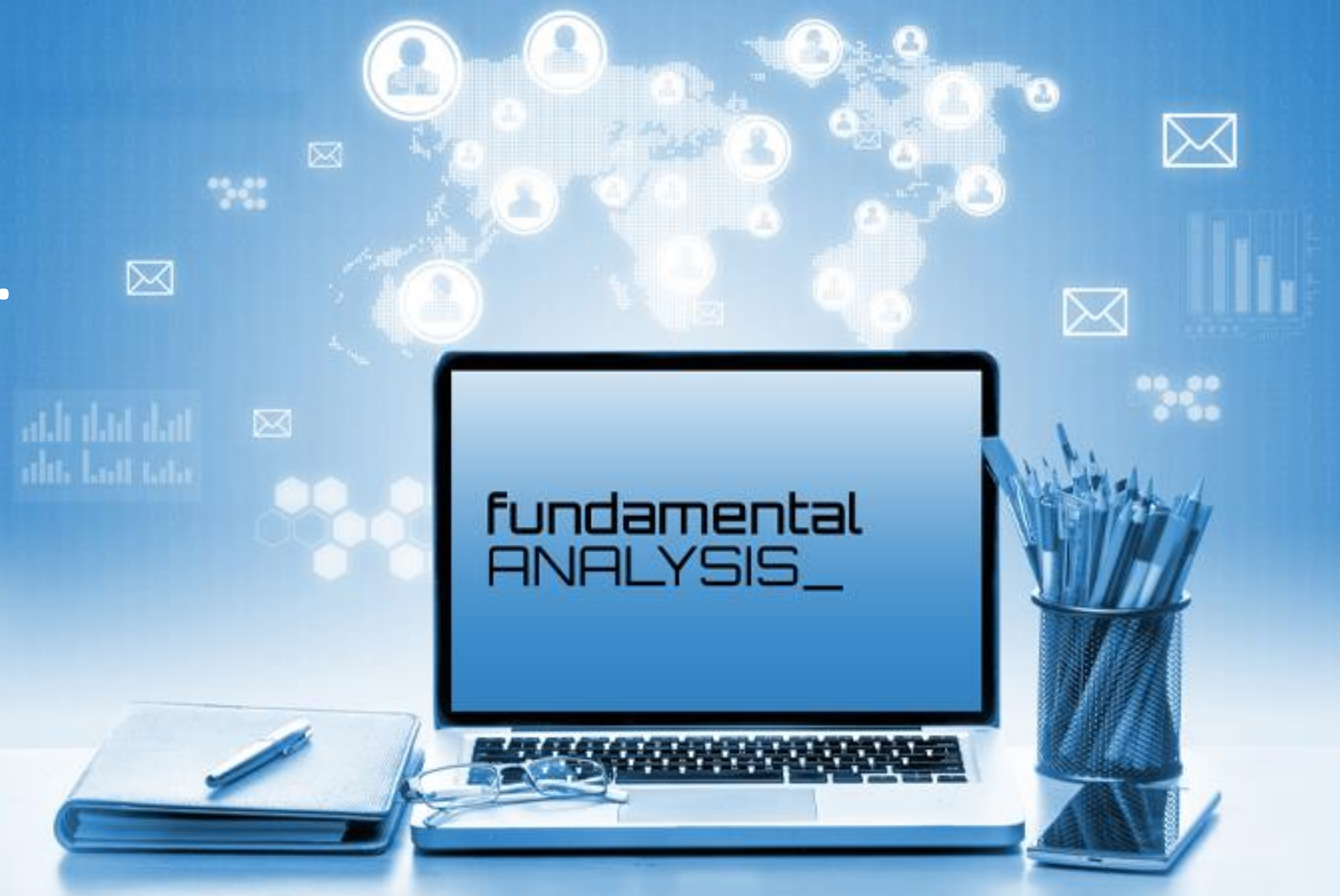
Initiating Coverage

Gujarat Themis Biosyn Ltd.

Jan 2, 2023



RETAILRESEARCH

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 773.85	Buy in the band of Rs 774-787 & add more on declines at Rs 682	Rs 852	Rs 909	2-3 quarters

HDFC Scrip Code	GUJTHEEQNR
BSE Code	506879
NSE Code	-
Bloomberg	GTB IN
CMP Dec 30, 2022	773.85
Equity Capital (Rs cr)	7.26
Face Value (Rs)	5
Equity Share O/S (cr)	1.45
Market Cap (Rs cr)	1125
Book Value (Rs)	112
Avg. 52 Wk Volumes	38192
52 Week High	921
52 Week Low	317

Share holding Pattern % (Sep, 2022)	
Promoters	74.99
Institutions	0.03
Non Institutions	24.98
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Gujarat Themis Biosyn Limited (GTBL) is engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O. The key raw material for GTBL is Rifabutin which is sourced through domestic market. The company has long standing relationship with its suppliers thereby ensuring timely supply of key raw materials. The company's manufacturing plant is located in Vapi, Dist.- Valsad, Gujarat. Company has installed capacity for manufacturing 10,000 kg per month for Rifamycin S and 6,000 kg per month (Rifamycin O). The average capacity utilisation was between 70-80% in FY22 and that has increased to 90-95% in H1FY23. Company caters to only two customers Lupin (40-45% of sales) and Optrix Laboratories Private Limited (50-55% of sales). Company has 'take or pay' agreement with Optrix Laboratories Private Limited which is renewed annually and has a contract with Lupin for five years. GTBL is trying to add 2 more customers to reduce the client concentration.

Company said that it is working on 10-12 new products in the areas such as Cardiac, Anti-Infectives etc. and it would be by way of fermentation process only. Company is planning to establish a new R&D lab to take care of technology development for new products and for examining whether existing products can be used for more applications. GTBL is in process of identifying new products which have good domestic and export potential. It is working on strategy to move up the value chain by way of forward integration into API. New facilities would be compliant with strict regulatory authority likes EDQM and US FDA etc.

GTBL is implementing capital expenditure of about Rs 200cr. It would be for i) a new R&D Lab ii) increase fermentation capacity and iii) API block. Fermentation capacity could come on stream in H1FY25. It would have three blocks and would be commissioned in a phased manner. The capex would largely be through internal accruals and in a phased manner. Management said that payback period for new capex could be 3-4 years. Company is setting up API unit with an outlay of ~Rs 40cr. It will cater to regulated markets, EM and RoW markets. It is likely to come on stream by the end of FY24. In the new products, margins could be slightly on a lower side, however there won't be significant impact on margins.

Valuation & Recommendation:

Prior to FY20, company was engaged in contract manufacturing of Rifamycin S for Lupin. During FY20, management decided to change business model from contract manufacturing to manufacturing and sales model; as a result the company's operating profitability has significantly improved. Company had reported robust numbers over FY20-22.

We expect the company to benefit from ramp up of new products post large capital expenditure. Management aims to start revenue from export markets mostly from FY25E. It has identified new products, for both the markets. We estimate revenue, EBITDA, and PAT CAGR of 29%/28%/27% over FY22-25E. Operating margin is expected to remain at around 49-50% over the next 2-3 years as the company focuses on products, which has limited competition. We feel investors can buy Gujarat Themis Biosyn in the band of Rs 774-787 and add more on declines to Rs 682 (12x Sep-24E EPS) for base case target of Rs 852 (15x Sep-24E EPS) and bull case target of Rs 909 (16x Sep-24E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenues	47.7	35	36.1	45	6.2	41	85	91	115	179	205	248
EBITDA	24	18	32.2	23	6.8	7	32	40.5	58	90	103.5	122.6
Depreciation	1	1	1.8	1	1.8	1	1	2	2	3	5	9
Other Income	1.4	0.7	94.4	1.4	-2.1	2	2	3	4	4	5	7
Interest Cost	0	0	-33.3	0	33.3	0	1	1	1	0	0	1
Tax	7	5	38.9	6	12.1	2	8	11	15	24	27	31
APAT	18.7	13.8	35.5	17.8	5.1	6	24	30.2	43.6	67.2	76.2	89
EPS (Rs)						4.4	16.3	20.8	30.0	46.3	52.4	61.2
RoE (%)						41.3	78.1	53.9	50.3	50.5	38.7	33.0
P/E (x)						178.2	47.6	37.3	25.9	16.8	14.8	12.7
EV/EBITDA (x)						149.2	34.4	27.1	18.9	12.1	10.6	8.9

(Source: Company, HDFC sec)

Q2FY23 result update

Revenue grew 36% YoY at Rs 47.7cr. Operating margin contracted 140bps YoY at 51.2%. Net profit increased 35.5% YoY at Rs 18.7cr.
For H1FY23, revenue increased 37.3% YoY at Rs 92.6cr. Net profit was up 36.5% YoY at Rs 36.5cr.

Themis Medicare approved additional investment in Gujarat Themis Biosyn Limited ("GTBL"), an Associate Company by way of purchase of 91.4 lakh equity shares (6.47% of equity share capital of GTBL) from an existing shareholder of GTBL, viz. Pharmaceutical Business Group (India) Limited ("PBG India") at Rs 745 per share. On completion of the said purchase, the company's shareholding in GTBL would increase from 23.19% to 29.66%. This acquisition was however called off later.

EPS for the quarter stood at Rs 12.9 and it stood at Rs 25.1 for H1FY23.

Q2FY23 conference call highlights

- For H1FY23, revenue grew 37.3% YoY at Rs 92.6cr driven by strong growth in volumes. EBITDA margin contracted 120bps YoY at 50.9%. PAT increased 36.5% YoY at Rs 36.5cr.
- Current capacity utilization stands at around 90-95%. Management said that the target would be to maintain margins at current levels.
- R&D centre is expected to be completed by Q1FY24. It would be compliant with various regulatory authorities.
- Company has planned capital expenditure of Rs 200cr spread over the next 24-30 months. It has spent Rs 22cr till now.
- Fermentation capacity to come on stream in H1FY25. It would have three blocks and would be commissioned in a phased manner.
- In the new products, margins may not be similar to what currently the company enjoys, however they will be high margin products only.
- The capex would largely be through internal accruals and it would be in a phased manner. Management said that payback period for new capex could be 3-4 years.
- Company is setting up API unit with an outlay of Rs 40cr. It will cater to regulated markets, EM and RoW markets. It is likely to come on stream by the end of FY24.
- Start of commercial production would depend upon several regulatory approvals.
- GTBL is working on strategy to move up the value chain by way of forward integration into API.
- Company has added 2 new customers; however currently, the volumes of sales to them is very small.

Other key highlights

GTBL was established in 1981 as a joint venture company between the Government of Gujarat in form of GIIC and Chemosyn (P) Ltd. and subsequently became a listed entity in 1984. GTBL has grown over years through collaboration with various other players such as the pharmaceuticals business group that is PBG and Yuhan Corporation.

Current product portfolio grew with Rifampicin in 1991 and Lovastatin in 2003. Subsequently, the company started manufacturing Rifamycin as an intermediate for Rifampicin.

During the year 2020, the company changed its business model from contract manufacturing to own manufacturing and sales model. After fulfilling all the contractual obligations, GTBL was able to make the strategic shift which led to improved realisations and substantial improvement in margins. This change gave better access to markets and a competitive advantage to command better margin.

In terms of the capacities, the total fermentation capacity is about 450 cubic meters and the company plans to double this for which company has already received the EC clearance. With regards to raw materials, the company is not dependent upon China.

At each stage it gets understanding about the environmental conditions which are best suited for a microbe to grow and produce what would be produced and that's how the process works.

Almost a year back, GTBL ended strategic partnership with South Korea-based Yuhan Corporation and the promoters bought over their stake in the company. While Yuhan has been one of the oldest technology partners, the association had come to its fruition and there was no further value addition for either of the two companies. The decoupling would enable to better formulate and execute future growth strategies in the long-term.

In the fermentation, the largest cost is power, the raw material cost is not much significant. Increase in power costs or tariffs in China and also the unavailability of the same in certain areas, has led to disruption in supply chain.

Company doesn’t face any competition for its key products Rifa O and Rifa S in the domestic market.

Most of the products in fermentation-based chemistry would not have too much competition and there won’t be more than one or two players in the same product segment.

Business and its outlook

Gujarat Themis is presently manufacturing Rifamycin S, which is an intermediate for manufacturing the drug Rifampicin (Anti biotic used for the treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires’ disease.) and Rifamycin O, which is an intermediate for manufacturing the drug Rifaximin (This is an Antibiotic used for treatment of traveler’s diarrhea, irritable bowel syndrome, and hepatic encephalopathy).

During the Q3FY20, the company changed its business model from job work to “buy and sell”. Change in business model has helped the Company to report a good financial performance. In the contract manufacturing model, the direct raw materials were supplied by the partner. After shift to manufacture and sale model GTBL started procuring raw materials directly.

The change in business model undertaken during the FY20 continued to benefit performance in terms of top line and margin. During the year FY22, the company reported 26.8% YoY growth in revenue at Rs. 115cr, while EBITDA and PAT grew 43% and 44% YoY to Rs. 58cr and Rs. 43.6cr, respectively. Better access to the markets and improved operational efficiencies offset the impact of raw material prices and power costs, and that led to healthy margin. While product portfolio presently comprises of Rifamycin-O and Rifamycin-S, the company is concentrating substantially in R&D and product development. GTBL has few new products under development and these are expected to be launched mostly in H2FY24. These would address new therapeutic areas.

There are very few companies in India which have expertise in the field of fermentation. Many products manufactured by fermentation are not made in India. The country's needs are largely met through imports. GTBL is continuously identifying fermentation-based products which have good domestic and export potential. The Company is also focusing on R&D for technological developments for new product development. With such capacities in place, GTBL is in a good position to capitalize on the significant growth opportunities in this sector going forward. Owing to complex fermentation capabilities with high capex involved, there is limited entry barrier.

Company also has plans to establish a new R&D lab to take care of technological developments for new products that are being identified for global markets.

Company is implementing capital expenditure of about Rs 200cr. It is for i) R&D Lab ii) increase fermentation capacity and iii) API block.

Fermentation Technology

Fermentation is the core competency of the company. GTBL became India's first company to start commercial production of Rifampicin used as Anti-tuberculosis (TB) drug using fermentation process. GTBL has evolved into an integrated biopharmaceutical company that also includes a contract development and manufacturing business of intermediates based on fermentation technology.

Developing new and efficient processes - Going down synthetic route not only requires significant development but is time consuming and entails higher costs than fermentation option. Semi-synthetic approach draws upon advantages of fermentation in generation of new drugs. Natural molecules are produced through fermentation then modified synthetically, reducing toxicity, increasing potency and selectivity, and overcoming bacterial resistance to traditional antibiotics.

Differentiated approach

The complexity starts from the fact that fermentation needs to be able to develop those microbes that are going to produce this product. That is only the beginning. The second part is the way these microbes behave very differently when one moves them from a laboratory to a 50,000-litre fermenter. So, the economics completely changed. That is the second part of complexity. The third is how to design these kind of fermentation facilities from lab data to commercial data. So that's know-how that knowledge is very important which not many players have. And fourth is the CAPEX which is required. A replacement value of a facility that GTBL right now would be upwards of Rs.200 crores excluding the land and the paraphernalia that goes with it. So that is the kind of CAPEX that needs to put in while not knowing a lot of what is going to happen from the laboratory till you reach final production. And then there is time because it would take at least two years if not more to set up this facility, followed by that it would take even more time for regulatory and customer approvals to come.

The therapeutic category that involves fermentation, is starting from penicillin derivatives to other anti-infectives, in the field of statins which is cholesterol reduction. So, it more depends upon what is the synthesis or how a product is produced more than therapeutic category. And selection would be based on technology-dependent. And with regards to biologics, the company is not into it yet. At the moment focus is on secondary metabolite fermentation products and not biologics.

Capex plans after a long gap

Company is implementing large capital expenditure of around Rs 200cr (over FY23-FY25) after a long time. GTBL has undertaken capex wherein it is setting up warehouse and research and development centre at its existing plant located at Vapi, dist. Valsad. Total estimated cost of this project is Rs. 32 crore and entire project cost is to be funded through internal accruals. This apart it is also evaluation expanding the fermentation capacity and forward integration into APIs. Payback period for these projects could be 3-4 years.
This spending could improve the product spread, capacities and growth potential.

Experienced and qualified promoters and management team

Gujarat Themis is managed by promoters of Themis Medicare Limited (TML) since 2007. Dr. Dinesh Patel who is the Executive Vice Chairman & his son Dr. Sachin Patel, MD & CEO has PhD in Medicinal Chemistry by qualification. Dr. Sachin Patel holds a doctorate in Biological Chemistry from Christ's college, University of Cambridge, UK. Furthermore, the promoters are supported by well qualified and experienced second tier management.

Key Concerns

Concentration risk

The company caters to only two customers i.e. Lupin (40-45% of sales) and Optrix Laboratories Private Limited (50-55% of sales). Company has 'take or pay' agreement with Optrix Laboratories Private Limited which is renewed annually and has contract with Lupin for five years; hence concentration risk is mitigated to an extent. Any major setback due to fall in orders of these clients could significantly impact growth of GTBL. It plans to onboard more customers over medium term to reduce concentration risk. It is to be noted that these customers' have been associated with the company since long time.
Also GTBL depends on one therapy - anti TB and within that two products Rifa –S and Rifa – O for major portion of its sales. Any new innovation in TB treatment and new drugs could impact sales of GTBL.

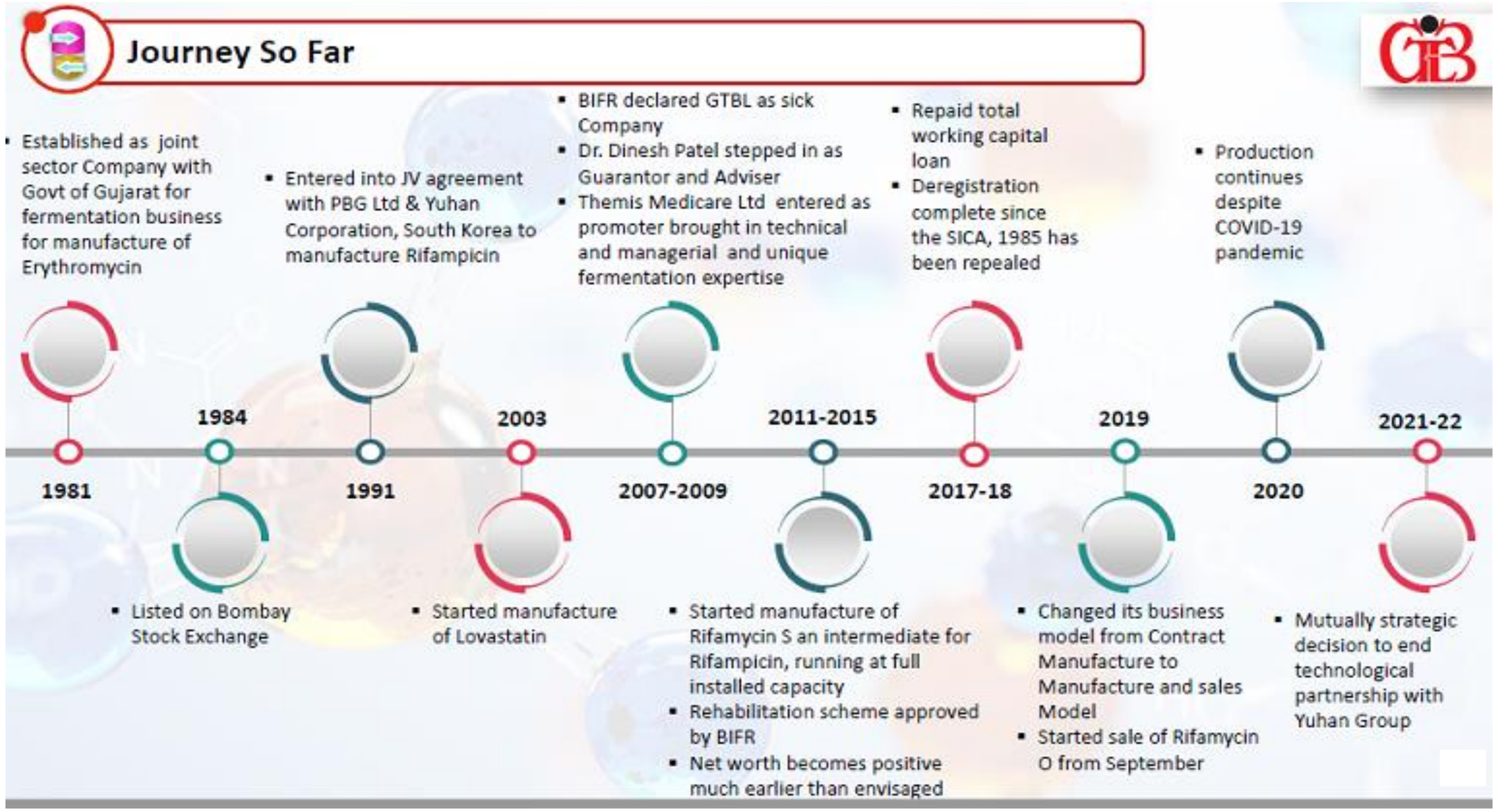
Competition Risk

Company faces competition from largely international companies. GTBL has created strong differentiators in execution, quality and delivery which make it resilient to competition. Stable and long-standing client relationships help to maintain a strong order book and insulates the company from this risk.
The profitability and cost effectiveness are affected by changes in the prices of raw materials, power and other input costs. Power, fuel, solvents and water are the major costs along with raw materials.

Company is implementing large capital expenditure of around Rs 200cr (over FY23-FY25) after a long time. Any delay in capex implementation could hurt the company's growth in the medium term.

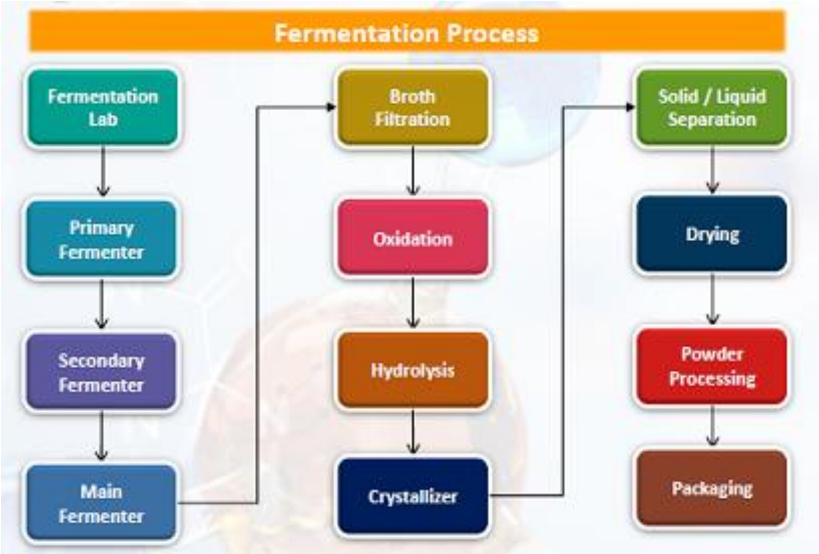
Delay in getting regulatory approvals for new facilities could postpone growth.

Delay/failure to scale up its new products may impact revenue and profitability. Though, it would mostly start generating revenue from FY25E.

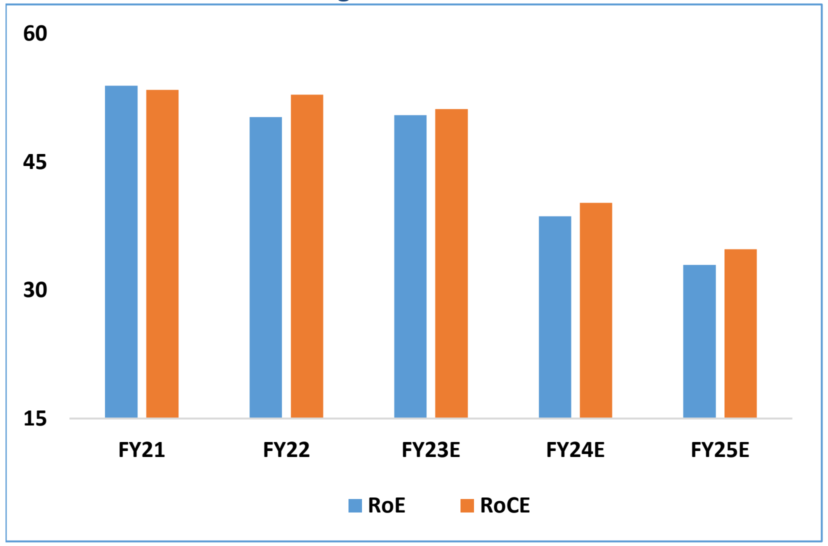


About the Company

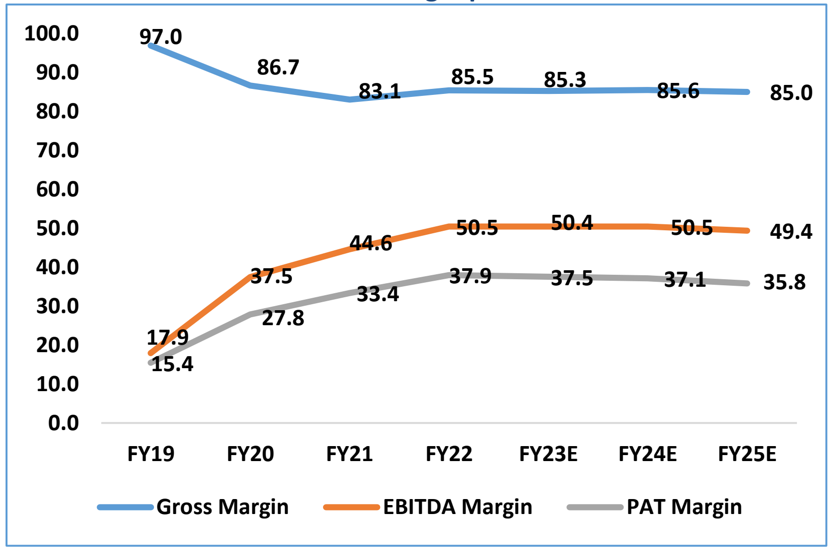
Gujarat Themis Biosyn Limited (GTBL) was incorporated in 1981 and it is engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O. Rifamycin S is an intermediate for manufacturing drug Rifampicin. Rifamycin O is an intermediate for manufacturing drug Rifaximin The manufacturing plant is located at Vapi, district - Valsad, Gujarat and it is cGMP approved. As on 31st March 2022 the total employee strength was 101. Company has installed capacity for manufacturing 10,000 kg Rifamycin S per month and 6,000 kg Rifamycin O per month. The average capacity utilisation was around 75-80% in FY22. Company is working on around 10-12 new products and out of that 3-4 products may get successful. New products would likely to drive growth from FY25E onwards.



Strong Return Ratios



Robust margin profile



Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	85	91	115	179	205	248
Growth (%)	108	6.5	26.7	56	14.5	21
Operating Expenses	53	50	57	89	102	126
EBITDA	**32**	**40.5**	**58**	**90.3**	**103.5**	**122.6**
Growth (%)	334	26.8	43.3	55.8	14.6	18.4
EBITDA Margin (%)	37.5	44.6	50.5	50.4	50.5	49.4
Depreciation	1	2	2	3	5	9
EBIT	31	39	56	87	98	114
Other Income	2	3	4	4	5	7
Interest expenses	1	1	1	0	0	1
PBT	31	41	59	91	103	120
Tax	8	11	15	24	27	31
RPAT	**23.7**	**30**	**43.6**	**67.2**	**76.2**	**89**
Growth (%)	274.4	27.6	44	54.3	13.3	16.7
EPS	16.3	20.8	30	46.3	52.4	61.2

Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	7.3	7.3	7.3	7.3	7.3	7.3
Reserves	35	63	96	156	224	301
Shareholders' Funds	**42**	**70**	**103**	**163**	**231**	**308**
Long Term Debt	3	0	0	0	0	0
Net Deferred Taxes	1	1	1	1	1	1
Long Term Provisions & Others	1	2	1	6	12	18
Total Source of Funds	**47**	**73**	**105**	**170**	**244**	**327**
APPLICATION OF FUNDS						
Net Block (incl. CWIP)	18	21	32	61	103	184
Long Term Loans & Advances	18	4	12	14	17	20
Total Non-Current Assets	**35**	**25**	**44**	**74**	**121**	**204**
Current Investments	0	0	0	0	0	0
Inventories	6	6	12	15	19	22
Trade Receivables	20	15	25	38	45	54
Short term Loans & Advances	0	0	18	18	20	22
Cash & Equivalents	2	28	12	33	50	37
Other Current Assets	1	15	12	13	14	16
Total Current Assets	**29**	**63**	**78**	**119**	**148**	**152**
Short-Term Borrowings	0	3	0	0	0	0
Trade Payables	7	4	7	10	11	14
Other Current Liab & Provisions	10	9	10	12	13	14
Total Current Liabilities	**17**	**16**	**17**	**22**	**24**	**28**
Net Current Assets	12	48	61	96	123	123
Total Application of Funds	**47**	**73**	**105**	**170**	**244**	**327**

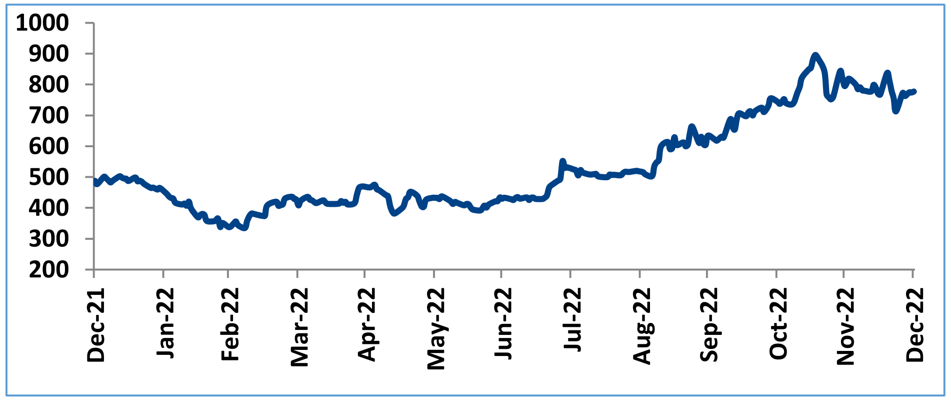
Source: Company, HDFC sec Research

Gujarat Themis Biosyn Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	31	41	59	91	103	120
Non-operating & EO items	-2	-3	-4	-4	-5	-7
Interest Expenses	1	1	1	0	0	1
Depreciation	1	2	2	3	5	9
Working Capital Change	-24	-20	-3	-14	-10	-13
Tax Paid	-7	-10	-15	-24	-27	-31
OPERATING CASH FLOW (a)	**1**	**10**	**40**	**53**	**66**	**78**
Capex	-3	-3	-14	-32	-48	-89
Free Cash Flow	-3	7	26	21	18	-11
Investments	-1	-3	-20	-2	-3	-3
Non-operating income	2	3	4	4	5	7
INVESTING CASH FLOW (b)	**-3**	**-2**	**-30**	**-30**	**-46**	**-85**
Debt Issuance / (Repaid)	3	-2	-3	5	6	6
Interest Expenses	-1	-1	-1	0	0	-1
FCFE	-1	5	22	25	24	-5
Share Capital	0	0	0	0	0	0
Dividend/Buyback	0	-2	-10	-8	-8	-12
FINANCING CASH FLOW (c)	**2**	**-5**	**-14**	**-3**	**-3**	**-6**
NET CASH FLOW (a+b+c)	**0**	**3**	**-4**	**20**	**18**	**-13**

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability (%)						
Gross Margin	86.7	83.1	85.5	85.3	85.6	85
EBITDA Margin	37.5	44.6	50.5	50.4	50.5	49.4
EBIT Margin	35.8	42.7	48.6	48.6	47.8	45.9
APAT Margin	27.8	33.4	37.9	37.5	37.1	35.8
RoE	78.1	53.9	50.3	50.5	38.7	33
RoCE	65.2	53.4	52.9	51.2	40.2	34.8
Solvency Ratio						
Net Debt/EBITDA (x)	0	-0.6	-0.2	-0.4	-0.5	-0.3
D/E	0.1	0.04	0	0	0	0
Net D/E	0	-0.4	-0.1	-0.2	-0.2	-0.1
PER SHARE DATA						
EPS	16.3	20.8	30	46.3	52.4	61.2
CEPS	17.3	22	31.5	48.5	56.2	67.2
BV	29	48	71	112	159	212
Dividend	1.7	7	4	4.5	5	7
Turnover Ratios (days)						
Debtor days	87	59	80	78	80	79
Inventory days	14	24	28	31	33	33
Creditors days	92	42	69	71	68	68
VALUATION						
P/E	47.6	37.3	25.9	16.8	14.8	12.7
P/BV	26.8	16.1	10.9	6.9	4.9	3.7
EV/EBITDA	34.4	27.1	18.9	12.1	10.6	8.9
EV / Revenues	12.9	12.1	9.6	6.1	5.3	4.4
Dividend Payout	10.1	33.6	13.3	9.7	9.5	11.4

Source: Company, HDFC sec Research

KUSHAL MAHENDRA RUGHANI Digitally signed by KUSHAL MAHENDRA RUGHANI Date: 2023.01.02 08:00:09 +05'30'

HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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