

## Concord Biotech

BUY

Choice

The Concord Biotech's earnings came above our expectations. Revenue stood at INR 3,102mn, reflecting a robust growth of 8.2% YoY and 43.7% QoQ, driven by deeper market penetration, expanded customer base, and entry into new regions. EBITDA grew by 14.7% YoY and 68.2% QoQ to INR 1,367mn, with the margin contracting by 137bps YoY but improving by 640bps QoQ to 44.1%. Adjusted PAT came in at INR 957mn, showing an 18.2% YoY and 60.7% QoQ growth. The management remains committed to launching 8-10 new products in 3-4 years in oncology, anti-infectives, and anti-fungal, which are complex in nature and achieve a long-term revenue CAGR guidance of 25%.

- API Business:** The API business reported flat YoY and growth of 34.4% QoQ to INR 2,300mn. The muted growth was on account of not considering the internal unit sales of API to the formulation. Concord keeps expanding its product line, gaining new customers from all over the world, and breaking into new markets with its existing clients. New therapeutic areas, such as oncology and antifungal, account for the majority of the new customers that the API segment has added in the past year. By becoming a one-stop shop for fermentation-based API products for various therapeutic areas, the objective is to improve the offerings, grow the market share, and strengthen the bonds with current clients.
- Formulation Business:** The formulation business showed robust growth of 129.8% YoY and 79% QoQ to INR 802mn, driven by strong momentum in critical care including nephrology and rheumatology and products approval and continuous product additions. By the end of this year, the company plans to add an injectable facility to further improve its formulation capabilities. This will increase its market reach and product diversity, enabling it to provide a full range of products to the broader market, including injectables and oral solid dosage forms. Additionally, its geographic reach is growing in the US, India, and emerging markets.
- Margin Profile:** The gross margin declined by 445bps YoY and 222bps QoQ to 75.4%. EBITDA also saw a decline of 137bps YoY but improved by 640bps QoQ. The operational effectiveness of the Limbasi facility will partially offset any potential slowdown in margin growth caused by the launch of the injectable facility and benefit from the backward integration into key starting materials, allowing it to control the entire supply chain from raw materials to finished products.
- Outlook & Valuation:** We are optimistic about Concord Biotech because of the following: top-line growth at a CAGR of 25% over the next 3-5 years driven by a robust pipeline; addition of new injectable facility; backward integration and low utilization levels that present opportunities for operating leverage and margin expansion; and ongoing encouraging momentum with the increasing queries in the CDMO segment, which will accelerate growth. We estimate FY23-27E Revenue/EBITDA/PAT CAGR of 22.4%/24.7%/27.3%. We have introduced FY27E and valued the stock at 41x Sep-FY27E EPS to arrive at a target price of INR 2,208 and maintain the **BUY** rating on the stock.

## Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	7,129	8,532	10,169	12,181	14,988	18,664
Gross Profit (INR Mn.)	5,489	6,730	7,877	9,501	11,736	14,708
EBITDA (INR Mn.)	2,733	3,433	4,316	5,262	6,565	8,362
EBITDA Margin (%)	38.3	40.2	42.4	43.2	43.8	44.8
EPS (INR)	16.7	22.9	29.5	37.0	46.9	60.8

Source: Company, CEBPL

Nov 12, 2024

CMP (Rs)	1,860
Target Price (Rs)	2,208
Potential Upside (%)	18.7

\*CMP as on 12<sup>th</sup> Nov 2024

## Company Info

BB Code	CONCORD IN
ISIN	INE338H01029
Face Value (Rs.)	1.0
52 Week High (Rs.)	2,658
52 Week Low (Rs.)	1,206
Mkt Cap (Rs bn.)	194.6
Mkt Cap (\$ bn.)	2.3
Shares o/s (Mn.)/F.Float (%)	104.6/56
TTM EPS (Rs)	31.3
EPS FY27E (Rs)	60.8

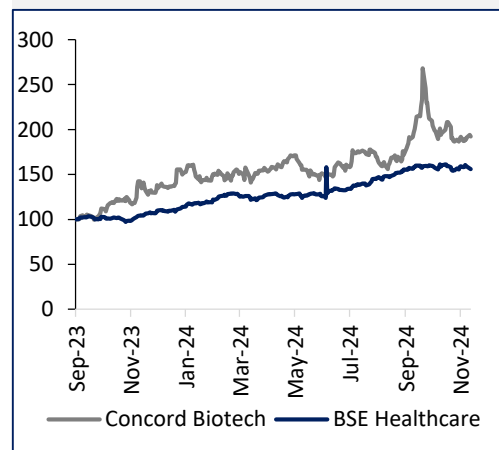
## Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	44.08	44.08	44.08
FII's	8.10	7.11	6.49
DII's	9.82	10.35	8.41
Public	38.02	38.46	41.03

## Relative Performance (%)

YTD	6M	9M	1Y
BSE Healthcare	23.1	23.3	48.8
Concord Biotech	23.7	29.8	40.0

## Rebased Price Performance



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## Quarterly performance

Rs. In Mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	3,102	2,623	18.2	2,158	43.7
Material Consumed	763	529	44.4	483	58.0
Gross Profit	2,339	2,095	11.6	1,675	39.6
Gross Margin (%)	75.4	79.8	-445bps	77.6	-222.3
Employee Cost	337	302	11.6	317	6.3
Operating Expenses	635	601	5.7	546	16.4
EBITDA	1,367	1,192	14.7	813	68.2
EBITDA Margin (%)	44.06	45.43	-137bps	37.66	640.0
Depreciation	133	133	0.1	132	1.0
Other Income	100	81	23.4	103	-2.7
Interest	1	8	-88.6	2	-60.3
Exceptional Items	-	-	NA	-	NA
Profit from Associate	-30	-35	-14.8	14	-318.4
PBT	1,303	1,097	18.8	795	63.9
Tax	346	287	20.6	199	73.6
Adj. PAT	957	810	18.2	596	60.7
Adj. EPS (Rs./share)	9.2	7.7	18.2	5.7	60.7

Source: Company, CEBPL

## CEBPL Estimates vs Actual

Rs. In Mn.	Actual	CEBPL Estimates	% Change
Sales	3,102	2,778	11.6
EBITDA	1,367	1,106	23.6
EBITDA Margin (%)	44.1	39.8	426.4
PAT	957	819	16.9
EPS	9.2	7.8	16.9

Source: Company, CEBPL

## Changes in Estimate for FY25E &amp; FY26E

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Previous	Change	New	Previous	Change	New
Net sales	12,181	12,557	(3.0)	14,988	15,293	(2.0)	18,664
EBITDA	5,262	5,400	(2.5)	6,565	6,652	(1.3)	8,362
EBITDA margin(%)	43.2	43.0	20.0	43.8	43.5	30.0	44.8
PAT	3,867	3,945	(2.0)	4,911	4,915	(0.1)	6,359
EPS	37.0	37.7	(2.0)	46.9	47.0	(0.1)	60.8

Source: Company, CEBPL

## Management Call - Highlights

### API Segment

- Growth in this segment has been supported by deeper market penetration, an expanded customer base, and entry into new regions.
- Concord has demonstrated robust growth in immunosuppressants and expects to achieve similar success in other therapeutic areas.
- Backward integration into critical starting materials provides a competitive advantage, strengthening market position and diversifying offerings.
- The majority of new customer additions in the last year pertain to emerging therapeutic areas, enhancing API segment growth and meeting high-demand needs.
- Concord aims to become a one-stop provider of fermentation-based API products for multiple therapeutic areas, thus increasing market share and reinforcing relationships with existing customers.
- Export markets, including Southeast Asia, LatAm, and the US, are outpacing domestic growth.

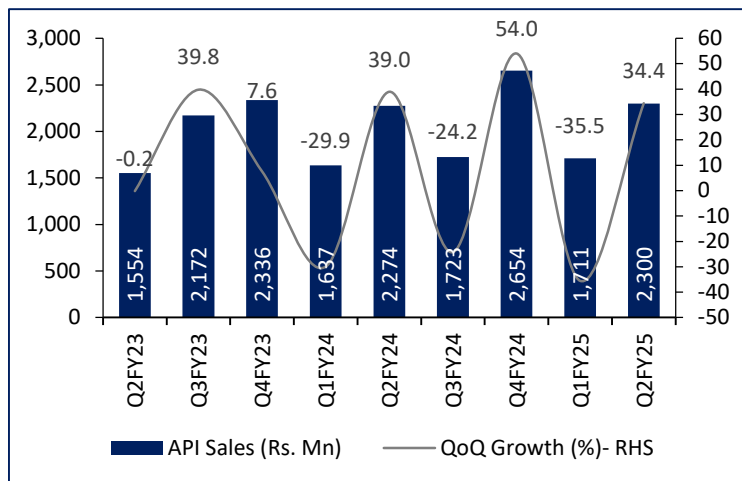
### Formulations Segment

- The formulations business began expanding in 2016 with oral solid dose manufacturing, which accounted for 26% of business in Q2.
- An injectable facility will be operational by the end of the fiscal year, broadening market reach, product diversity, and formulation capabilities.
- Growth in this segment enhances Concord's presence in domestic emerging and regulated markets, providing substantial domestic potential.
- A robust pipeline of finished formulation products has been filed in the US and other emerging markets, focused on critical fields such as oncology, anti-infectives, and antibacterial treatments.

### Others

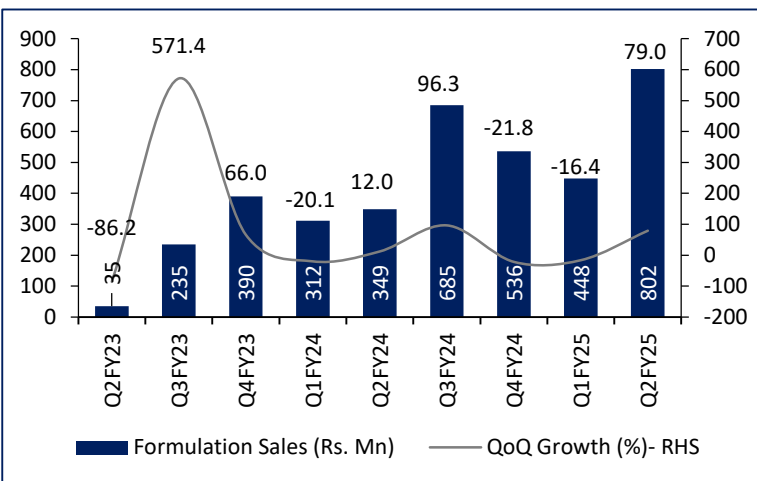
- The CDMO business is experiencing strong momentum, with a growing number of inquiries and RFQs, as companies evaluate Concord as a potential CDMO supplier.
- Global interest is rising, driven by efforts to reduce dependency on China, leading to increased CDMO-related inquiries.
- Facility utilization rates: Unit 1 is operating at 79%, Unit 2 at 50%, and Unit 3 (Limbasi) at 38%, with new product qualifications expected to increase Limbasi's traction.
- Concord's expansion strategy includes a focus on critical areas such as oncology, anti-infectives, and antibacterials with plans to commercialize 8-10 new products over the next 3-4 years.
- The company remains on track to meet its long-term CAGR guidance of 25% growth.

API Sales (Rs. mn) and QoQ Growth (%)



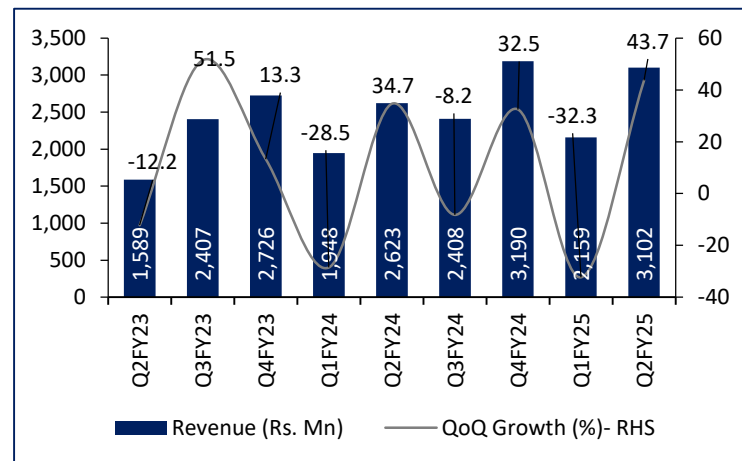
Source: Company, CEBPL

Formulation Sales (Rs. mn) and QoQ Growth (%)



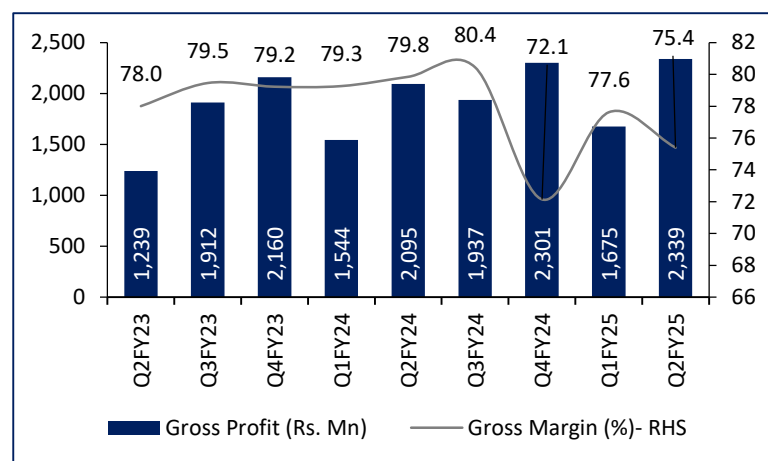
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



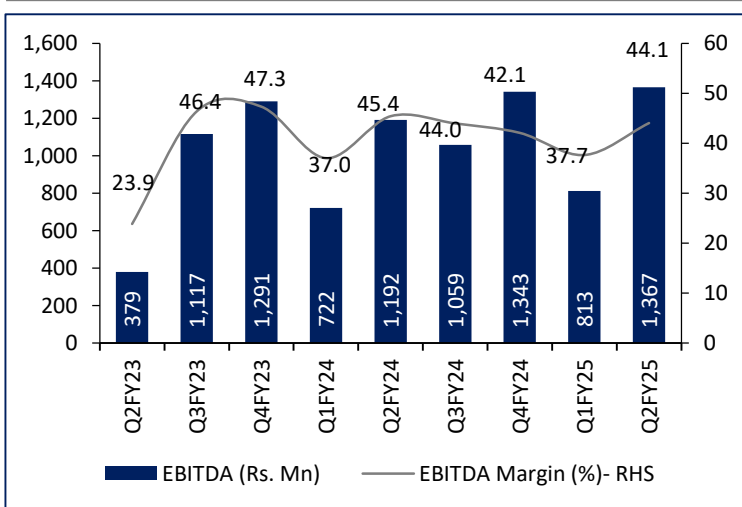
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



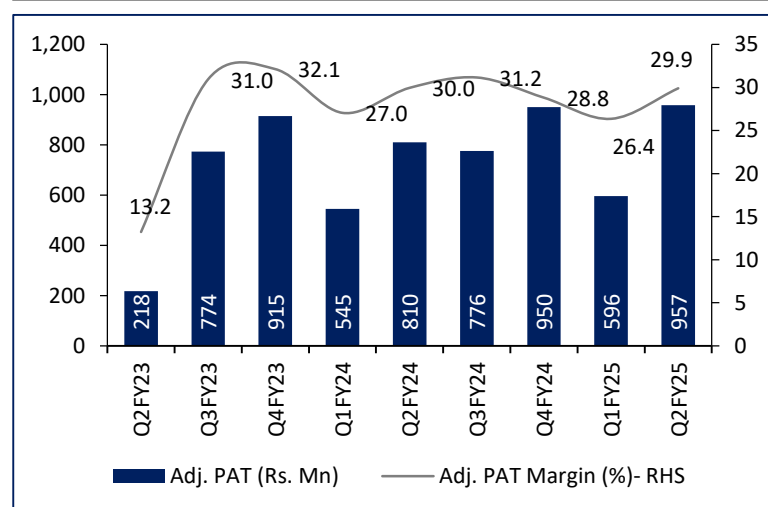
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



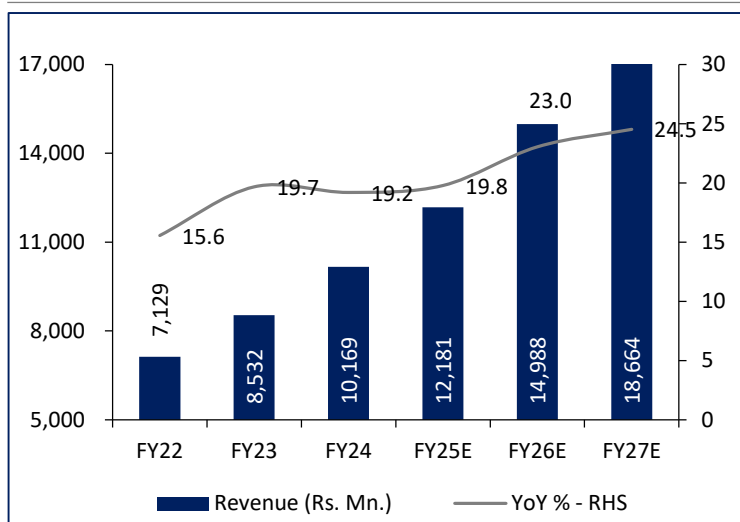
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



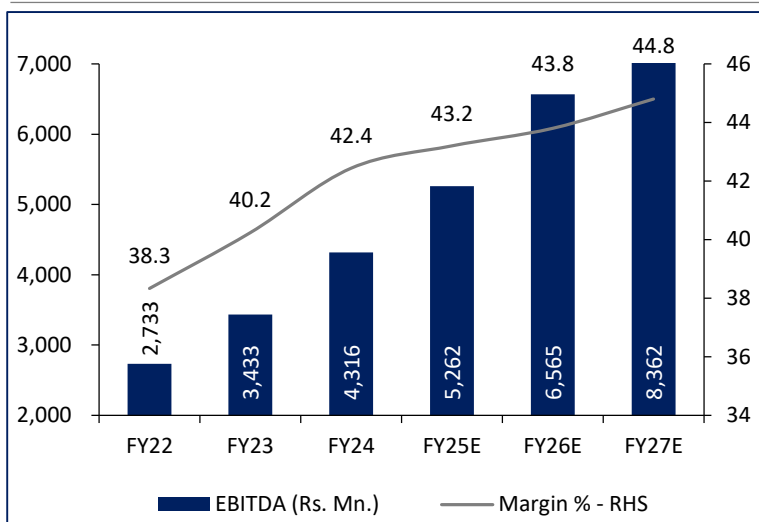
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



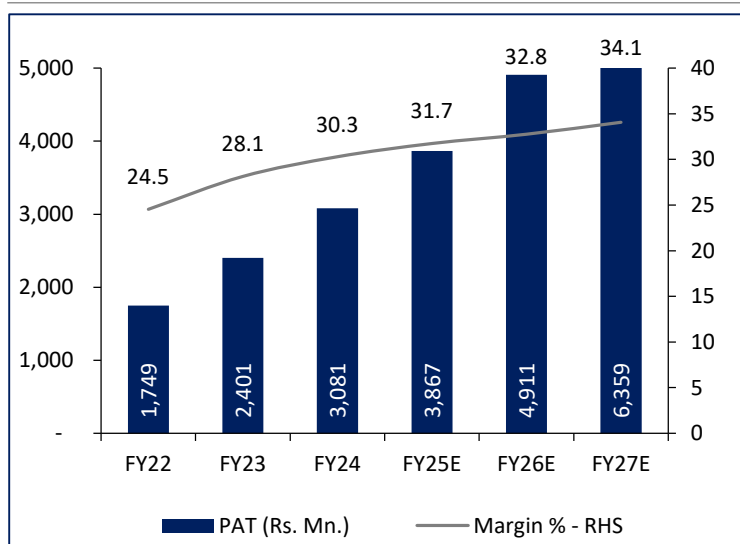
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



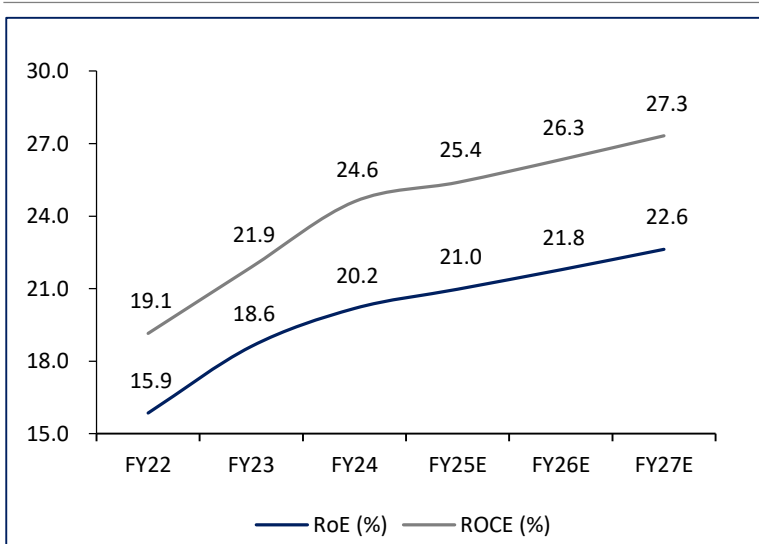
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



Source: Company, CEBPL

ROE (%) and ROCE (%)



Source: Company, CEBPL

## Income statement (Consolidated in INR Mn.)

Particulars (Rs. In Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,129	8,532	10,169	12,181	14,988	18,664
Gross profit	5,489	6,730	7,877	9,501	11,736	14,708
EBITDA	2,733	3,433	4,316	5,262	6,565	8,362
Depreciation	501	540	536	567	621	675
EBIT	2,232	2,893	3,780	4,696	5,944	7,686
Other income	234	353	338	426	562	747
Interest expense	55	45	26	6	3	3
Reported PAT	1,749	2,401	3,081	3,867	4,911	6,359
Adjusted PAT	1,749	2,401	3,081	3,867	4,911	6,359
EPS (INR)	16.7	22.9	29.5	37.0	46.9	60.8
NOPAT	1,295	1,786	2,294	2,900	3,683	4,769

Source: Company, CEBPL

## Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	11,032	12,900	15,266	18,433	22,544	28,103
Deferred tax	210	234	281	241	221	201
Total debt	625	314	97	57	27	27
Other liabilities & provisions	19	23	20	20	20	20
<b>Total Net Worth &amp; liabilities</b>	<b>11,886</b>	<b>13,472</b>	<b>15,664</b>	<b>18,751</b>	<b>22,811</b>	<b>28,350</b>
Net Fixed Assets	5,730	5,930	5,753	5,901	6,130	6,305
Capital Work in progress	742	1,727	2,115	2,315	2,515	3,015
Investments & other non current assets	1,065	1,575	2,614	4,146	6,198	8,348
Cash & bank balance	889	434	470	624	570	842
Loans & Advances & other assets	430	612	479	527	633	823
Net Current Assets	4,350	4,240	5,182	6,389	7,968	10,683
<b>Total Assets</b>	<b>11,886</b>	<b>13,472</b>	<b>15,664</b>	<b>18,751</b>	<b>22,811</b>	<b>28,350</b>
Capital Employed	11,657	13,214	15,364	18,491	22,571	28,130
Invested Capital	10,768	12,780	14,894	17,867	22,001	27,288
Net Debt	(264)	(120)	(373)	(566)	(543)	(815)

Source: Company, CEBPL

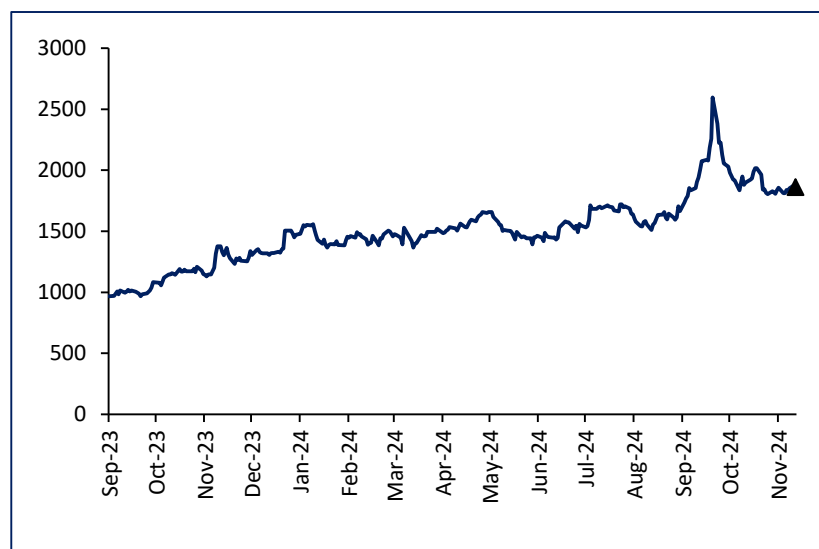
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	2,075	2,460	2,655	2,960	3,339	3,848
Capex	(1,555)	(1,451)	(857)	(500)	(600)	(600)
FCF	520	1,010	1,798	2,460	2,739	3,248
Cash flows from Investing	(1,118)	(1,580)	(2,103)	(1,982)	(2,602)	(2,600)
Cash flows from Financing	(1,002)	(852)	(992)	(746)	(833)	(803)

Source: Company, CEBPL

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth ratios (%)</b>						
Revenue	15.6	19.7	19.2	19.8	23.0	24.5
EBITDA	(16.6)	25.6	25.7	21.9	24.8	27.4
PAT	(25.5)	37.2	28.3	25.5	27.0	29.5
<b>Margin ratios (%)</b>						
EBITDA Margins	38.3	40.2	42.4	43.2	43.8	44.8
Adj. PAT Margins	24.5	28.1	30.3	31.7	32.8	34.1
<b>Performance Ratios (%)</b>						
OCF/EBITDA (X)	75.9	71.7	61.5	56.2	50.9	46.0
OCF/IC	19.3	19.3	17.8	16.6	15.2	14.1
RoE	15.9	18.6	20.2	21.0	21.8	22.6
ROCE	19.1	21.9	24.6	25.4	26.3	27.3
RoIC	16.1	20.0	22.0	23.6	25.0	26.2
<b>Turnover Ratios (days)</b>						
Inventory	100	91	75	80	85	88
Debtors	119	117	125	120	120	124
Payables	43	40	34	32	32	30
Cash Conversion Cycle	176	168	166	168	173	182
<b>Financial Stability ratios (x)</b>						
Net debt to Equity	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net debt to EBITDA	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Interest Cover	40.7	64.1	148.1	744.0	2,171.3	2,807.7
<b>Valuation metrics</b>						
Fully diluted shares (mn)	105	105	105	105	105	105
Price (Rs)	1860	1860	1860	1860	1860	1860
Market Cap (Rs. Mn)	1,94,623	1,94,623	1,94,622	1,94,622	1,94,622	1,94,622
PE(x)	111	81	63	50	40	31
EV (Rs.mn)	1,94,358	1,94,502	1,94,250	1,94,056	1,94,080	1,93,808
EV/EBITDA (x)	71	57	45	37	30	23
Book value (Rs/share)	105	123	146	176	215	269
Price to BV (x)	18	15	13	11	9	7
EV/OCF (x)	93.7	79.1	73.2	65.6	58.1	50.4

Source: Company, CEBPL

## Historical recommendations and target price: Concord Biotech



### Concord Biotech Ltd

1.	01-01-2024	OUTPERFORM,	Target Price Rs.1,715
2.	29-05-2024	BUY,	Target Price Rs.1,716
3.	13-08-2024	BUY,	Target Price Rs. 1,691
4.	12-11-2024	BUY,	Target Price Rs. 2,208

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<b>SELL</b>	The security expected to show Below -5% next 24 months

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