues, ribonuclease targeting chimeras (RIBOTACs), and lysosome-targeting chimeras (LYTACs), termed as X-TACs. PROTACs are better-used for treating tumors, compared to small molecule inhibitors. The space is highly sought after by big pharma companies, as players such as Pfizer and Novartis have acquired or invested in companies and emerging biotech firms that work on PROTACs.

- **Antibody Drug Conjugate (ADC):** In comparison to monoclonal antibodies (mAbs), which are only effective in terms of treating cancer, and also harm the healthy cells, ADCs selectively targets the carcinogenic cells as well as preserve the non-cancer cells of the body. ADCs combine a monoclonal antibody (mAb), which binds to a specific target protein on the surface of cancer cells, with a drug, typically a cytotoxic chemotherapy agent, via a chemical linker. This a fast-growing space and the ADC market is expected to grow to ~US$50 bn by CY2030E. A bulk of the ADC manufacturing operations are outsourced, as it involves the combination of a payload, a linker and a conjugate. Syngene is present in the research discovery space in ADCs and provides an array of services, including, target selection, antibody discovery and bioanalysis. While Syngene can manufacture the mAb owing to its expertise in large molecules, it cannot manufacture the conjugate.

Functional diversity is another key element of Syngene's discovery model

Currently, Syngene has 18-20 active integrated projects under the SynVent platform, which contributed 12-13% of Syngene's overall sales, as of 1HFY25, a notch lower than earlier peak levels of ~15%

While Syngene's discovery platform has multiple capabilities, it also offers a variety of offerings, in terms of functional areas, ranging across chemistry, biology, safety assessment and toxicology, as well as computational and data sciences.

- **Chemistry:** The Discovery Chemistry team provides a diverse range of platform capabilities, including synthetic and medicinal chemistry, library synthesis, analytical support, and purification.
- **Biology:** The Discovery Biology team works on cutting-edge research into cell engineering, antibody discovery, protein sciences, assay biology, in vivo pharmacology, genomics, and translational sciences.
- **Safety Assessment and Toxicology:** The Safety Assessment team offers exploratory studies as well as full Good Laboratory Practices (GLP) packages. Syngene provides for a full DMPK suite, both in vitro ADME and in vivo PK studies. It also offers specialty studies such as in vitro cytotoxicity, skin irritation, phototoxicity, skin sensitization, as well as medical device testing.
- **Computational and Data Sciences:** Syngene's discovery business is backed by an advanced informatics capability that enables faster, more efficient decision-making. Its computational and data sciences capabilities extend across target intelligence, multi-omics data analysis, systems modelling, molecular modelling, drug repurposing, predictive modelling, and multiparameter optimization.

Under the SynVent platform, the company offers integrated one-stop-shop solutions to clients

For a client, switching from a CRO to a CDMO often leads to hassles, implying higher costs, increased validations and more trials. However, recently, some CRDMOs have been coming up with platforms, wherein they offer integrated end-to-end research, discovery, development and manufacturing services. Not only does this enable a client to avoid the unnecessary problems, involved with switching service providers, it also enables the CRDMO companies to gain higher share of the clients' business and consolidate the relationship. Accordingly, Syngene has launched its own platform, SynVent, with an aim to cater to the client throughout the life cycle of a molecule. Under this platform, it offers integrated services, across both small and large molecules. We highlight that this model is much more meaningful for CRO companies such as Syngene, who start from the initial research phase and move on to the development and manufacturing phase. Being involved from the start allows Syngene better control of the development process and also guarantees a better success rate. The SynVent platform provides clients more effective and efficient methods of conducting various activities such as target validation, translational interrogation, drug discovery, and preclinical development. Currently, Syngene has 18-20 active integrated projects under this platform. Given FY2024 was a muted year for discovery, and 1HFY25 witnessed some recovery in discovery sales, these integrated projects contributed 12-13% of Syngene's overall sales, as of 1HFY25, a notch lower than earlier peak levels of ~15%. With more and more clients opting for integrated services (also aided by a rising small pharma mix for Syngene), we expect this contribution to rise sharply in the upcoming years.

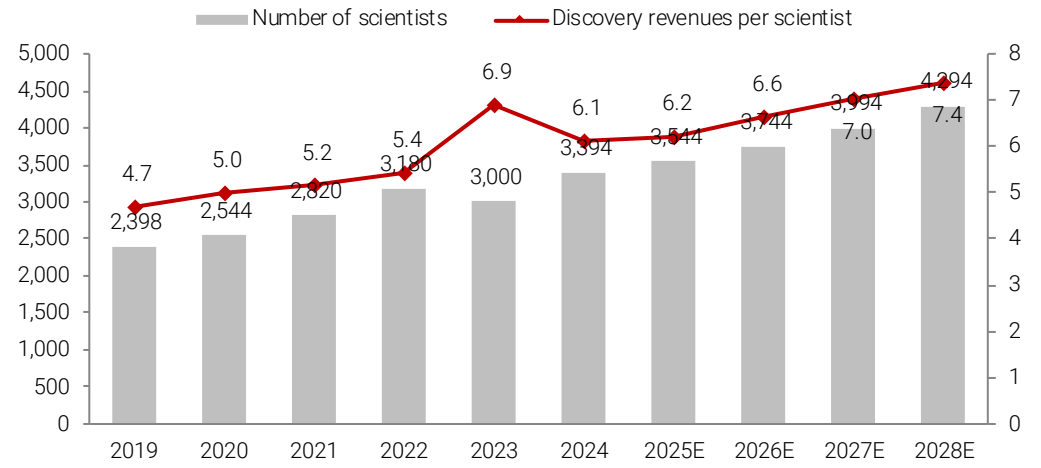
Syngene has a strong innovation edge with 80%+ of its workforce comprising scientists

Among leading Indian CRDMOs, Syngene has the largest workforce of scientists, most of whom are PhDs and experts in their respective disciplines. Syngene also invests meaningfully to enhance this scientist base. Over FY2019-24, Syngene added ~40% to its workforce, which as of today comprises a total of ~5,656 scientists. Of these, 60%+ belong to Syngene's CRO segment. Syngene has also improved its scientist productivity significantly over the past few years, and productivity in FY2024 stood at ~Rs6.1 mn per scientist. We expect Syngene to continue expanding its team of scientists, and also factor in higher per scientist productivity of ~Rs7.4 mn by FY2028E.

Over FY2019-24, Syngene added ~40% to its workforce, which as of today comprises a total of ~5,656 scientists, of whom, 60%+ belong to Syngene's CRO segment

We expect Syngene's productivity per scientist to gradually improve to ~Rs7.4 mn by FY2028E

Exhibit 14: Scientist base and sales per scientist, March fiscal year-ends, 2019-28E (Rs mn, #)



Source: Company, Kotak Institutional Equities estimates

A rising high value mix to drive a strong discovery growth profile

Over the past two years, Syngene has been steadily shifting away from its earlier strategy of not investing ahead of time. In our view, Syngene can generate incremental discovery sales of ~Rs9 bn in a year (~24% of FY2025E overall sales), without making further investments in labs and scientists. In FY2024, it set up a compound management facility and a DMPK biology lab in Hyderabad for improved studies on small molecules. The company also acquired a land parcel of ~17 acres in Genome Valley, Hyderabad, for an amount of ~US$33 mn, as an extension to its existing research campus. Syngene expects to invest an additional capex of ~Rs8 bn for adding the infrastructure and scientists, in order to get it ready for operations. Moreover, Syngene has been focusing on reducing its contribution from commoditized projects. As of YTDFY25, these projects contributed ~50% to Syngene's discovery sales. Given these projects largely pertain to synthetic chemistry, at a lab scale, and involve lead generation and optimization, the realizations from such projects are lower, compared to an integrated one.

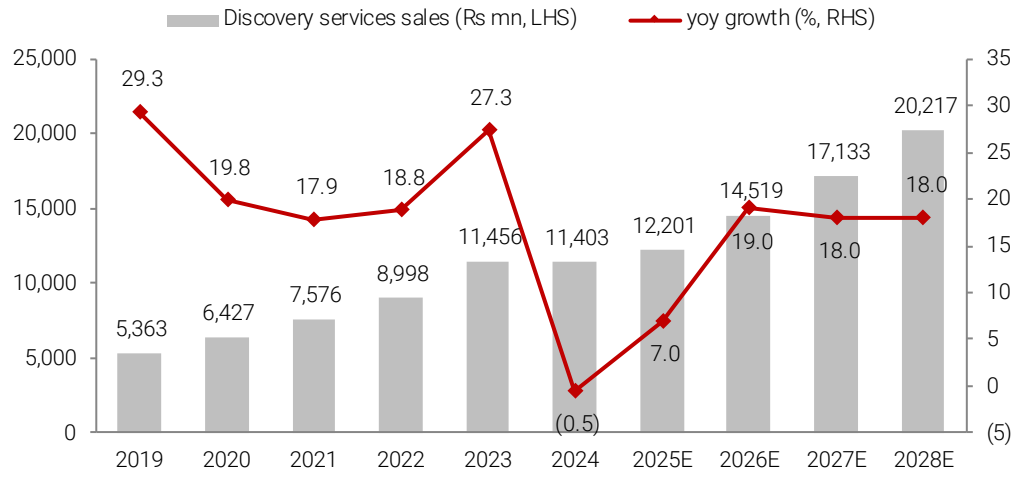
Slightly higher aggression—a key deviation from Syngene of the past

Since Covid, there have been two key advancements in Syngene's discovery segment. Prior to Covid, Syngene did not have any sales personnel located outside India. Over the past 2-3 years, the company has built a 45+ member strong business development team, many of whom are located outside India. Among the various advantages of building this team is that Syngene can now better understand progress of its clients on various technologies. Secondly, after having run out of discovery capacities in FY2022 amid a surge in demand, the company has been investing slightly ahead of time to build its discovery presence and improve the turnaround time. In addition, the company has been working on cataloging its capabilities more effectively to showcase them to clients. Apart from these, led by an improved utilization of available capacities, commencement of the Hyderabad campus extension, and lower commoditized business contribution, we bake in a ~15% sales CAGR for Syngene's discovery services business over FY2024-28E.

Over the past 2-3 years, Syngene has built a 45+ member strong business development team, many of whom are located outside India

We expect Syngene's discovery services business to report a ~15% sales CAGR over FY2024-28E

Exhibit 15: Discovery services sales, March fiscal year-ends, 2019-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

3

Capacities and capabilities in place to drive robust CDMO uptick hereon

Syngene has established itself as a reliable early-stage CDMO service provider for global innovator and biotech firms. Its CDMO offerings span across both small and large molecules, and encompass a wide variety of capabilities, right from the pre-clinical stage to commercial manufacturing. Syngene's existing CDMO operations are based out of two facilities in Bengaluru and Mangaluru, of which the Mangaluru facility operates at suboptimal levels. Recently, it also acquired Stelis' biologics manufacturing unit, as well as, a biologics facility in the US, which would go online soon. Backed by its strong discovery capabilities and 'follow-the-molecule' strategy, Syngene has bagged a bunch of CDMO contracts with innovators, the most notable of which would be for Librela's commercial supplies to Zoetis (combined value of ~US$500 mn). Aided by macro tailwinds, as well as higher utilizations of the Mangaluru and acquired Stelis', as well as, US facilities, we bake in a robust ~19% CDMO sales CAGR over FY2024-28E.

Syngene's development platform primarily focuses on small molecules, wherein it takes drug candidates and provides a comprehensive range of services from pre-clinical to clinical trials

Development and manufacturing services ramp-up to drive nonlinear sales uptick

Syngene's integrated approach to the CDMO operations encompasses API development, formulation development and analytical services, clinical supplies and commercial manufacturing. Within this segment, Syngene has capabilities to cater to both small and large molecule projects. It is proficient in developing robust chemical processes, and can scale up a product of interest rapidly. Under this segment, Syngene also integrates analytical services such as method development, validation, transfer, and reference standard qualification throughout the development process. Its experts are also well-versed in providing necessary regulatory support for clients.

Syngene offers pre-clinical to Phase-III, as well as commercial manufacturing solutions within small molecules

Exhibit 16: Small molecule offerings in CDMO, March fiscal year-end

	Developability assessment	Development phase	Clinical phase			Registration/process validation	Commercial batches
			Phase I	Phase II	Phase III		
Safety assessment	Early PK, MTD/DRF studies, exploratory tox	IND enabling GLP tox studies: Ames, chromosomal aberration, micronucleus tests, pivotal repeat dose (rodent and non-rodent) Safety pharmacology: CNS, respiratory, CV telemetry, Herg		Phase II NDA enabling studies: sub-chronic and repro-tox studies Local tolerance study	Phase-III Chronic and carcinogenicity study		
Chemical development and manufacturing	Route scouting Process safety evaluation Scalability	Fit for purpose process dev Material supply Impurity identification Enable and scale Tox material delivery	Process development, robustness and safety study Unit operation studies Impurity synthesis & characterization DS clinical batch supply			Process DOE, QBD and scale-up studies Process risk assessment FMEA analysis Registration and process validation batches manufacturing	Commercial batches manufacturing and packaging
Formulation development and manufacturing	Pre-formulation Salt polymorph screening Excipient compatibility	Solid oral and injectable dosage forms Enabling formulation technologies	Clinical Supplies for all phases FIH formulation for phase I/IIa Final dosage form for phase IIb/III and onwards				
Analytical services	Methods for pre-formulation and bio-analytical	Methods for intermediate, Final DS, DP Forced degradation studies Solid state characterization	Phase appropriate method validation for DS & DP (microbial methods) Specifications for DS & DP In process and finished product analysis Final batch release with COA Reference standard, impurities, isolation and characterization			Robustness of analytical methods and full validation as per ICH	Stability study of commercial batches
Stability services	Selection of suitable container closure system & packaging	Development stability studies	ICH stability for all phases Shelf-life estimation Re-test extension			Stability study of registration/ process validation batch	Stability study of commercial batches
Clinical development			Human pharmacology unit (phase I/BE studies) Clinical trial A – full solution provider for conducting trials in India Central lab services including regulated bioanalytical lab Clinical data management, biostatistics and medical writing				

Source: Company, Kotak Institutional Equities

Syngene's development platform primarily focuses on small molecules, wherein it takes drug candidates and provides a comprehensive range of services from pre-clinical to clinical trials. This includes the development of drug substances and drug products, alongside associated services to demonstrate the safety, tolerability, and efficacy of drugs. Its development capabilities extend to advancing highly potent active pharmaceutical ingredients (HPAPIs) and oligonucleotides for both therapeutic and diagnostic applications, scaling from laboratory to manufacturing levels. Syngene's expertise also involves working with performance chemicals and specialty materials, utilizing synthetic organic chemistry and polymer chemistry. It integrates analytical services throughout the development process, including method development, validation, transfer, and reference standard qualification. In the manufacturing segment, Syngene provides commercial-scale manufacturing for both small and large molecules. Its small molecule production is carried out at its US FDA-compliant API manufacturing campus in Mangaluru. For large molecules, Syngene provides development and manufacturing services from its biologics facility in Bengaluru, which is approved by the US FDA and EUGMP. Syngene has also acquired a multi-modal biologics manufacturing facility from Stelis, which it plans to operationalize shortly, post certain approvals and revalidation activities. Recently, it has acquired a biologics facility in the US, which will commence operations in 2HFY26.

Syngene's CDMO capabilities in biologics range from pre-clinical to commercial manufacturing

Exhibit 17: Biologics offerings in CDMO, March fiscal year-end

	Developability assessment	Development phase	Clinical phase	Registration/process validation	Commercial batches
Process and analytical development	• Cell line development / selection • Process screening • Process characterization	• Clone to GM • Upstream process optimization • Viral clearance studies	Phase I / Phase II / Phase III • Process DOE, robustness and safety study • Unit operation studies • Impurity synthesis and characterization • DS clinical batch supply (non-GMP clinical & GMP) • CMC and regulatory support • Method development and testing	• Process risk assessment • FMEA analysis • Tech transfer package	• Commercial batches manufacturing and packaging technical support
Scale-up and QC/QA	• Methods for pre-formulation and bio-analytical	• Methods for intermediate, final DS, DP • Critical to quality parameter identification • Forced degradation studies	• Clinical phase process development and supply • Specifications for DS and DP • In process and finished product analysis • Viral clearance studies • Packaging and ICH storage stability and shelf-life estimation	• Three Lot testing and equipment validation • Cleaning validation studies • Pre-audit preparation	• QC/QA analysis & release of commercial product w/ COA • Stability analysis • Root cause Investigation and CAPA management
Commercial production and supply chain	• Early screening of asset capability and capacity	• Capacity utilization planning	• Late phase clinical supply using manufacturing scale equipment • Supplier identification • Waste management plan • CAPEX requirement identification	• Supplier qualification • Pre-audit preparation • Protocol documentation • Master batch record development • Operation training	• Sales and operations planning • Delivery / logistics • Customer and regulatory audits • Process improvement and Regulatory filing updates

Source: Company, Kotak Institutional Equities

Syngene's laboratories are fitted with fume hoods in multiple suites that help scientists and engineers develop robust and safe processes for manufacturing. Its state-of-the-art process engineering and process safety laboratories help in making processes rich with scientific data for execution at every scale. The company's chemical development team is also equipped with new age technologies such as flow chemistry, photo chemistry, HPAPI, software-based toxicity evaluation, statistical and QbD-based process development, quantitative risk assessment, and green chemistry.

To support its growing client demand in CDMO, Syngene has been expanding its manufacturing capacity since FY2016

Track record of partnering for investigational to commercial-scale development programs

Syngene provides comprehensive process research and development services, as well as current good manufacturing practices (cGMP) manufacturing capacities to help clients with investigational to commercial-scale development programs. It caters to several industries including pharma, specialty chemicals, agrochemicals, polymers, oligonucleotides, animal health, and consumer products. Its team excels at resolving complex scientific problems with a systematic approach and in a timebound manner while assuring the quality of all processes. Syngene's development capabilities include advancing high-potent APIs (HPAPIs) and oligonucleotides with therapeutic and diagnostic applications from laboratory to manufacturing scale. Its expertise also includes working with performance chemicals and specialty materials using synthetic organic chemistry and polymer chemistry.

To support its growing client demand, Syngene has been expanding its manufacturing capacity since FY2016. For instance, Unit III (acquired from Stelis), is set to commence operations for both clinical and commercial supply soon. The production capability comprises two production suites, with multiple 2 kL single-use bioreactors. Furthermore, the facility has two high-speed vial filling lines capable of manufacturing up to 1 mn vials per day, catering to fill volumes ranging from 1 to 100 mL. Alongside its production capabilities, the site features a development suite dedicated to clinical supply of drug substance, with multiple bioreactors comprising 50-500 L single-use bioreactors.

Accelerating drug development with stable and compliant drug formulations

Syngene offers formulation development services to help clients determine optimal dosage levels for therapeutic formulations in oral solid, liquid, and injectable forms. Its integrated services extend to NCEs, late-phase product development, and over-the-counter products with a focus on quality, speed, and cost-efficiency.

Syngene has a well-established formulation development center that develops and manufactures oral solid and liquid dosage forms including injectable formulations. Its facility's layout follows cGMP guidelines and Schedule 'M' of the Drugs and Cosmetics Act. The laboratory is spread across an area of ~6,000 sq. ft and supports formulation development for a scale of 0.1-5 Kg.

The entire facility is covered with non-progressive acid proof and anti-fungal modular panels as well as pressure differentials to prevent cross contamination. Syngene has segregated areas for change rooms, air handling unit (AHU) zoning, and man-material flow. The facility has 100% power back-up, abundant portable water, and an adequate waste management system.

Ensuring quality drug products using sophisticated analysis and testing

With more than 27 years of experience in analytical development, Syngene's analytical development team has expertise in method development, method validation, method transfer, and application of analytical expertise to ensure the delivery of quality drug products for early, as well as late-phase drug development programs. The team has expertise in developing phase-appropriate methods, validation, and transfer of the methods for drug substance and drug product (solid, semisolids, solutions, simple and complex long-acting parenteral formulations). Its team analyzes small molecules (RSMs, intermediates, and APIs), semi-large molecules (polymers, oligonucleotides), and biologics using a variety of spectroscopic, chromatographic, and physiochemical techniques.

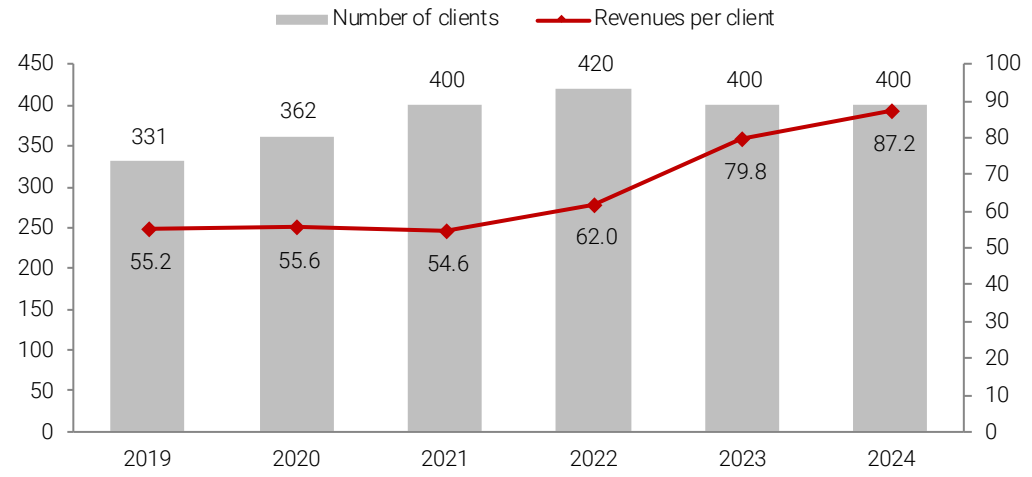
Syngene has cultivated long-term relationships with clients such as BMS, Amgen, Baxter, Zoetis, GSK, etc.

Multiple contracts with big pharma companies hold Syngene in good stead

Syngene boasts of a diverse and robust client base, consisting of leading global pharma, biotech, and other life sciences companies. Over the years, it has established meaningful relationships with its clients, some of which are major pharma companies, which demonstrates its capacity to handle complex projects. Notably, Syngene has cultivated long-term relationships with clients such as BMS, Amgen, Baxter, Zoetis, GSK, etc. Apart from its 'follow-the-molecule' strategy, Syngene has stepped up its integrated offerings, which allow it to cater to clients for their development and manufacturing requirements. This has enabled the company to create a rather sticky client base. Currently, the strong demand for its integrated business is led by big pharma companies, as well as emerging biotech firms. Syngene's customer base has grown significantly, reflecting its expanding capabilities and ability to maintain high client retention rates. We highlight Syngene has been witnessing a surge in early-stage small molecule process development programs, which could fructify into meaningful CDMO growth over the longer run.

Syngene's realizations per client have increased, led by higher commercial and integrated projects

Exhibit 18: Client base and sales per client, March fiscal year-ends, 2019-24 (Rs mn, #)



Source: Company, Kotak Institutional Equities

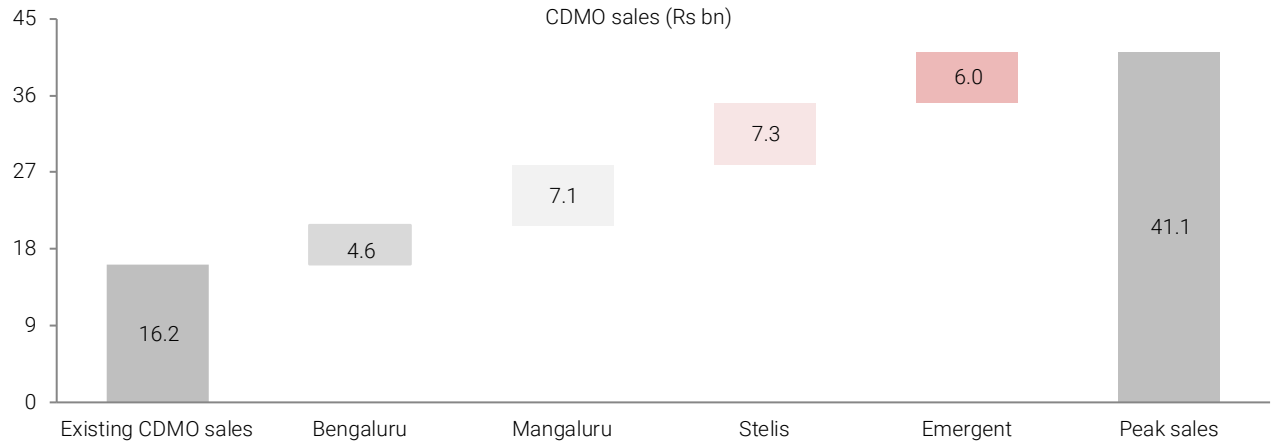
Medium-term growth in manufacturing to be led by higher utilization of facilities

At peak utilization levels, Syngene's CDMO business could generate incremental sales of ~Rs25 bn (~67% of its FY2025E overall sales)

After having worked as a CRO for nearly two decades, Syngene forayed into the contract manufacturing space in FY2010, and added capabilities and capacities for commercial scale production at its Bengaluru facility. Currently, it offers a broad spectrum of formulation development capabilities, for early as well as late phase formulation projects, which include studies on pre-formulation and toxicology, formulation development, and early and late phase clinical formulation development. Its capabilities span across various types of formulations including oral solids (tablets, capsules, drug-in-capsule), oral liquids (solutions and suspensions), injectables (solutions and lyophilised), and modified release oral dosage forms (functionally coated mini-tablets, drug layered beads as well as matrix tablet formulations). Syngene's topical formulation development capabilities include gels and polymeric films. The facility is cGMP and US FDA-approved, and is designed to support multi-kilogram to hundreds of kilograms per batch of intermediates and APIs for clinical trials. Moreover, Syngene has also built capacities to support large volumes for late-stage clinical requirements.

We expect Syngene's CDMO sales to surge by ~2.5X at peak utilization levels

Exhibit 19: CDMO sales ramp-up, March fiscal year-ends, 2025-30E (Rs bn)



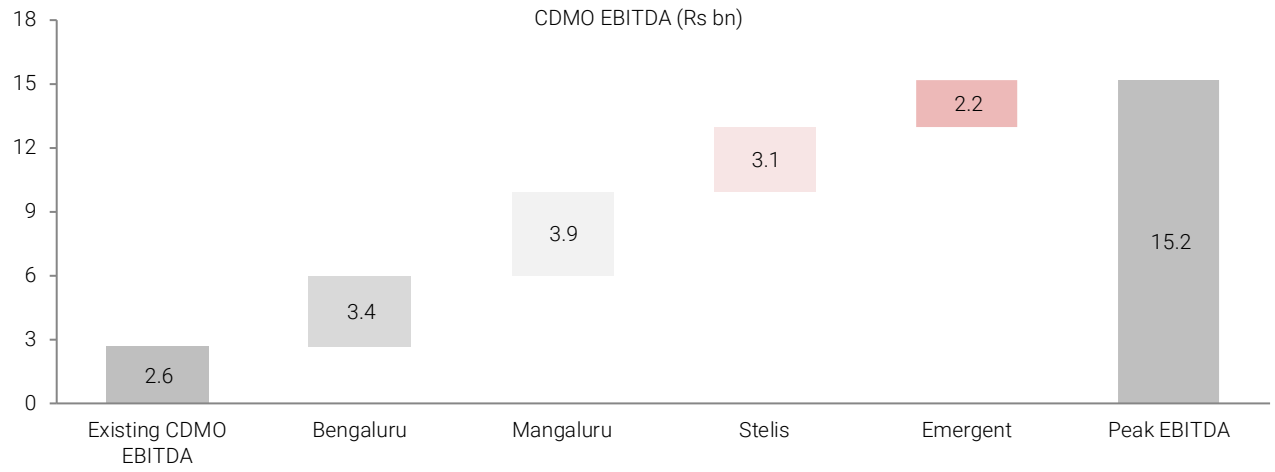
Notes:

(a) Within existing sales, we have also included FY2026E sales of the acquired biologics units from Stelis and Emergent.

Source: Company, Kotak Institutional Equities estimates

Primarily driven by operating leverage, we expect Syngene's CDMO segment to report a sharp rise in EBITDA at peak utilization levels

Exhibit 20: CDMO EBITDA ramp-up, March fiscal year-ends, 2025-30E (Rs bn)



Notes:

(a) Within existing EBITDA, we have also included FY2026E EBITDA of the acquired biologics units from Stelis and Emergent.

Source: Company, Kotak Institutional Equities estimates

Across its four facilities at Bengaluru, Mangaluru, Unit III (acquired from Stelis) and US (acquired from Emergent), Syngene offers a spectrum of small molecules and biologics CDMO services. While Bengaluru is the only facility operating at ~1.0X asset turnover, all other units are either sub-optimal or yet to commence operations. Hence, in our view, Syngene has a significant headway to scale up its CDMO operations by better utilization of these four facilities.

In our view, Syngene could achieve peak utilizations of 1.2-1.5X asset turnovers at each of these units, over the next 4-5 years. At peak, these units could generate incremental sales of ~Rs25 bn (~1.5X its existing CDMO revenues and ~67% of its FY2025E overall sales). Also, we expect operating leverage to drive meaningful EBITDA accretion of ~Rs12.5 bn (~1.2X of Syngene's FY2025E overall EBITDA).

At peak utilization levels, we expect operating leverage in Syngene's CDMO business to drive EBITDA accretion of ~Rs12.5 bn (~1.2X of Syngene's FY2025E overall EBITDA)

With both small molecules and biologics capabilities, Bengaluru remains Syngene's primary unit

Apart from offering flexible manufacturing solutions for small molecules, Syngene has also added capacities for large molecules in Bengaluru. At the biologics unit in Bengaluru, Syngene uses single-use disposable reactors,. These are installed at relatively lower costs, save switchover time, offer higher productivity, are more environmental-friendly and have lower risk of cross-contamination. The biologics manufacturing unit has mammalian and microbial capabilities and can support early stage, late stage and commercial launch supply requirements. We highlight that Syngene's commercial capabilities in Bengaluru mainly scaled up since the commencement of Librela supplies in 4QFY23, before which the biologics unit at this facility was largely used for supplying validation batches.

Syngene has invested a total of ~Rs14 bn for setting up manufacturing capacities at its Bengaluru facility. As of FY2024, the facility was operating at an asset turnover of 0.9-1.0X, still lower than optimal levels. A bunch of Syngene's manufacturing projects are centered on biologics and one of the notable biologics projects is the contract with Zoetis, for the commercial manufacturing of Librela. Particularly, if Syngene can fully utilize its manufacturing capacities in Bengaluru, and gain incremental large, as well as small molecule projects, we believe Syngene could reach peak asset turnovers of 1.3-1.5X. In our view, at its peak, Syngene should easily generate incremental sales of Rs4-5 bn from purely commercial manufacturing in Bengaluru.

We expect the Bengaluru facility to generate additional revenues of Rs4-5 bn at peak utilization

Exhibit 21: Ramp-up of the Bengaluru facility, March fiscal year-end, 2025E

	Current	Peak level
Bengaluru facility scale-up		
Capital invested (Rs mn)	13,900	13,900
Fixed asset turnover (X)	**1.0**	**1.3**
Revenues (Rs mn)	13,500	18,070
Operating expenses (Rs mn)	10,154	11,357
Fixed costs (Rs mn)	6,600	6,600
Variable cost (Rs mn)	3,554	4,757
EBITDA (Rs mn)	**3,346**	**6,713**
EBITDA margin (%)	*24.8*	*37.2*
Depreciation (Rs mn)	695	695
PBT (Rs mn)	2,651	6,018
Tax expenses (Rs mn)	668	1,517
PAT (Rs mn)	**1,983**	**4,502**

Source: Company, Kotak Institutional Equities estimates

Mangaluru generates sub-US$10 mn sales annually, even after 5 years since commercialization

Over FY2016-21, Syngene invested a total of ~US$75 mn (~Rs5.5 bn) to set up a 40-acre state-of-the art GMP facility in Mangaluru, primarily for the commercial-scale production of small molecule APIs. For its API CMO operations, Syngene's intent was to be a service provider to innovator companies, with a very limited contribution from generic molecules. The facility has a total of 11 reactors with cumulative capacity of 69.6 kL. While the largest reactor can cater to volumes as high as 12.5 kL, the minimal reactor capacity is 2 kL. Construction of the facility concluded in 4QFY20, with Syngene commencing operations in March 2020. Post-commencement, Syngene obtained the GMP certification for this facility in FY2022. In July 2023, the facility was approved by the US FDA with zero observations. In terms of technological prowess, the Mangaluru facility is automated, leveraging digital technology in GMP manufacturing, testing, and quality systems. It has been designed to address complex chemical needs, working hand-in-hand with Syngene's development platforms, and has both the capabilities and capacities to support manufacturing of multi-gram to hundreds of Kgs per batch of intermediates and APIs for clinical trials.

We note that at peak utilization levels, the Mangaluru facility would be significantly EBITDA margin accretive, with Syngene generating margins of ~50%

However, the key contention with the Mangaluru facility remains its underutilization, even after nearly 5 years of operations. Currently, we estimate, the Mangaluru facility is generating annual sales of less than US$10 mn, implying a fixed asset turnover (FAT) of less than ~0.1X. In our view, one of the major reasons for such a low utilization level is that a few key molecules, which were originally supposed to be manufactured from the Mangaluru facility, did not cross the clinical stage. Currently, since many projects of Syngene's clients have advanced to the Phase III stage and are potential candidates for commercial manufacturing operations, given the trust built with those clients since the discovery and development stages, in our view, Syngene is in a good position to partner with these clients at the manufacturing stage as well. We highlight that even if Syngene gets the CMO contract for such projects, financial benefits would mostly accrue only post-FY2026E. Accordingly, we expect sales from the Mangaluru facility to remain in low double-digit million dollars in FY2026E, with a likely uptick from FY2027E. At optimal utilizations, the facility has a peak revenue potential of ~Rs7.7 bn (~US$90 mn), which, in our view, would take at least 4-5 years to materialize.

Owing to underutilization of capacities and elevated fixed costs, Syngene has been incurring continuous losses from the Mangaluru facility. Currently, on an annual revenue base of Rs500-600 mn, we believe Syngene incurs operational expenses amounting to Rs700-800 mn, and depreciation expenses of ~Rs275 mn, thus incurring net losses of Rs400-500 mn. We highlight that given 70-80% of current operational spends are fixed in nature, Syngene would reach breakeven at the Mangaluru facility once it crosses the ~0.25X asset turnover mark. We also note that at peak utilization levels, the Mangaluru facility would be significantly EBITDA margin accretive, with Syngene generating margins of ~50%.

We expect the Mangaluru API facility to contribute ~Rs8 bn annual sales at its peak

Exhibit 22: Ramp-up of the Mangaluru API facility, March fiscal year-end, 2025E

	Current	Peak level
Mangaluru facility scale-up		
Capital invested (Rs mn)	5,500	5,500
Fixed asset turnover (X)	**0.1**	**1.4**
Revenues (Rs mn)	600	7,700
Operating expenses (Rs mn)	769	3,955
Fixed costs (Rs mn)	500	500
Variable cost (Rs mn)	269	3,455
EBITDA (Rs mn)	**(169)**	**3,745**
EBITDA margin (%)	*(28.2)*	*48.6*
Depreciation (Rs mn)	275	275
PBT (Rs mn)	(444)	3,470
Tax expenses (Rs mn)	-	874
PAT (Rs mn)	**(444)**	**2,595**

Source: Company, Kotak Institutional Equities estimates

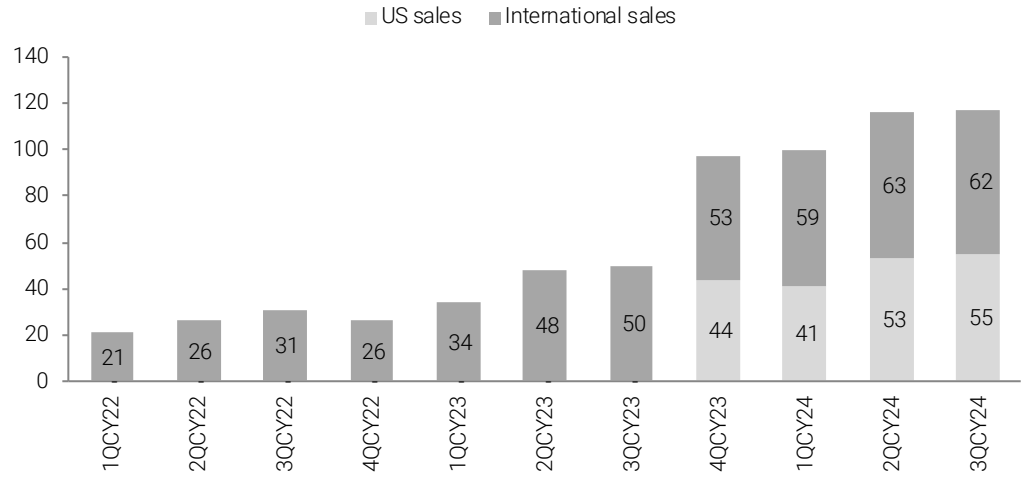
Within biologics, we expect Syngene to build on Librela's success

The Zoetis contract broadly entails a cumulative revenue recognition of ~US$500 mn, over a period of ten years

Syngene's biologics capabilities include mammalian expression systems, microbial expression systems and precision in plasmid DNA (pDNA) and messenger RNA (mRNA) manufacturing. In FY2022, Syngene signed a decade-long contract with Zoetis, wherein Syngene was to commercially manufacture Librela, amounting to a cumulative total of ~US$500 mn. This contract broadly entails an annual revenue recognition of ~US$50 mn per annum. Syngene started commercial supplies for the product in 4QFY23. We note that since end-FY2023, Zoetis has demonstrated a successful scale-up of Librela, a pain relief drug for dogs. Within a year, Librela's impressive ramp-up was visible from its CY2024 global sales of ~US$333 mn. Syngene's revenues also sharply jumped from a quarterly run rate of ~Rs7.9 bn pre-commencement of Librela supplies to ~Rs9.2 bn by end-FY2024. In fact, Librela contributed ~11% to Syngene's FY2024 sales. We also highlight that revenues from biologics, including Librela, contributed ~20% to Syngene's FY2024 sales. Owing to the contract being a manufacturing outsourcing agreement, EBITDA margins for Syngene from this project are better than its other dedicated and discovery projects.

In 9MCY24, Librela reported cumulative global sales of ~US$333 mn

Exhibit 23: Librela sales split, December calendar year-ends, 2022-24 (US$ mn)



Source: Company, Kotak Institutional Equities

Acquisition of Stelis' facility to boost Syngene's aspirations in biologics manufacturing

In December 2023, Syngene completed the acquisition of a multi-modal biologics manufacturing facility from Stelis Biopharma, an associate company of Strides Pharma, for a cash consideration of ~US$86 mn (~Rs6.2 bn). The acquired facility (Unit III), once operational, will add 20kL of installed biologics drug substance manufacturing capacity. Furthermore, the facility has two high-speed vial filling lines capable of manufacturing up to ~1 mn vials per day, catering to fill volumes ranging from 1-100 mL. The facility has 10 installed bioreactors of 2kL each and 10 additional uninstalled bioreactors, providing the potential for future expansion of up to a further 20kL of biologics drug substance manufacturing capacity. Given the facility was originally used by Stelis, for vaccine production, Syngene is currently repurposing and revalidating the facility for mAB production, and expects to complete these activities soon. We note that, this timeline got delayed from earlier timelines of 2HCY24, as Syngene had to hire a third party to ensure the facility was properly decontaminated.

At peak utilization levels, we expect Unit III to yield an asset turnover of ~1.2X and generate peak revenues of Rs8-9 bn

Syngene already has a few projects lined up at Unit-III, a few of which are animal health projects. Most of these are for mAbs. In comparison to human health projects, animal health projects require lesser time for commercialization since only Phase-I studies are needed. Accordingly, we expect a sharp ramp-up for Unit III, once it commences operations in FY2026E.

At peak utilization levels, we expect Unit III to yield an asset turnover of ~1.2X. At these utilizations, Syngene could generate peak revenues of Rs8-9 bn. However, given the fixed annual operating costs of ~Rs1.5 bn, and only partial utilization till more human health projects kick in, the facility would reach EBITDA breakeven only in FY2029E, in our view. Also, taking into account annual depreciation expenses of ~Rs500 mn, initial net losses at Unit III would be in the range of Rs700-800 mn.

At peak utilization levels, the acquired Stelis' biologics facility can reach EBITDA margins of ~35%

Exhibit 24: Ramp-up of the acquired Stelis' facility, March fiscal year-ends, 2026E

	FY2026E	Peak level
Stelis facility scale-up		
Capital invested (Rs mn)	7,160	7,160
Fixed asset turnover (X)	**0.2**	**1.2**
Revenues (Rs mn)	1,289	8,591
Operating expenses (Rs mn)	1,500	5,750
Fixed costs (Rs mn)	750	750
Variable cost (Rs mn)	750	5,000
EBITDA (Rs mn)	**(211)**	**2,841**
EBITDA margin (%)	*(16.4)*	*33.1*
Depreciation (Rs mn)	511	511
PBT (Rs mn)	(723)	2,330
Tax expenses (Rs mn)	-	587
PAT (Rs mn)	**(723)**	**1,743**

Source: Company, Kotak Institutional Equities estimates

Syngene has recently established an offshore presence by acquiring a US biologics facility

In March 2025, Syngene set out to grow its offshore presence, by announcing the acquisition of a biologics manufacturing facility in Baltimore, US, from Emergent BioSolutions for a consideration of ~US$56 mn (~Rs4.8 bn). With the acquisition set to complete in 1HFY26, we expect Syngene to further consolidate its foothold in the biologics CRDMO space. Syngene plans to commence operations at this site in 2HFY26. The acquisition entails addition of ~16 kL biologics manufacturing capacity, which includes some small reactors and pilot labs. Syngene plans to improve its customer value proposition within biologics through process optimization and yield improvement at this site. Project realizations for Syngene are higher for projects based out of US, as compared to India. Although the costs of executing such projects are also high, due to higher clinical trial costs and regulatory requirements, Syngene's cost structures and robust talent pool would provide it an edge to ramp up its operations in the US. Aided by

new contracts and gradual utilization of this capacity, we expect Syngene to reach a peak asset turnover of 1.3-1.4X at this facility in the next 6-7 years. This is an interesting acquisition by Syngene, given it, apart from adding to Syngene's biologics capacities (total biologics capacity now reaches 50 kL), would help the company secure more contracts from clients needing US-based manufacturing and eventually drive better realizations.

The acquisition of Emergent's biologics facility adds 16 kL to Syngene's biologics capacity (total biologics capacity now reaches 50 kL)

At peak utilization levels, the acquired US biologics facility can reach EBITDA margins of ~30%

Exhibit 25: Ramp-up of the acquired Emergent's facility, March fiscal year-ends, 2026E

	FY2026E	Peak level
Emergent facility scale-up		
Capital invested (Rs mn)	4,846	4,846
Fixed asset turnover (X)	**0.2**	**1.4**
Revenues (Rs mn)	770	6,785
Operating expenses (Rs mn)	1,091	4,924
Fixed costs (Rs mn)	600	600
Variable cost (Rs mn)	491	4,324
EBITDA (Rs mn)	**(321)**	**1,861**
EBITDA margin (%)	*(41.6)*	*27.4*
Depreciation (Rs mn)	323	323
PBT (Rs mn)	(644)	1,538
Tax expenses (Rs mn)	–	388
PAT (Rs mn)	**(644)**	**1,150**

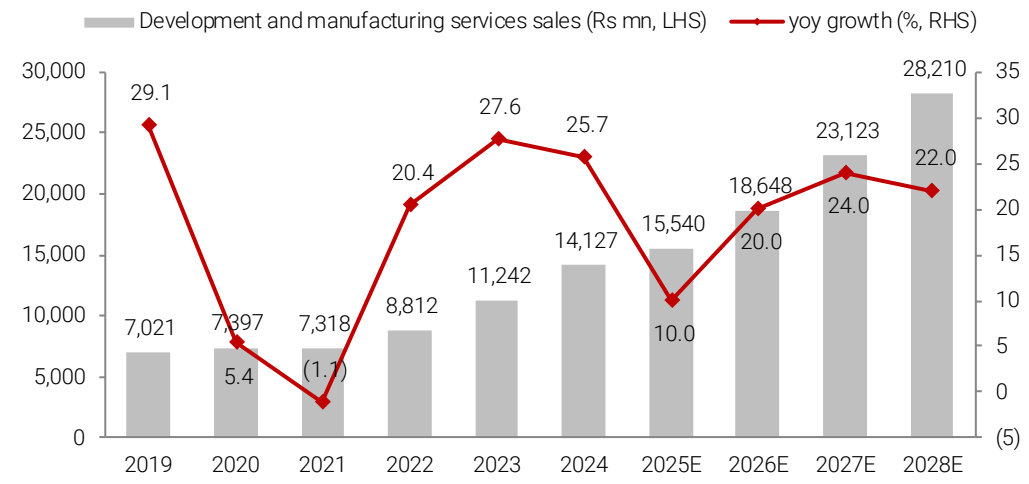
Source: Company, Kotak Institutional Equities estimates

Robust CDMO prospects aided by better supply chain viability and multiple pilot projects

Syngene's supply chain network is not only limited to the Indian local ecosystem, but it is also engaged with global suppliers in the US and the EU. The company first came up with its China-independent supply offering in end-FY2023, and has witnessed significant traction since then. Nearly one-third of the total RFP inflows are attributable to such offerings for Syngene. Also, there has been a remarkable 35%+ yoy growth in Syngene's client audits (~60 client audits in 1HFY25). Thus, despite the relatively slow ramp-up over the past decade, we expect a pick-up in CDMO growth hereon for Syngene, and factor in ~19% CDMO sales CAGR over FY2024-28E.

We forecast a ~19% sales CAGR for Syngene's CDMO segment over FY2024-28E

Exhibit 26: Development and manufacturing services sales, March fiscal year-ends, 2019-28E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

4

Key risks: Muted funding, capacity underutilization and client concentration

Slower-than-expected pick-up in the US biotech funding environment, pricing aggression by Chinese CROs, continued underutilization of the Mangaluru small molecule API facility, prolonged ramp-up of the acquired biologics facilities, high customer concentration with its top 4 clients contributing ~39% of FY2024 sales and any potential impact on its contractual relationship due to an unfavorable outcome of the anti-competitive allegations on Zoetis are some of the key risks for Syngene. Other risks for the company include capital constraints and stake sale overhang due to Biocon's elevated debt levels, as well as, high senior management churn.

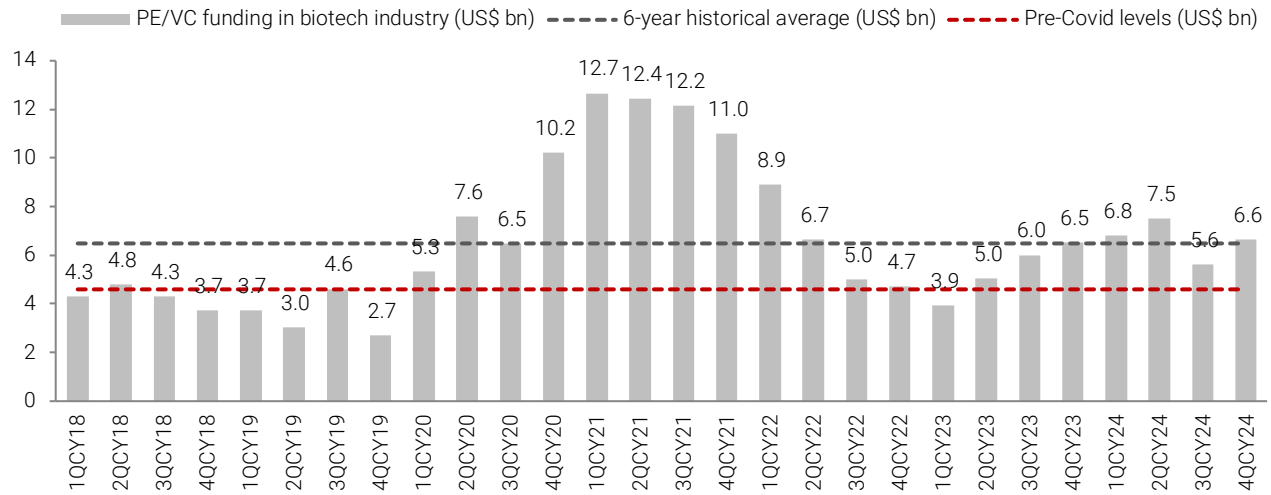
Slower-than-expected pickup in funding environment can impact discovery growth

While the quantum of PE/VC biotech funding was at its peak in CY2021 and fell by ~50% in CY2022, over the past few quarters, there has been some recovery in the funding environment

It is estimated that small and mid-sized innovator companies in the US incur an annual cash burn of US$50-70 bn. To fund their R&D and clinical programs, these companies primarily rely on PE/VC funding. The PE/VC funding environment for the global biotech industry was subdued in FY2023 and FY2024, resulting in slowdown in incoming projects for global CROs. However, over the past one year, there has been a pickup in the funding environment and the annual value of deals in the biotech space is at a much higher level compared to the pre-Covid average. We note that, while the quantum of funding was at its peak in CY2021 and fell by ~50% in CY2022, over the past few quarters, there has been some recovery in the funding environment (crossed the 6-year historical average mark), thereby driving greater outsourcing by innovator pharma companies. Nevertheless, as per our discussions with various companies, the buoyancy in funding is still missing. This could result in slower R&D spends by big pharma and particularly, small and mid-sized innovator companies, which primarily rely on PE/VC funding to further their R&D programs. In addition, over the past year, Chinese CROs have reduced FTE pricing. Eventually, this could pose a downside risk to our sales growth assumptions for Syngene's discovery services segment (KIE: ~15% sales CAGR, over FY2024-28E).

The global biotech funding environment has registered an uptick in the recent quarters; buoyancy is still missing though

Exhibit 27: PE/VC funding in biotech industry, December calendar year-ends, 2018-24 (US$ bn)



Source: Bay Bridge Bio, S&P Global, Global Data, Pharma Intelligence Center, Frost & Sullivan, Kotak Institutional Equities

Continued underutilization of Mangaluru and prolonged ramp-up of the acquired biologics facilities

Since commercializing the Mangaluru small molecule API facility in end-FY2020, Syngene has failed to utilize it optimally, even after a period of nearly five years. We note that although the pandemic was partly responsible for the delayed ramp-up at Mangaluru, another major reason for the underutilization was failure of few of Syngene's key molecules to progress to the commercial scale. In our view, the facility has a peak sales potential of ~US$100 mn. In comparison, as of today, Syngene is merely generating less than US$10 mn sales annually from Mangaluru. Moreover, owing to significant fixed costs, it is yet to reach EBITDA breakeven. If Syngene continues to report subdued utilizations in Mangaluru, this could continue to suppress its EBITDA margins. Also, we note that, there could be further pressure on Syngene's margins, in case of any delays at its two acquired biologics manufacturing facilities (Unit III and US), which the company had purchased from Stelis and Emergent, over the past 15 months.

High customer concentration with ~39% of overall revenues coming from top 4 clients

Similar to most other CRDMO companies, owing to the B2B nature of their business models, Syngene also faces customer concentration risk. In FY2024, Syngene's top 4 clients contributed ~39% of its overall revenues. We highlight that three out of these four clients are BMS, Amgen and Baxter, with whom Syngene shares a dedicated tie-up. These contracts range across 4-5 years, which provide some visibility to Syngene's earnings profile. However, the dedicated centers business is characterized by relatively slower growth, compared to Syngene's remaining two business segments, as well as lack of any inflection point. The other large client for Syngene is Zoetis, with whom it has a manufacturing and supply agreement for commercial production of Librela. This contract ranges over 10 years with a total value of ~US$500 mn. In fact, supply of Librela contributed ~11% to Syngene's FY2024 sales. Owing to the contract being a manufacturing outsourcing agreement, EBITDA margins for Syngene from this project are better than its other dedicated and discovery projects.

In FY2024, Syngene's top 4 clients (Baxter, BMS, Amgen and Zoetis contributed ~39% of its overall revenues

Unfavorable outcome of the anti-competitive allegations on Zoetis could impact Syngene's revenues

Zoetis has demonstrated a successful scale-up of Librela (Bedinvetmab), a pain relief drug for dogs. In addition, in July 2017, Zoetis had acquired a late-stage pipeline product, Ranevetmab, a novel mAb, indicated for treating chronic osteoarthritis pain in dogs. The drug was subject to a pre-existing commercialization license in ex-US markets, held by a French company, Virbac. However, two years after the acquisition, Zoetis terminated its developmental efforts for the acquired drug. The issue surfaced when Virbac filed a complaint with the European Commission (EC), alleging that Zoetis had broken anticompetition laws, since the indication for Ranevetmab was the same as Zoetis' own asset Librela (Bedinvetmab). In response, Zoetis has stated that the acquired asset was ineffective and hence, it had terminated the development process. The company also highlighted the Ranevetmab is a different molecule with properties distinct from Bedinvetmab. The case alleges that Zoetis had breached Article 102 of the EC, which could lead to a penalty, ranging from a fixed proportion of sales of the concerned product, up to ~10% of the company's annual sales. The investigation is currently going on, and a verdict is yet to be reached at. Given an unfavorable outcome, in the worst-case scenario, Zoetis could face a large payout to Virbac, which could create pressure on its cash flow profile and eventually, pose risk to any contractual payments to Syngene.

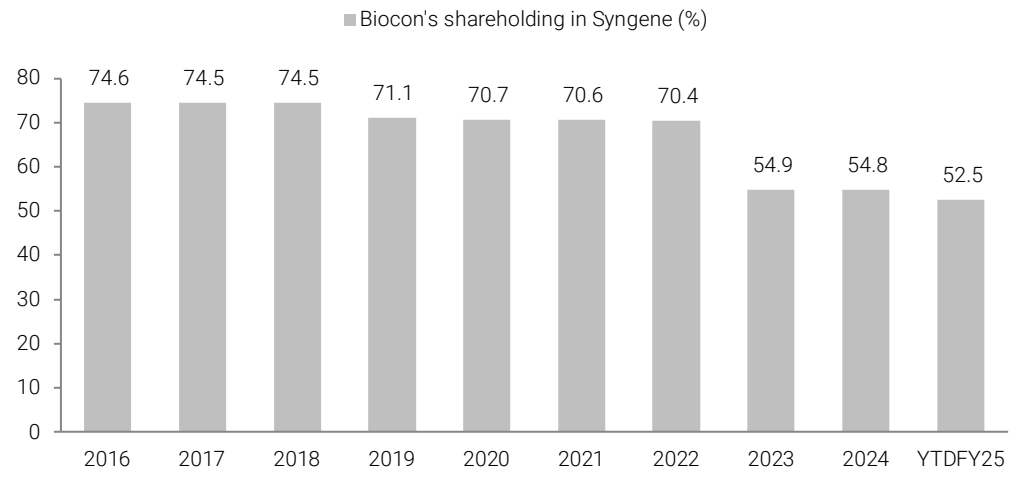
Librela also has been cited to report adverse events, on administration to dogs. Since its approval by the US FDA in May 2023 and launch in 4QCY23, veterinarians and pet owners have reported adverse events, prompting the US FDA to conduct an evaluation. Such events include neurological signs, such as ataxia, seizures, paresis, and recumbency. Other clinical signs include urinary incontinence, excessive thirst, and urination. In some cases, death, including euthanasia, was reported as an outcome. As of April 2024, the US FDA Center for Veterinary Medicine's database included 3,674 reports associated with Librela. Two-thirds of the adverse event reports indicated clinical signs occurring within the first week after administration; ~30% of these signs occurring within the first day, according to the US FDA's findings. Signs were observed after the initial dose of Librela in ~70% of the reported cases. ~30% of the cases reported showed no concurrent use of other products. We note that any adverse action by the US FDA could pose a risk to Librela's ramp-up, and eventually to Syngene's supplies too.

Capital constraints and stake sale overhang due to Biocon's elevated debt levels

At the time of Syngene's listing in August-2015, Biocon owned 83.61% in the company. Since then, Biocon has reduced its stake in Syngene to 52.46% currently. The most recent stake sale occurred in November 2024. The stake sales were triggered by the elevated debt levels of Biocon, which it largely garnered during its acquisition of Viatris. As of December 2024, Biocon had a gross debt of Rs161.5 bn and a cash balance of Rs26.5 bn, implying a net debt of Rs135 bn. At these levels, Biocon's net debt-EBITDA stood at an elevated ~5.0X. Apart from selling stake in Syngene, Biocon has also diluted its stake in Biocon Biologics (BBIL), in order to repay the debt. Moreover, Biocon recently refinanced its existing debt by issuing debentures and entering into a new syndicate debt facility. While Biocon has stated that it intends to maintain its stake in Syngene at current levels, given debt reduction remains a priority for the company, in our view, any further stake sale in Syngene remains a possibility. Apart from the stake sale overhang, Biocon's elevated debt levels can also restrict the ability of its subsidiary, Syngene, to invest meaningfully in capacities and capabilities, ahead of time. Nevertheless, we do note, given Syngene's cash level of Rs10+ bn, BIOS' leverage does not seem to have been a major roadblock, as of now. In addition, to fund any M&A, Syngene remains open to taking on debt (peak net debt/EBITDA up to ~3X).

Biocon has diluted its stake in Syngene from 74.6% in FY2016 to 52.5% currently

Exhibit 28: Biocon's shareholding in Syngene, March fiscal year-ends, 2016-25E (%)



Source: Company, Kotak Institutional Equities

High frequency of churn in senior management personnel since listing

Since its listing in August-2015, Syngene has witnessed the exit of a handful of its senior management personnel, who were instrumental behind the success of the company, over the past decade

Since its listing in August-2015, Syngene has witnessed the exit of a handful of its senior management personnel, who were instrumental behind the success of the company, over the past decade. The most recent exit was in February 2025, when Mr Jonathan Hunt, the Chief Executive Officer (CEO) tendered his resignation. Mr Hunt served as Syngene's CEO for nearly eight years, from CY2016. He will be replaced by Mr Peter Bains, Group CEO of Biocon, who had also served as Syngene's CEO from June 2010 to March 2016. Another notable exit among the senior management personnel was in October 2024, when Mr Sibaji Biswas, who joined the company in December 2019 as the Chief Financial Officer (CFO), stepped down and joined Sony Pictures Networks India as the CFO. In May-2024, Dr Mahesh Bhalgat, the erstwhile Chief Operating Officer (COO) of Syngene, for over five years, since July 2019, also switched roles to join Veeda Clincial Research as the Group Chief Executive Officer (CEO). In 2QFY22, Dr Alan Collis joined Syngene as the Vice President of the Integrated Drug Discovery program, a core offering for the company on its journey to become a one-stop shop for innovators. Shortly, after a span of eighteen months, in March 2023, he resigned and joined Ajax Therapeutics as Senior Vice President and Head of Pre-clinical Development. Moreover, Dr Sridevi Khambhampaty, who had joined Syngene in 2QFY22, as the Head of Biologics, also quit and joined Shilpa Biologics, a subsidiary of Shilpa Medcare, as the Chief Executive Officer (CEO), in September 2024. Hence, we highlight that over the past few years, Syngene, owing to its robust execution and operational excellence, has remained a hunting ground for skillful talent, for most other CRDMO companies.

5

Financials: We bake in a healthy 13% EPS CAGR for Syngene over FY2024-28E

We expect Syngene to deliver healthy 14%, 14% and 13% overall sales, EBITDA and EPS CAGRs, respectively, over FY2024-28E, driven primarily by better capacity utilization in its CDMO business, higher scientist productivity in its discovery segment and newer contracts under its 'SynVent' platform for integrated projects. Led by robust FCF generation of ~Rs21 bn over FY2025-28E, we expect return ratios for Syngene to stay healthy at 14.6% RoAE and 17.3% RoIC in FY2028E.

We build in ~14% overall revenue CAGR for Syngene over FY2024-28E

Syngene's overall sales reported a CAGR of ~14% over FY2019-24. The main driver for this strong growth was the discovery business, wherein the company posted a CAGR of ~17%. Syngene's development and manufacturing business reported a strong ~15% CAGR over the same period. Meanwhile, growth in dedicated centers remained modest at ~9% CAGR.

Syngene's overall sales reported a CAGR of ~14% over FY2019-24, led by ~9%, ~17% and 15% CAGRs in its dedicated centers, discovery services and CDMO businesses, respectively

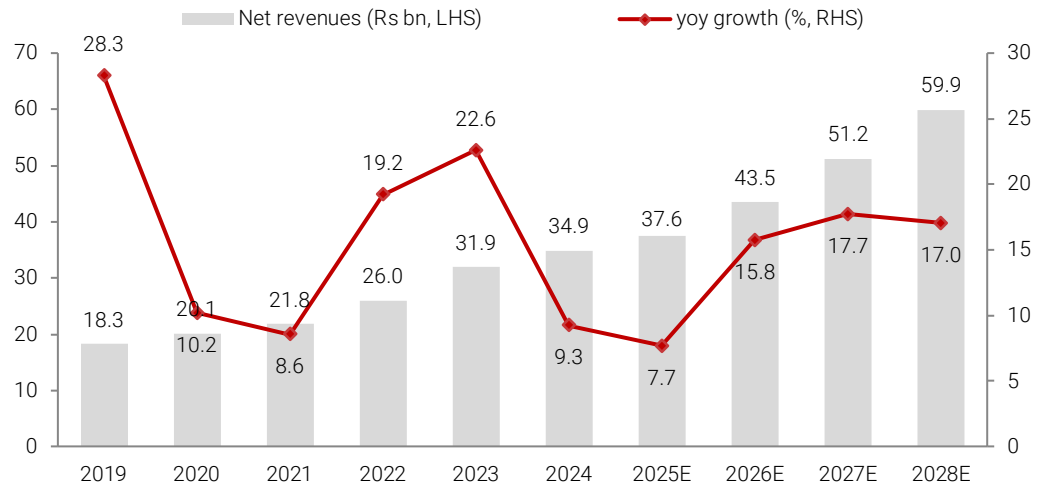
- **Dedicated centers:** Given the dedicated centers model is B2B and highly client-centric, the most convenient approach to gauge the outlook would be to analyze the asset pipeline and R&D outlook of Syngene's clients. We observe a notable acceleration in R&D spends for the three big pharma companies, especially BMS and Amgen, which have reported 20-25% yoy growth in R&D spends in CY2024. We bake in a meagre ~5% sales CAGR for Syngene's dedicated center business, over FY2024-28E, lower than the cumulative R&D CAGR of BMS, Baxter and Amgen, over CY2019-24.

- **Discovery services:** We note that Syngene's recently adopted strategy of investing ahead in capacities positions it handsomely for capitalizing on growth opportunities in the discovery business. In our view, Syngene can generate incremental discovery sales of ~Rs9 bn in a year, without making further investments in labs and scientists. Moreover, it has a spare land parcel of ~17 acres, at Genome Valley, Hyderabad, wherein, it plans to add further infra and hire scientists. Also, aided by lower contribution from low realization commoditized projects and a slight improvement in the US biotech funding environment, we bake in a ~15% discovery services sales CAGR over FY2024-28E.

- **Development and manufacturing services:** Syngene's integrated approach to the CDMO business operations involves offerings from pre-clinical development to commercial scale manufacturing, across small molecules and biologics. We note, this business is usually the strongest in the fourth quarter of the fiscal year. Syngene has capacities across four facilities, where it caters to the development and manufacturing requirements for its client base. While its flagship Bengaluru facility has capacities for both small molecules and biologics, its Mangaluru, Unit III and US facilities are dedicated solely for small molecule APIs and biologics, respectively. Owing to its integrated approach, Syngene can leverage its discovery relationships to be present in the later development and manufacturing stages of the same molecule. Although, on a gross block of ~Rs26 bn, Syngene's capacities are currently underutilized at just ~0.5X asset turnover, we expect improved utilizations at the Mangaluru and acquired biologics facilities to drive a robust ~19% CDMO sales CAGR, over FY2024-28E.

We build in 14% overall sales CAGR for Syngene over FY2024-28E

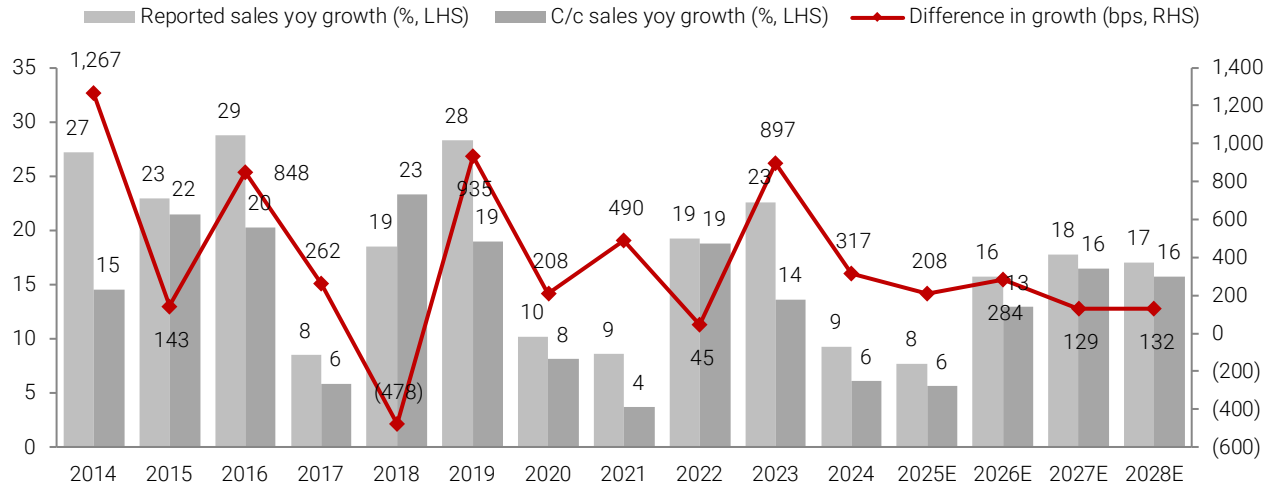
Exhibit 29: Overall revenues, March fiscal year-ends, 2019-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

Over the past decade, INR depreciation has boosted Syngene's overall reported revenue CAGR by ~370 bps

Exhibit 30: Reported vs constant currency sales growth, March fiscal year-ends, 2014-28E (%, bps)



Source: Company, Kotak Institutional Equities estimates

We note that the divergence between the sales growth numbers for Syngene, in INR and USD terms, arises due to INR depreciation. Syngene follows a hedging policy, on a 12-month forward rolling basis, wherein its reported hedge rate is based on average values of the forward contracts and options for the period and also accounts for the structural long-term INR depreciation against the US dollar. In these contracts, the forward rate, which is generally higher than the spot rate, provides partial cover for inflation in India.

While Syngene has met its revenue guidance in 5 out of the past 9 years, it fell short in the remaining 4 years

Exhibit 31: Sales, EBITDA margin and PAT growth guidance vs delivery, March fiscal year-ends, 2017-25E (%)

	2017	2018	2019	2020	2021	2022	2023	2024	2025E
Sales									
Yoy sales growth guidance (%)	Higher than 20%	Close to 20%	Higher than 20%	Higher than 20%	Double digit	Mid-teens	Mid-teens	High teens	Single digit to low double digit
Yoy sales growth reported (%)	8	19	28	10	9	19	23	6	6
EBITDA margin									
EBITDA margin guidance (%)	NA	NA	NA	Slightly lower yoy	NA	Slightly lower than 30%	Close to 30%	Close to 30%	Close to 30%
EBITDA margin reported (%)	34	28	30	30	30	28	31	31	28
PAT									
Yoy PAT growth guidance (%)	NA	NA	NA	NA	Close to nil	Single digit	Single digit	Mid-teens	Single digit
Yoy PAT growth reported (%)	30	7	8	7	5	12	10	12	(4)

Notes:

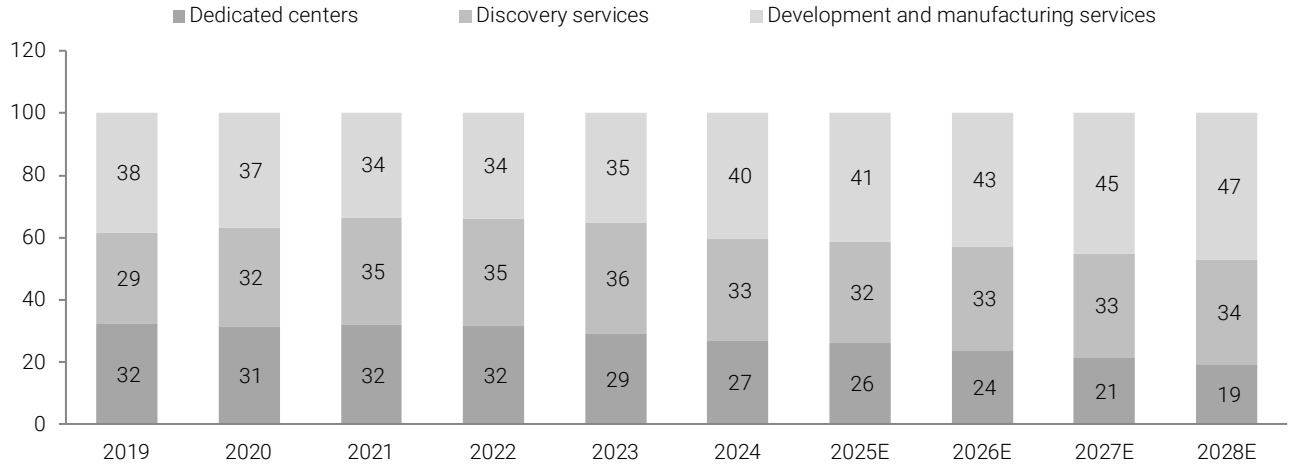
(a) Revenue guidances from FY2017-23 are in INR terms.

(b) Revenue guidances from FY2024 and onwards are in USD terms.

Source: Company, Kotak Institutional Equities

We expect Syngene's overall sales contribution from CDMO to increase to ~47% by FY2028E

Exhibit 32: Business mix, March fiscal year-ends, 2019-28E (%)

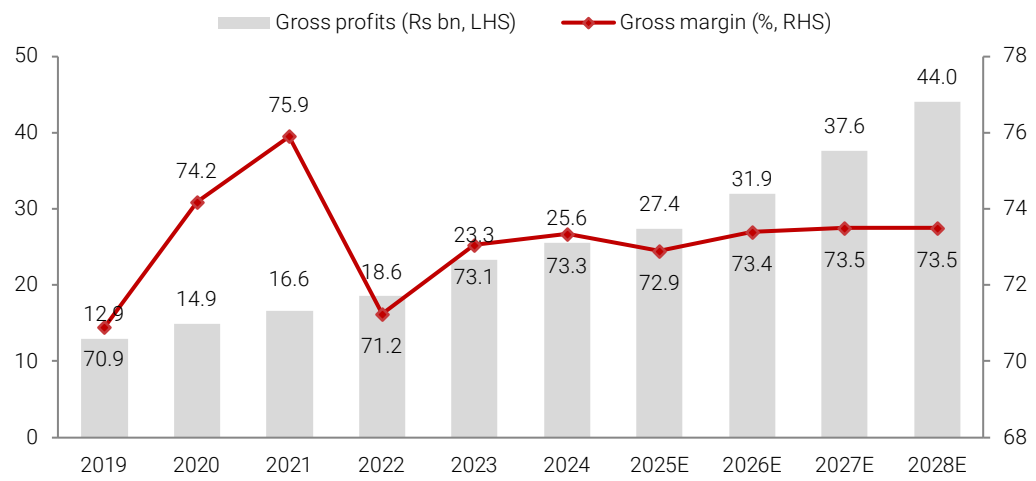


Source: Company, Kotak Institutional Equities estimates

We bake in ~14% reported EBITDA CAGR, over FY2024-28E, for Syngene

We expect a mere ~20 bps gross margin expansion, over FY2024-28E

Exhibit 33: Overall gross profits, March fiscal year-ends, 2019-28E (Rs bn, %)



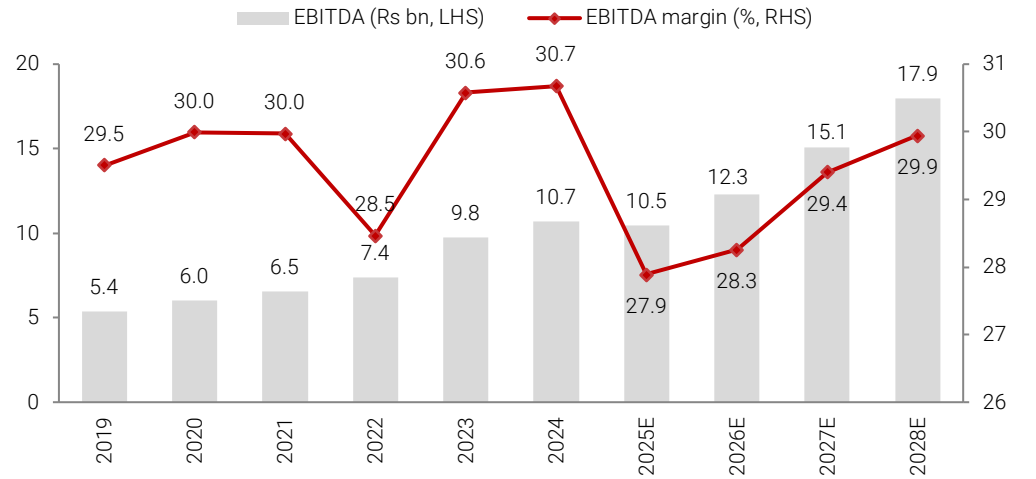
Source: Company, Kotak Institutional Equities estimates

We expect Syngene to report EBITDA margins of 29.9% in FY2028E

While Syngene's research and discovery services segment generates higher-than-company EBITDA margins, its CDMO segment is currently a drag on overall margins. The main reason for lower EBITDA margins of the CDMO business is the underutilization of the existing Mangaluru facility. We expect a gradual ramp-up of the Mangaluru facility and operationalization of the acquired biologics facilities from FY2026E, to drive operating leverage, offsetting some initial dilution due to the recent acquisition of Emergent's biologics facility in the US. Accordingly, we expect Syngene to report EBITDA margins of 29.9% in FY2028E.

We expect Syngene to report EBITDA margins of 29.9% in FY2028E

Exhibit 34: Overall EBITDA, March fiscal year-ends, 2019-28E (Rs bn, %)

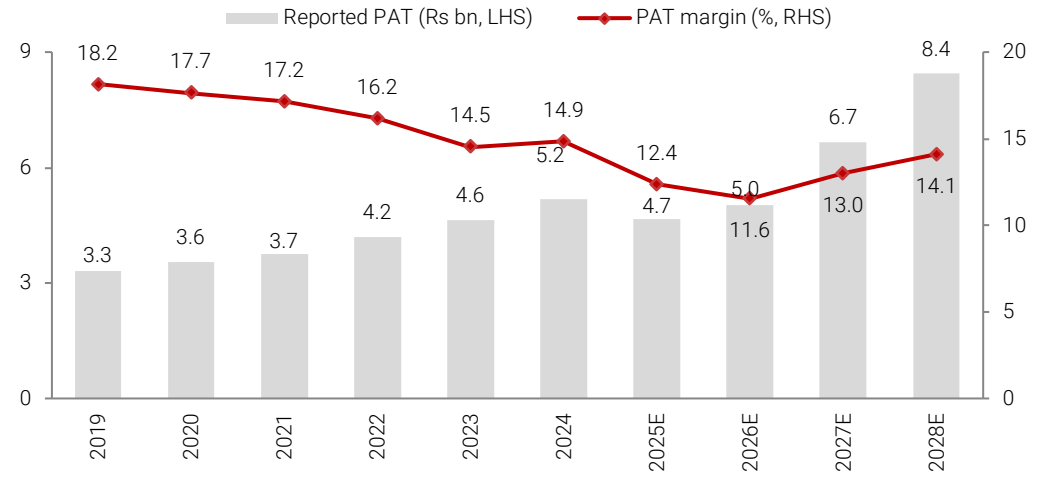


Source: Company, Kotak Institutional Equities estimates

Syngene's tax rate has remained historically low. Over the years, there has been a gradual increase in the tax rate for the company, as some of its units moved out of the Special Economic Zone (SEZ) benefit period and the sales contribution of such units also started to rise. Despite baking in this higher tax rate, we forecast a healthy ~13% EPS CAGR, for Syngene, over FY2024-28E.

We forecast ~13% reported PAT CAGR for Syngene over FY2024-28E

Exhibit 35: Reported PAT, March fiscal year-ends, 2019-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

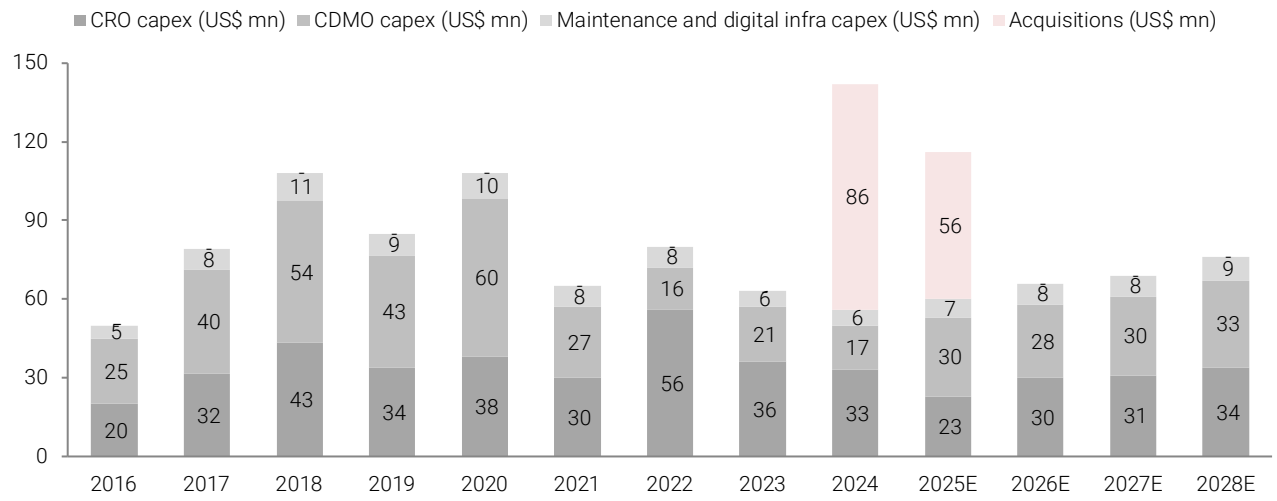
We also expect Syngene's asset turnover ratios to gradually improve from FY2025E levels of 1.1X to 1.4X by FY2028E, led by better utilizations of Mangaluru, Unit III and the US facilities

Return ratios and cash flow profile to remain healthy for Syngene despite M&A

Syngene generated Rs10.4 bn of OCF in FY2024, which grew at ~27% yoy, with EBITDA-OCF conversion of ~97%. The high conversion rate is attributable to a reduction in working capital cycle from 1 day in FY2023 to (13) days in FY2024, due to better receivables and inventory turnover. Syngene has a policy of taking advances from its clients and offers discounts, due to which cash conversion cycle is short and return ratios are high. We note that Syngene had already incurred cumulative capex of Rs14.7 bn over FY2022-24 on acquiring the Stelis facility, the land parcel at Genome Valley, Hyderabad, as well as developing new capabilities across research, discovery and manufacturing. We expect Syngene to generate robust cumulative OCF of Rs55.8 bn over FY2025-28E, which would translate to a cumulative FCF generation of Rs20.7 bn. Apart from the healthy cash flow profile, we expect Syngene to maintain robust return ratios, and report 14.6% RoAE and 17.3% RoIC in FY2028E. We also expect Syngene's asset turnover ratios to gradually improve from FY2025E levels of 1.1X to 1.4X by FY2028E, led by better utilizations of Mangaluru, Unit III and the US facilities.

Over the past few years, Syngene has incurred an annual average capex of ~US$77 mn

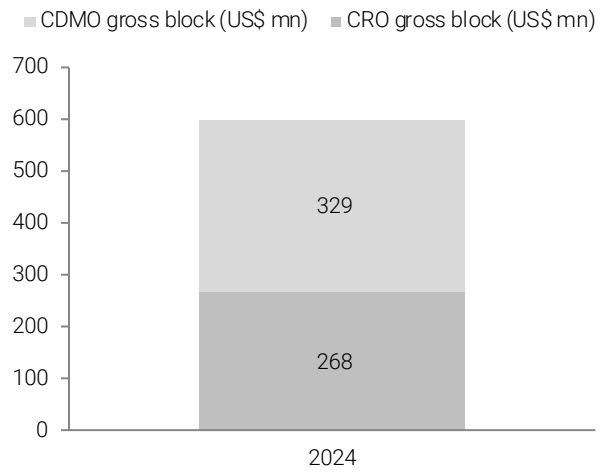
Exhibit 36: Capex split by business segment, March fiscal year-ends, 2016-28E (US$ mn)



Source: Company, Kotak Institutional Equities estimates

Syngene – gross block split by business

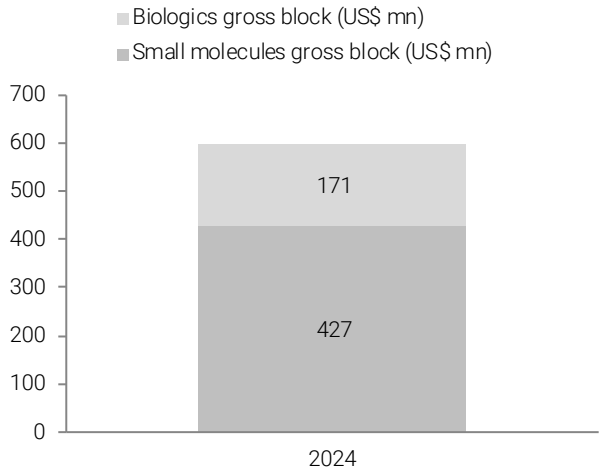
Exhibit 37: March fiscal year-end, 2024 (US$ mn)



Source: Company, Kotak Institutional Equities

Syngene – gross block split by molecule type

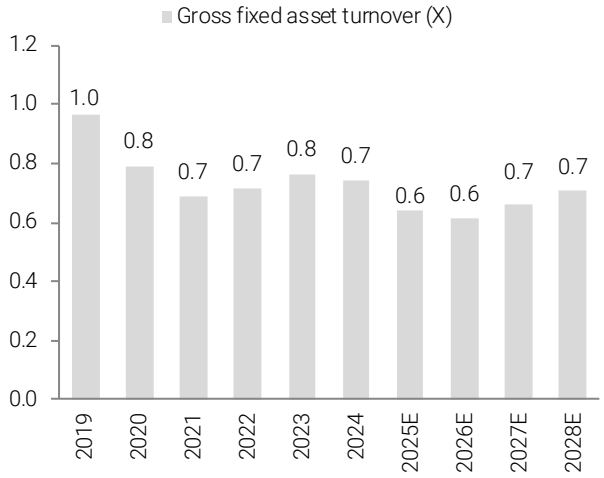
Exhibit 38: March fiscal year-end, 2024 (US$ mn)



Source: Company, Kotak Institutional Equities

Syngene – gross fixed asset turnover

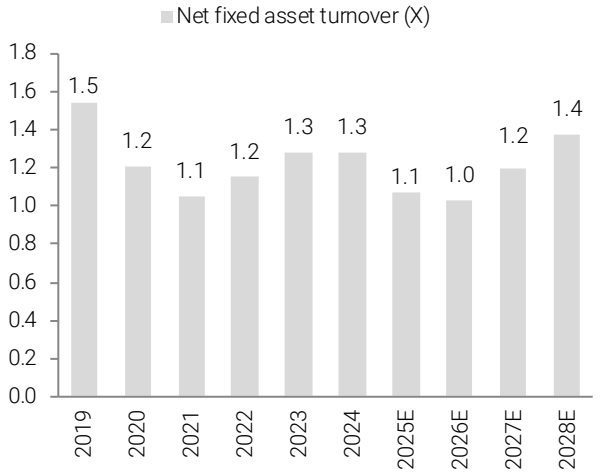
Exhibit 39: March fiscal year-ends, 2019-28E (X)



Source: Company, Kotak Institutional Equities estimates

Syngene – net fixed asset turnover

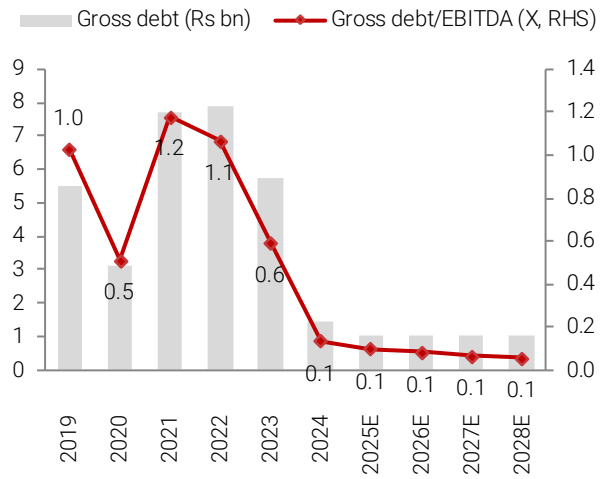
Exhibit 40: March fiscal year-ends, 2019-28E (X)



Source: Company, Kotak Institutional Equities estimates

Syngene – gross debt metrics

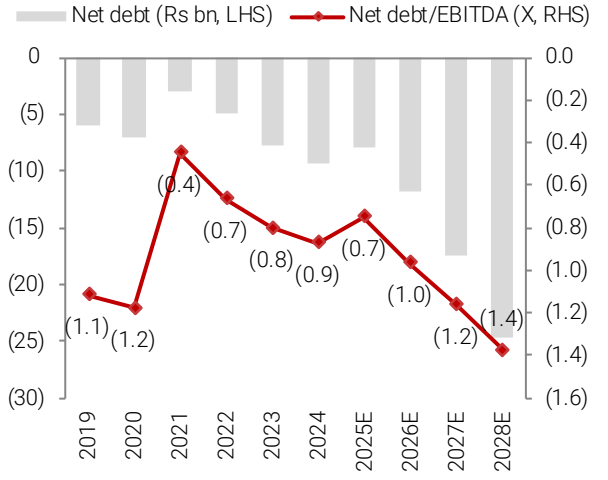
Exhibit 41: March fiscal year-ends, 2019-28E (Rs bn, X)



Source: Company, Kotak Institutional Equities estimates

Syngene – net debt metrics

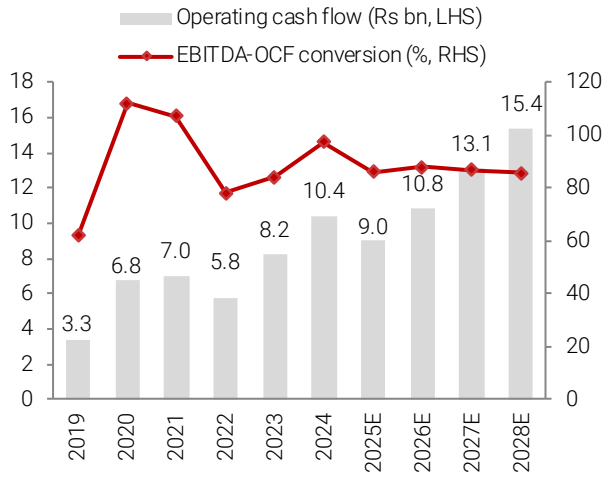
Exhibit 42: March fiscal year-ends, 2019-28E (Rs bn, X)



Source: Company, Kotak Institutional Equities estimates

Syngene – operating cash flow

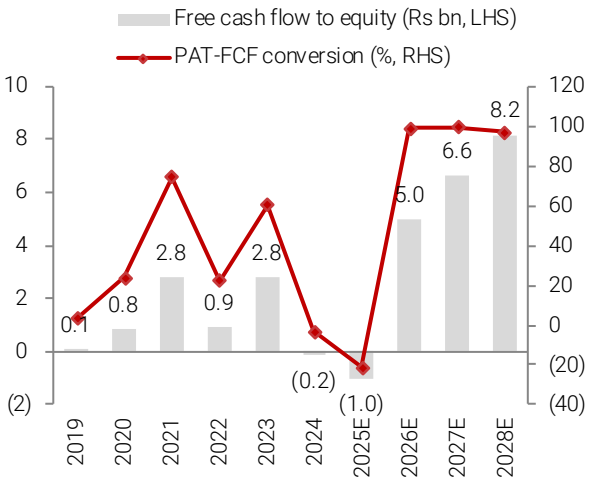
Exhibit 43: March fiscal year-ends, 2019-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

Syngene – free cash flow to equity

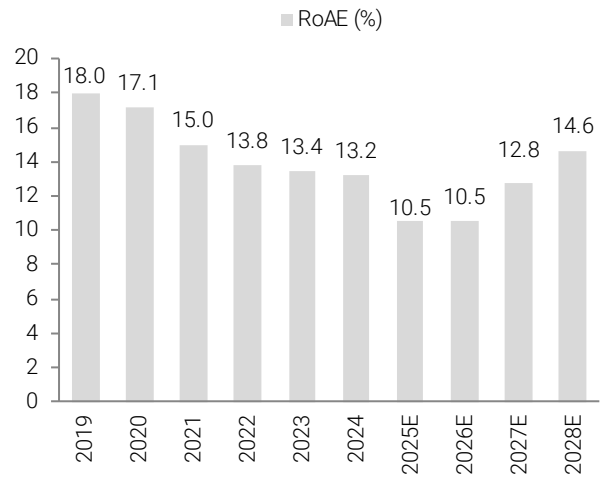
Exhibit 44: March fiscal year-ends, 2019-28E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We forecast 14.6% RoAE by FY2028E

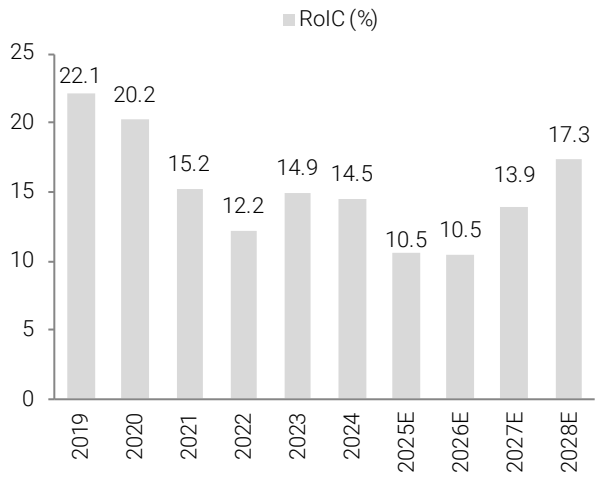
Exhibit 45: RoAE, March fiscal year-ends, 2019-28E (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 17.3% RoIC by FY2028E

Exhibit 46: RoIC, March fiscal year-ends, 2019-28E (%)



Source: Company, Kotak Institutional Equities estimates

We bake in overall sales, EBITDA and adjusted EPS CAGRs of 14%, 14% and 13%, respectively, for Syngene, over FY2024-28E

Exhibit 47: Consolidated profit and loss statement, March fiscal year-ends, 2019-28E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Profit and loss										
Net revenues	**18,256**	**20,119**	**21,843**	**26,042**	**31,929**	**34,886**	**37,565**	**43,482**	**51,190**	**59,908**
Cost of goods sold	(5,313)	(5,194)	(5,265)	(7,490)	(8,602)	(9,302)	(10,180)	(11,566)	(13,565)	(15,876)
Gross profit	**12,943**	**14,925**	**16,578**	**18,552**	**23,327**	**25,584**	**27,385**	**31,916**	**37,625**	**44,032**
Staff costs	(4,727)	(5,804)	(6,602)	(7,181)	(8,417)	(8,887)	(10,042)	(11,549)	(13,281)	(15,406)
SG&A expenses	(2,829)	(3,086)	(3,429)	(3,958)	(5,148)	(5,995)	(6,864)	(8,079)	(9,291)	(10,685)
EBITDA	**5,387**	**6,035**	**6,547**	**7,413**	**9,762**	**10,702**	**10,478**	**12,288**	**15,052**	**17,941**
Depreciation & amortisation	(1,642)	(2,193)	(2,745)	(3,097)	(3,665)	(4,259)	(4,514)	(5,777)	(6,323)	(6,928)
EBIT	**3,745**	**3,842**	**3,802**	**4,316**	**6,097**	**6,443**	**5,964**	**6,511**	**8,729**	**11,013**
Other income	751	816	646	528	709	906	689	814	886	1,100
Interest expense	(323)	(346)	(277)	(241)	(452)	(472)	(527)	(617)	(709)	(802)
Foreign exchange losses / (gains)	(19)	144	171	548	(418)	(558)	–	–	–	–
Share in associates	–	–	–	–	–	–	–	–	–	–
Exceptional items	–	713	350	(307)	–	(111)	320	–	–	–
Profit before tax	**4,154**	**5,169**	**4,692**	**4,844**	**5,936**	**6,208**	**6,446**	**6,708**	**8,906**	**11,311**
Tax & deferred tax	(838)	(1,048)	(643)	(886)	(1,292)	(1,108)	(1,549)	(1,681)	(2,242)	(2,867)
Less: minority interest	–	–	–	–	–	–	–	–	–	–
Net income (adjusted)	**3,316**	**3,553**	**3,747**	**4,209**	**4,644**	**5,191**	**4,654**	**5,027**	**6,664**	**8,444**
FD no. of shares (mn)	397	398	401	403	404	402	402	402	402	402
EPS (adjusted) (Rs)	**8.4**	**8.9**	**9.4**	**10.4**	**11.5**	**12.9**	**11.6**	**12.5**	**16.6**	**21.0**
Growth (%)										
Revenue	28.3	10.2	8.6	19.2	22.6	9.3	7.7	15.8	17.7	17.0
EBITDA	36.9	12.0	8.5	13.2	31.7	9.6	(2.1)	17.3	22.5	19.2
PAT	7.6	7.1	5.5	12.3	10.3	11.8	(10.4)	8.0	32.6	26.7
Margins (%)										
Gross margin	**70.9**	**74.2**	**75.9**	**71.2**	**73.1**	**73.3**	**72.9**	**73.4**	**73.5**	**73.5**
Staff costs	25.9	28.8	30.2	27.6	26.4	25.5	26.7	26.6	25.9	25.7
SG&A expenses	15.5	15.3	15.7	15.2	16.1	17.2	18.3	18.6	18.2	17.8
EBITDA margin	**29.5**	**30.0**	**30.0**	**28.5**	**30.6**	**30.7**	**27.9**	**28.3**	**29.4**	**29.9**
Tax rate	20.2	20.3	13.7	18.3	21.8	17.8	24.0	25.1	25.2	25.3
PAT margin (adjusted)	**18.2**	**17.7**	**17.2**	**16.2**	**14.5**	**14.9**	**12.4**	**11.6**	**13.0**	**14.1**

Source: Company, Kotak Institutional Equities estimates

We expect Syngene to continue to have a strong balance sheet

Exhibit 48: Consolidated balance sheet, March fiscal year-ends, 2019-28E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Assets										
PPE	13,227	18,766	20,322	21,229	23,834	23,783	36,799	37,107	37,446	38,009
CWIP	2,737	2,341	2,372	3,464	1,769	8,368	1,000	1,000	1,000	1,000
Intangibles	141	207	191	126	185	295	241	179	116	53
Goodwill	–	–	–	–	–	–	–	–	–	–
Right of use assets	–	864	1,121	2,188	2,169	4,024	4,644	5,121	5,521	5,843
Other non-current financial assets	885	403	4,448	4,155	3,293	2,578	2,578	2,578	2,578	2,578
Other non-current assets	2,404	2,922	2,311	2,417	2,807	2,878	2,878	2,878	2,878	2,878
Non-current assets	**19,394**	**25,503**	**30,765**	**33,579**	**34,057**	**41,926**	**48,140**	**48,862**	**49,539**	**50,361**
Cash & equivalents	1,652	1,930	3,233	2,618	895	857	914	1,790	6,320	9,797
Current investments	9,877	8,269	7,426	10,199	12,666	9,910	7,928	11,099	12,209	15,872
Debtors	3,387	3,982	4,757	5,077	5,293	4,416	4,755	5,504	6,480	7,583
Inventories	434	252	596	1,794	3,328	2,385	2,568	2,973	3,500	4,096
Other current financial assets	1,629	877	1,052	1,226	1,012	900	969	1,122	1,321	1,546
Other current assets	662	816	1,003	1,145	1,059	1,122	1,208	1,398	1,646	1,927
Current assets	**17,641**	**16,126**	**18,067**	**22,059**	**24,253**	**19,590**	**18,342**	**23,886**	**31,475**	**40,820**
Total assets	**37,035**	**41,629**	**48,832**	**55,638**	**58,310**	**61,516**	**66,482**	**72,749**	**81,014**	**91,181**
Liabilities and equity										
Long-term borrowings	3,617	–	5,124	5,315	4,890	1,000	1,000	1,000	1,000	1,000
Lease liabilities	–	873	1,206	2,320	2,399	4,135	5,255	6,335	7,415	8,495
Long-term provisions	374	409	520	344	437	407	407	407	407	407
Other non-current financial liabilities	296	1,378	224	84	215	–	–	–	–	–
Other non-current liabilities	1,778	1,880	2,368	2,528	2,564	2,438	2,438	2,438	2,438	2,438
Non-current liabilities	**6,065**	**4,540**	**9,442**	**10,591**	**10,505**	**7,980**	**9,100**	**10,180**	**11,260**	**12,340**
Short-term borrowings	1,907	3,089	2,599	2,581	863	417	–	–	–	–
Creditors	2,235	2,220	2,416	2,328	2,580	2,555	2,751	3,185	3,749	4,388
Short-term provisions	210	415	465	582	510	727	783	906	1,067	1,248
Income tax liabilities	158	117	134	240	147	476	476	476	476	476
Other current financial liabilities	3,537	5,494	955	1,106	959	675	727	841	990	1,159
Other current liabilities	3,239	3,996	4,607	5,234	6,566	6,108	6,577	7,613	8,963	10,489
Current liabilities	**11,286**	**15,331**	**11,176**	**12,071**	**11,625**	**10,958**	**11,314**	**13,021**	**15,245**	**17,760**
Total liabilities	**17,351**	**19,871**	**20,618**	**22,662**	**22,130**	**18,938**	**20,414**	**23,201**	**26,505**	**30,100**
Share capital	2,000	4,000	4,000	4,008	4,014	4,020	4,020	4,020	4,020	4,020
Other equity	17,684	17,758	24,214	28,968	32,166	38,558	42,048	45,527	50,489	57,061
Total equity	**19,684**	**21,758**	**28,214**	**32,976**	**36,180**	**42,578**	**46,068**	**49,547**	**54,509**	**61,081**
Minority interest	–	–	–	–	–	–	–	–	–	–
Total liabilities and equity	**37,035**	**41,629**	**48,832**	**55,638**	**58,310**	**61,516**	**66,482**	**72,749**	**81,014**	**91,181**

Source: Company, Kotak Institutional Equities estimates

We bake in cumulative FCF generation of Rs20.7 bn for Syngene over FY2025-28E

Exhibit 49: Consolidated cash flow statement, March fiscal year-ends, 2019-28E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Cash flow from operating activities										
Profit before tax	**4,154**	**5,169**	**4,692**	**4,844**	**5,936**	**6,208**	**6,446**	**6,708**	**8,906**	**11,311**
Depreciation & amortisation	1,642	2,193	2,745	3,097	3,665	4,259	4,514	5,777	6,323	6,928
Finance costs	323	346	277	241	452	472	527	617	709	802
Other income	(707)	(816)	(646)	(528)	(709)	(906)	(689)	(814)	(886)	(1,100)
Changes in working capital	(1,143)	441	367	(1,797)	(182)	1,813	95	211	274	310
Income taxes paid	(961)	(1,071)	(836)	(1,058)	(1,368)	(1,251)	(1,549)	(1,681)	(2,242)	(2,867)
Others	32	509	413	1,007	441	(174)	(320)	–	–	–
Net cash generated from / (used in) operating activities	**3,340**	**6,771**	**7,012**	**5,806**	**8,235**	**10,421**	**9,025**	**10,818**	**13,085**	**15,385**
Cash flow from investing activities										
Capex	(2,977)	(6,300)	(4,408)	(4,753)	(5,066)	(4,920)	(5,000)	(5,500)	(6,000)	(6,750)
Acquisitions	–	(131)	(57)	(2)	(299)	(5,720)	(4,728)	–	–	–
Other income	–	891	620	263	540	815	689	814	886	1,100
Others	984	1,256	(2,436)	(1,623)	(1,739)	4,869	982	(4,171)	(2,110)	(4,663)
Net cash generated from / (used in) investing activities	**(1,993)**	**(4,284)**	**(6,281)**	**(6,115)**	**(6,564)**	**(4,956)**	**(8,057)**	**(8,857)**	**(7,224)**	**(10,313)**
Cash flow from financing activities										
Dividend	(289)	(241)	–	–	(401)	(503)	(1,407)	(1,548)	(1,702)	(1,873)
Interest paid	(450)	(346)	(277)	(345)	(508)	(557)	(527)	(617)	(709)	(802)
Issuance of equity	–	7	8	–	–	–	–	–	–	–
Change in net debt	(1,541)	(1,620)	892	(58)	(2,581)	(4,357)	(417)	–	–	–
Principal payment of lease liabilities	–	(43)	(43)	(80)	(88)	(98)	(196)	(235)	(282)	(339)
Others	528	(12)	–	170	153	–	1,316	1,315	1,362	1,419
Net cash generated from / (used in) financing activities	**(1,752)**	**(2,255)**	**580**	**(313)**	**(3,425)**	**(5,515)**	**(1,231)**	**(1,084)**	**(1,331)**	**(1,595)**
Change in cash & equivalents	**(405)**	**232**	**1,311**	**(622)**	**(1,754)**	**(50)**	**(263)**	**876**	**4,530**	**3,477**
Beginning cash	(4,393)	1,652	1,930	3,233	2,618	895	857	914	1,790	6,320
Adjustments	12	46	(8)	7	31	12	320	–	–	–
Ending cash	**(4,786)**	**1,930**	**3,233**	**2,618**	**895**	**857**	**914**	**1,790**	**6,320**	**9,797**
Key cash flows										
Operating cash flow (ex-interest costs)	2,890	6,425	6,735	5,461	7,727	9,864	8,497	10,201	12,376	14,583
Free cash flow to firm	**363**	**1,122**	**3,021**	**1,131**	**3,159**	**229**	**(600)**	**5,427**	**7,139**	**8,767**
Free cash flow to equity	(1,436)	(774)	3,674	876	224	(4,516)	(1,417)	4,965	6,609	8,168
Free cash flow to equity (adjusted for net debt)	**105**	**846**	**2,782**	**934**	**2,805**	**(159)**	**(1,000)**	**4,965**	**6,609**	**8,168**
Cash conversion (%)										
OCF as % of EBITDA	62.0	112.2	107.1	78.3	84.4	97.4	86.1	88.0	86.9	85.8
FCFE as % of PAT	3.2	23.8	74.2	22.2	60.4	(3.1)	(21.5)	98.8	99.2	96.7
Capex as % of sales	16.3	31.3	20.2	18.3	15.9	14.1	13.3	12.6	11.7	11.3

Source: Company, Kotak Institutional Equities estimates

6

Company profile: Leading CRDMO player with offerings across the value chain

Having commenced operations in CY1993, Syngene is one of India's leading CRDMO companies, offering a wide range of capabilities across the complete CRDMO supply chain. As of YTDFY25, Syngene had a robust client base of 400+, including tie-ups with big pharma companies and a talent pool of ~5,656 scientists. With a healthy 60:40 CRO:CDMO sales mix, and a wide range of capabilities, Syngene lies right at the sweet spot of the growing Indian CRDMO space. Its unique offerings comprise a stable dedicated centers model, and an integrated approach toward discovery, development and manufacturing.

One-stop shop with a focus on innovation

Since commencing operations in CY1993 as a CRO providing discovery chemistry and biology services, Syngene has scaled up to grow into one of India's leading CRDMOs. It has expanded its offerings in research and discovery, as well as development and manufacturing services. Moreover, its proprietary platform (SynVent) enables it to capitalize on early-stage opportunities, and be present throughout the lifecycle of a molecule. Syngene's capabilities cater to a broad range of sectors, including global pharma, biotech, nutrition, animal health, consumer goods, and specialty chemicals. It offers specialist standalone activities and longer-term programs that accelerate the progress of a molecule from discovery to market. Syngene's robust experience and expertise have made it a trusted partner to global multinationals, small and medium-sized enterprises, non-profit institutions, academic entities, and government organizations. Its client base has significantly grown to 400+ customers, as of YTDFY25. The company operates under three main segments, namely Dedicated Centers, Discovery Services and Development and Manufacturing Services. It has a large talent pool of ~5,656 scientists, out of which ~3,500 scientists are toward discovery.

Since commencing operations in CY1993 as a CRO providing discovery chemistry and biology services, Syngene has scaled up to grow into one of India's leading CRDMOs

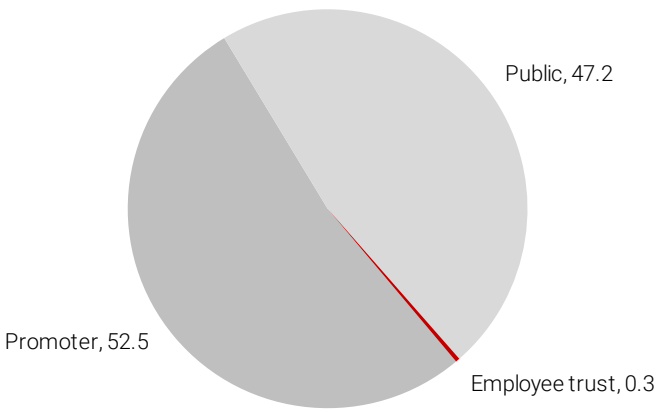
Syngene is headquartered in Bengaluru, India, where its main campus serves as the central hub for its research, development and manufacturing operations. It also operates three satellite campuses in Bengaluru, which house a few other essential functions. In order to further support its growing research operations, Syngene had also established an additional campus in Hyderabad. Its Mangaluru facility is dedicated to the commercial-scale production of small molecule APIs. Recently, it also expanded its biologics manufacturing capacity by acquiring Stelis' vaccine production facility.

Helmed by a professional management team and a well-diversified Board

Syngene is led by a strong professional management team. The management team comes from diverse backgrounds and various fields of expertise, comprising scientists, engineers, finance professionals, lawyers and management school graduates.

As of December 2024, Biocon owns 52.46% stake in Syngene

Exhibit 50: Shareholding pattern, March fiscal year-end, 2024 (%)



Source: Company, Kotak Institutional Equities

Syngene is managed by an experienced promoter group and professional team

Exhibit 51: Management hierarchy, March fiscal year-end, 2025E

	Position	Description
Management		
Peter Bains	Chief Executive Officer Designate	He has over three decades of experience in the pharma and biotechnology sectors. At Syngene, he is responsible for strategy and execution, steering the investment decisions, leading the executive team and the company's business operations. He has extensive global experience in strategic and operational leadership including at the Board, CEO and Senior Corporate Leadership levels. Earlier, he served as CEO of Sosei Group (now Nxera Pharma), a Japanese listed biopharmaceutical company. Prior to this, he also worked with GlaxoSmithKline over a period of 23 years, where he held several roles including Head of Global Marketing and Senior Vice President of commercial development for GSK's international regions. He also served as CEO and on the Board of Syngene for almost six years starting 2010 and led the company to its public listing in 2015.
Deepak Jain	Chief Financial Officer	He joined Syngene in November-2024 and was previously with Ather Energy, where he led the company to significant revenue growth over four years as the Chief Financial Officer. Prior to that he was the India CFO for First Advantage, and for Apple wherein he was part of the team which led to Apple's expansion in the India market. He has also held leadership roles at Procter & Gamble, and started his career at Ernst & Young India. He has over 25 years of experience managing multi-location operations and transactional revenues. He is a Chartered Accountant with a Bachelor of Commerce degree from Calcutta University.
Jayashree Aiyar	Chief Scientific Officer	She has over 30 years of experience as a molecular pharmacologist and has led drug discovery programs in global organizations in the US like AstraZeneca, Merck, Ambrx and Theravance and Jubilant Biosys in India. She joined Syngene in 2016 to lead the Discovery Biology function which has grown significantly under her leadership. At Syngene, she plays a pivotal role in driving the scientific strategy and innovation in R&D. She holds a Ph.D in Immunology from the All India Institute of Medical Sciences, New Delhi and post-doctoral research at the California Institute of Technology and the University of California at Irvine.
Kenneth Barr	Senior Vice President - Discovery Services	He holds a Ph.D. in Synthetic Organic/Organometallic Chemistry from Massachusetts Institute of Technology and has pursued his Postdoctoral study in Natural product synthesis from the University of Texas. He has over two decades of experience in the areas of drug discovery for both small molecules and biologics and has been associated with organisations like Merck, Amplyx Pharmaceuticals Inc. and Sunesis. Prior to joining Syngene, Kenneth was the Head of R&D Strategic Global Operations at FORMA Therapeutics.
Alex Del Priore	Senior Vice President - Manufacturing	He has three decades of experience in developing, commercializing and life-cycle management of products in various life science industries. He was the Vice President Operations and Health COO at Johnson Matthey in Greater London in his last assignment. As a member of the Executive Committee, he plays a techno-commercial role, providing technical expertise to the API plant at Mangalore while building a sustainable client base for the business in collaboration with the commercial and business development teams. He is also responsible for biologics operations.
Caroline Hempstead	Head of Customer Centricity and Special Projects	She has a degree in French studies from Manchester University, UK. Her career spans more than 35 years in multinationals in sectors ranging from retail and financial services to oil & gas and pharmaceuticals. She joined Syngene in 2019 as Head of Corporate Affairs. Prior to joining Syngene, she held similar roles at AstraZeneca plc and LafargeHolcim (now Holcim), preceded by leadership roles in corporate communications at Royal Dutch Shell, Inchcape plc and the London Stock Exchange.

Source: Company, Kotak Institutional Equities

Syngene's Board of Directors comprises eight members with six independent directors

Exhibit 52: Board of Directors, March fiscal year-end, 2025E

	Position	Description
Board of directors		
Kiran Mazumdar-Shaw	Chairman and Whole-Time Director	She is a first-generation entrepreneur with over 45 years of experience in the field of biotechnology. She is a recipient of 'Padma Shri' and the 'Padma Bhushan' awards. She was also conferred with the highest French distinction – Chevalier de l'Ordre national de la Legion d'honneur (Knight of the Legion of Honour) in 2016. She is a recipient of ICMR's Lifetime Achievement Award for Outstanding Achievement in Healthcare in 2019. She received the Order of Australia, Australia's highest civilian award and was named EY World Entrepreneur of the year in 2020. She is also the Chairperson of Biocon Limited, Independent Director on the Board of United Breweries Ltd and Narayana Hrudayalaya.
Professor Catherine Rosenberg	Non-Executive Director	She is the Canada Research Chair in the Future Internet, the Cisco Research Chair in 5G Systems and a professor in electrical and computer engineering at the University of Waterloo, Canada. At Syngene, she is Chairperson of the Corporate Social Responsibility Committee, and a member of the Nomination & Remuneration Committee, the Stakeholders Relationship & ESG Committee and the Science & Technology Committee.
Vinita Bali	Lead Independent Director	She served as Chief Executive Officer & MD of Britannia Industries Ltd., from 2005 to 2014. Prior to that, she worked for The Coca-Cola Company and Cadbury Schweppes Plc in a variety of Marketing, General Management and Chief Executive roles in the UK, Nigeria, South Africa, USA and Chile. At present, she is a Non-Executive Director on the global boards of SATS Ltd and Cognizant Technology Solutions, and in India, she serves on the board of Bajaj Auto Limited. At Syngene, she is the Chairperson of the Nomination & Remuneration Committee and a member of the Audit Committee and the Corporate Social Responsibility Committee.
Dr Vijay Kuchroo	Independent Director	He has a doctorate in Pathology from the University of Queensland, Australia. He is a member of the scientific advisory boards of leading pharmaceutical companies, including Pfizer, Novartis, Sanofi and GSK. He has founded eight biotech companies, including CoStim Pharmaceuticals and Tempero Pharmaceuticals. At Syngene, he is the Chairman of the Science & Technology Committee and a member of the Nomination & Remuneration Committee and the Corporate Social Responsibility Committee.
Sharmila Karve	Independent Director	She is a Fellow of the Institute of Chartered Accountants of India. She retired as audit partner from PWC in June 2019. At present, she is a Director on the boards of CSB Bank Limited, EPL Limited, Vanaz Engineers Limited, Aadhar Housing Finance Limited and Thomas Cook (India) Limited in India. Her overseas directorships include Fairfax India Holdings Corporation, EPL Packaging (Guangzhou) Ltd., EPL America LLC, and Lamitube Technology Ltd, Mauritius. At Syngene, she is the Chairperson of the Audit Committee and the Stakeholders Relationship & ESG Committee and a member of the Nomination and Remuneration Committee.
Dr. Kush Parmar	Independent Director	He holds an MD from Harvard Medical School, a Ph.D. in experimental pathology from Harvard University and a BA in molecular biology and medieval studies from Princeton University. Currently, he is a Managing Partner at 5AM Ventures and also serves on the Advisory Boards of Harvard Medical School, Penn Medicine, Princeton University's Department of Molecular Biology, and the Grace Science Foundation. He also serves on the Boards of Ensoma, Entrada Therapeutics, GlycoEra, Precede, Rallybio, and is a founding member of the COVID R&D alliance. At Syngene, he is a member of the Risk Management Committee and the Science & Technology Committee.
Manja Boerman	Independent Director	Her career highlights include her tenure as President of Catalent Protein, Cell and Gene Therapy, Aesica Pharmaceuticals, Patheon Biologics, and DSM Biologics, as well as her leadership as CEO of Kiadis Pharma and Regenesance. She is currently the CEO of Prothya Biosolutions (a blood plasma product company). She holds a PhD in Biochemistry from the State University of New York, reflecting her strong academic background in life sciences. She began her career at DSM, where she held various positions in business development, licensing, and technology within DSM Biologics. At Syngene, she is a member of the Risk Management Committee, Science and Technology Committee and the Stakeholders Relationship & ESG Committee.
Nilanjan Roy	Independent Director	He has deep experience in international finance as a result of his 33-year career in roles including Chief Financial Officer at Infosys Limited, Global Chief Financial Officer at Bharti Airtel Limited, and senior positions at Unilever. He has worked in a range of geographies in Europe, the United States and India. He holds a Bachelor of Commerce (Hons.) degree from Delhi University and is a Chartered Accountant. At Syngene, Nilanjan is the Chairperson of the Risk Management Committee and is a member of the Audit Committee and the Stakeholders Relationship & ESG Committee.

Source: Company, Kotak Institutional Equities

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Alankar Garude, CFA, Samitinjoy Basak, Aniket Singh."

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

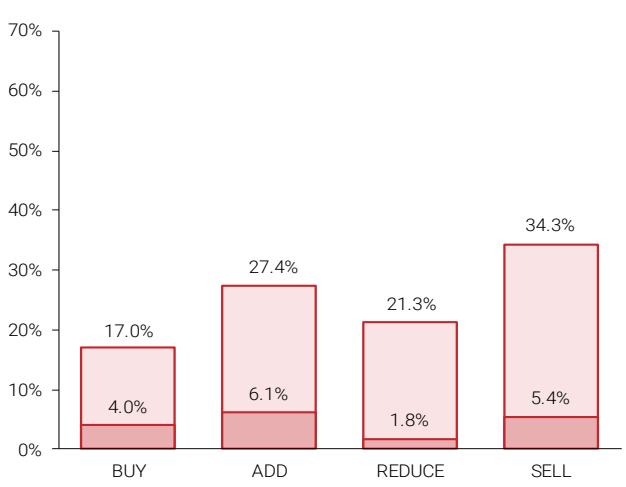
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2024 Kotak Institutional Equities Investment Research had investment ratings on 277 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2024

Coverage view

The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

Other ratings/identifiers

NR = Not Rated. The investment rating and fair value, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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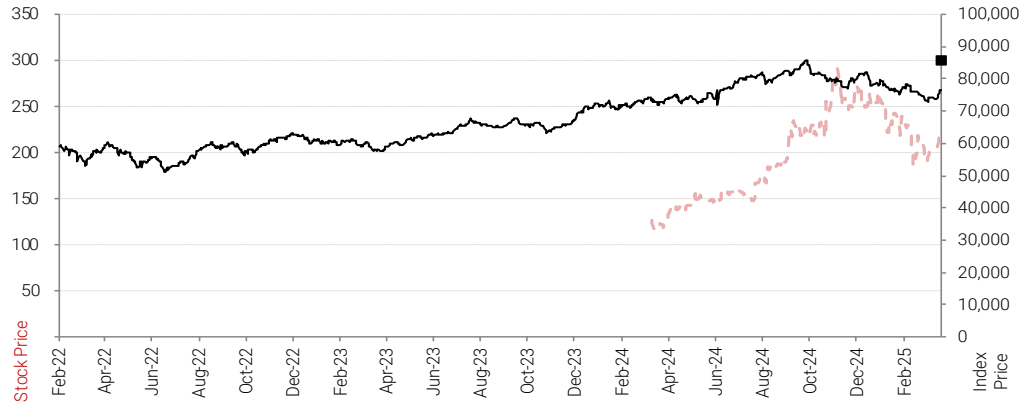
Piramal Pharma (PIRPHARM)

Kotak Institutional Equities rating and stock price target history

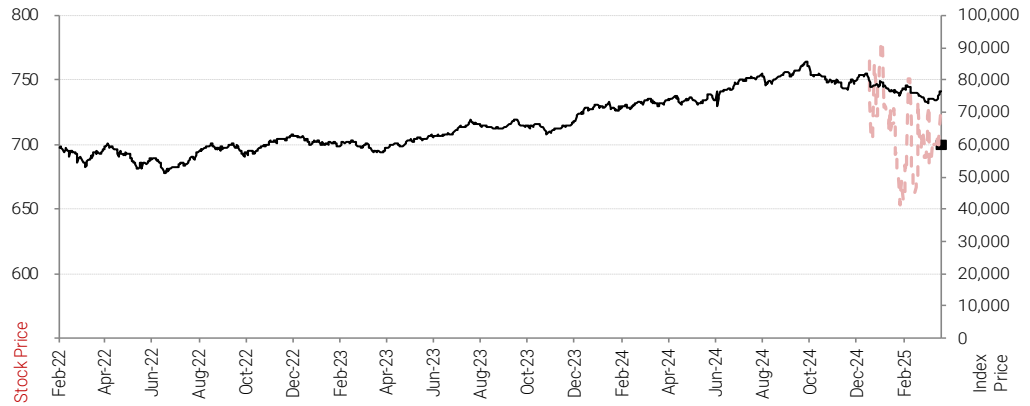


Source: Kotak Institutional Equities Research for ratings and price targets, Bloomberg for daily closing prices.

The price targets shown should be considered in the context of all prior published Kotak Institutional Equities research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets

Sai Life Science (SAILIFE)

Kotak Institutional Equities rating and stock price target history



Source: Kotak Institutional Equities Research for ratings and price targets, Bloomberg for daily closing prices.

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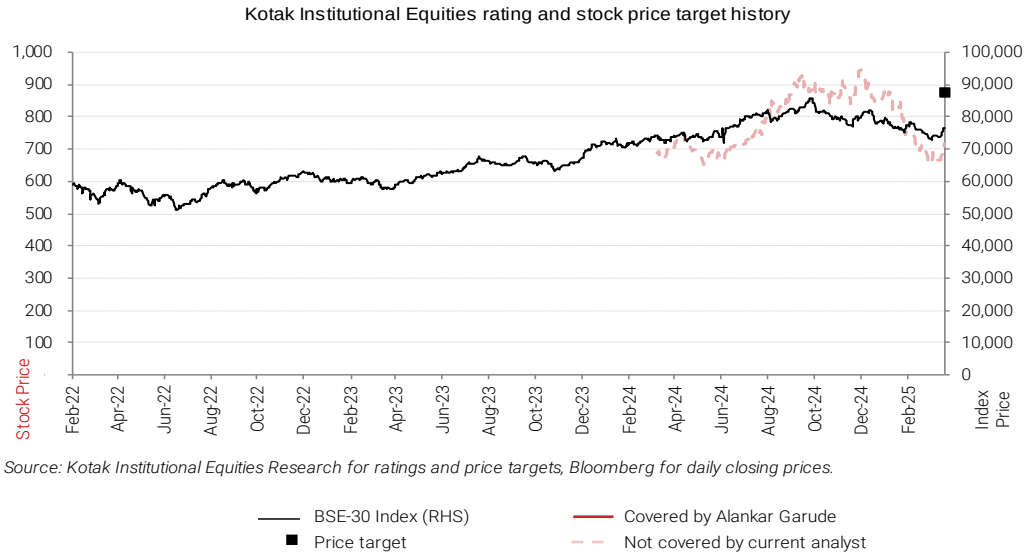
Syngene International (SYNG)



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Companies that the analyst mentioned in this document follow

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Apollo Hospitals	APHS IN
Aster DM Healthcare	ASTERDM IN
Aurobindo Pharma	ARBP IN
Biocon	BIOS IN
Blue Jet Healthcare	BLUEJET IN
Cipla	CIPLA IN
Concord Biotech	CONCORDB IN
Divis Laboratories	DIVI IN
Dr Lal Pathlabs	DLPL IN
Dr Reddy's Laboratories	DRRD IN
Emcure Pharmaceuticals	EMCURE IN
Gland Pharma	GLAND IN
Global Health	MEDANTA IN
JB Chemicals & Pharma	JBCP IN
KIMS	KIMS IN
Laurus Labs	LAURUS IN
Lupin	LPC IN
Mankind Pharma	MANKIND IN
Max Healthcare	MAXHEALT IN
Metropolis Healthcare	METROHL IN
Narayana Hrudayalaya	NARH IN
Piramal Pharma	PIRPHARM IN
Rainbow Children's Medicare	RAINBOW IN
Sai Life Science	SAILIFE IN
Sun Pharmaceuticals	SUNP IN
Syngene International	SYNG IN
Torrent Pharmaceuticals	TRP IN

Source: Kotak Institutional Equities research

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