

| | |
|---------------------------------|-----------------------------------|
| Retail Research | IPO Note |
| Sector: Healthcare | Price Band (Rs): 430 - 452 |
| 03rd May 2024 | Recommendation: Subscribe |

Indegene Limited

Company Overview:

Indegene Ltd is a technology led digital commercialization provider to the life science industry, including biopharmaceutical, emerging biotech and medical device companies. The company provides technology led expertise and capabilities that assists clients with drug development, clinical trials, regulatory submissions, pharmacovigilance, complaint management and sales & marketing services. Indegene operates across i) Enterprise commercial solutions, ii) Enterprise medical solutions, iii) Omnichannel activation solutions and iv) Enterprise clinical solutions & consultancy services to 65 clients as of 9MFY24. Indegene operates through an internally developed artificial intelligence (AI) and machine learning (ML) based proprietary platforms which allows it to offer solutions to clients across the globe.

Key Highlights:

1. Robust digital capabilities: The company has developed a suite of proprietary tools and platforms that automate and create AI-based efficiencies and advanced analytic capabilities forming core components of Indegene's offerings. The proprietary "NEXT"-branded tools and platforms assist in driving transformation across the commercialization lifecycle of biopharmaceutical products and medical devices. These capabilities help the company drive efficient, effective and quality solutions for its customers.

2. Domain expertise in healthcare: Indegene's understanding of the healthcare domain enables it to efficiently modernize and digitize the key functions involved in the life sciences commercialization process. It also assists in contextualizing the use of technology, among other things, to optimize sales and marketing costs, drive omnichannel activation at scale, enable faster recruitment of patients for clinical trials and accelerate time taken to make regulatory submissions.

3. Global delivery model: The company caters to over 65 clients across the globe through various offices and hubs located in North America, Europe and Asia. Indegene is able to offer and execute end-to-end solutions across multiple regions to cater to clients' requirements because of the streamlined global processes and the scalable nature of its solutions. Indegene's local presence in various countries provides them with specialized knowledge of the regional market, culture, regulatory requirements and localized medical nuances, such as medical terminology, which enables it to work with clients across time zones and languages, leading to better client engagement.

4. Long standing client relations: The company has long-standing relationships with marquee biopharmaceutical companies including each of the 20 largest biopharmaceutical companies in the world. Contracts with clients tend to remain sticky as the company's offerings are integrated with the clients' workflow. Retention rate in FY21/FY22/FY23 stood at 129.9%/159.9%/122.8% respectively.

Valuation: The company is valued at annualized FY24 P/E multiple of 30.5x based on the upper price band on the post-issue capital. The company operates with a unique business model with strategic client's relationship with 20 of the Top 20 global biopharmaceutical companies in FY23. The company recorded a strong PAT CAGR of 12.7% between FY21-FY23 and is expected to become net debt free post issue. We recommend investors to SUBSCRIBE to the issue.

| Issue Details | |
|-------------------------------|---|
| Date of Opening | 06 th May 2024 |
| Date of Closing | 08 th May 2024 |
| Price Band (Rs) | 430 – 452 |
| OFS | 2,39,32,732 equity shares |
| Fresh Issue (Rs cr) | 700 |
| Issue Size (Rs cr) | 1,789 – 1,842 |
| No. of shares | 41,60,7,151 – 4,07,46,891 |
| Face Value (Rs) | 2 |
| Post Issue Market Cap (Rs cr) | 10,325 – 10,814 |
| BRLMs | Kotak Mahindra Capital, Citigroup Global Markets India, J.P. Morgan India, Nomura Financial Advisory & Securities |
| Registrar | Link Intime India Pvt Ltd |
| Bid Lot | 33 shares and in multiple thereof |
| QIB shares | 50% |
| Retail shares | 35% |
| NIB shares | 15% |

| Objects of Issue | |
|---|---|
| | Estimated utilization from net proceeds (Rs cr) |
| Repayment or prepayment of indebtedness of Material Subsidiaries, ILSL Holdings, Inc. | 391.3 |
| Funding the capital expenditure requirements of the company and material subsidiaries, Indegene, Inc. | 102.9 |
| General corporate purposes [^] | - |
| Total proceeds from fresh issue | - |

[^]The cumulative amount utilized for general corporate purposes and inorganic growth shall not exceed 35% of the amount being raised in the Offer and the amount utilized towards inorganic growth by way of acquisitions that have not been identified in this RHP shall not exceed 25% of the amount being raised in the Offer.

| Shareholding Pattern | | |
|---------------------------|---------------------|--------------|
| Pre-Issue | No. of Shares | % |
| Promoter & Promoter Group | - | - |
| Public & Others | 22,24,35,091 | 100.0 |
| Total | 22,24,35,091 | 100.0 |

| Post Issue @Lower Price Band | | |
|------------------------------|---------------------|--------------|
| | No. of Shares | % |
| Promoter & Promoter Group | - | - |
| Public & Others | 24,01,09,510 | 100.0 |
| Total | 24,01,09,510 | 100.0 |

| Post Issue @Upper Price Band | | |
|------------------------------|---------------------|--------------|
| | No. of Shares | % |
| Promoter & Promoter Group | - | - |
| Public & Others | 23,92,49,250 | 100.0 |
| Total | 23,92,49,250 | 100.0 |

Source: RHP, SSL Research

Key Financials

| | FY21 | FY22 | FY23 | 9MFY24 |
|--------------------------------|------|-------|-------|--------|
| Revenue from operation (Rs cr) | 966 | 1,665 | 2,306 | 1,917 |
| EBITDA (Rs cr) | 231 | 287 | 396 | 367 |
| Adj. PAT (Rs cr) | 183 | 210 | 266 | 242 |
| EBITDA Margin (%) | 23.9 | 17.2 | 17.2 | 19.1 |
| PAT Margin (%) | 18.9 | 12.6 | 11.5 | 12.6 |
| EPS (Rs) | 8.2 | 9.5 | 12.0 | 10.9* |
| ROE (%) | 56.4 | 27.5 | 25.0 | 18.2* |
| ROCE (%) | 67.5 | 35.7 | 27.0 | 21.0* |
| Total Debt / Equity (x) | 0.1 | 0.0 | 0.4 | 0.3* |

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- Industry risk:** The company derives majority of its revenues from the life sciences industry. Demand for solutions and, in turn, revenues, depend on (i) the pace of growth of the life sciences industry; and (ii) trends in the life sciences industry, including outsourcing trends, healthcare reform and the pace of digitization. Any changes in the global life science industry or any slowdown in the industry could materially and adversely affect business and financial results.
- Client concentration risk:** Indegene derives a substantial portion of its revenue from large clients in the global life science industry. The company derived 71.9%/71.6%/67.0%/66.7% of its FY21/FY22/FY23/9MFY24 revenue from Top 10 clients. Any downsizing of the scale of such clients' business or any deterioration of financial conditions may result in a reduction in the revenue derived from these customers, and could materially and adversely affect business and financial results.
- Employee attrition risk:** The company is highly dependent on its ability to attract, develop, motivate, retain and effectively utilize skilled professionals. Indegene competes with companies in healthcare and software industry, among others for a limited pool of trained and competent individuals. High attrition rates of qualified personnel could have an adverse effect on its ability to expand business, as well as cause Indegene to incur greater personnel expenses and training costs, which in turn, could affect margins and cause material or adverse effects on the business.
- Competition:** Indegene operates in a competitive environment, competing not only with other companies, but also with internal sales & marketing, software and IT departments within a clients' organizations. Any failure to compete may result in pricing pressure and unfavorable contract terms, which could materially and adversely affect business and financial results.

Growth Strategy

- Increase wallet share from existing clients while onboarding new ones:** Strengthen relationships with current clients and deepen wallet share, while onboarding new clients by leveraging expertise and existing client relationships.
- Develop technological portfolio:** Expand scale and size of operations through continued investment in technology to offer better solution and capabilities to clients.
- Focus on operational excellence:** Increase focus on driving operational excellence by hiring new talent, focusing on quality and driving operational efficiencies.
- Inorganic growth:** Continue to strategically identify, acquire and integrate companies and businesses to unlock synergies.

Revenue from operations – Segment wise

| Revenue from Segments | FY21 | | FY22 | | FY23 | | 9MFY24 | |
|---------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|
| | Amount in Rs cr | % of Revenue from Operations | Amount in Rs cr | % of Revenue from Operations | Amount in Rs cr | % of Revenue from Operations | Amount in Rs cr | % of Revenue from Operations |
| Enterprise Commercial Solutions | 564.6 | 58.4 | 1,016.2 | 61.0 | 1,356.9 | 58.8 | 1,136.0 | 59.3 |
| Omnichannel Activation | 78.7 | 8.1 | 141.4 | 8.5 | 282.7 | 12.3 | 231.2 | 12.1 |
| Enterprise Medical Solutions | 305.0 | 31.6 | 431.6 | 25.9 | 560.2 | 24.3 | 440.6 | 23.0 |
| Others | 18.0 | 1.9 | 75.5 | 4.5 | 106.3 | 4.6 | 108.8 | 5.7 |
| Total | 966.3 | 100.0 | 1,664.6 | 100.0 | 2,306.1 | 100.0 | 1,916.6 | 100.0 |

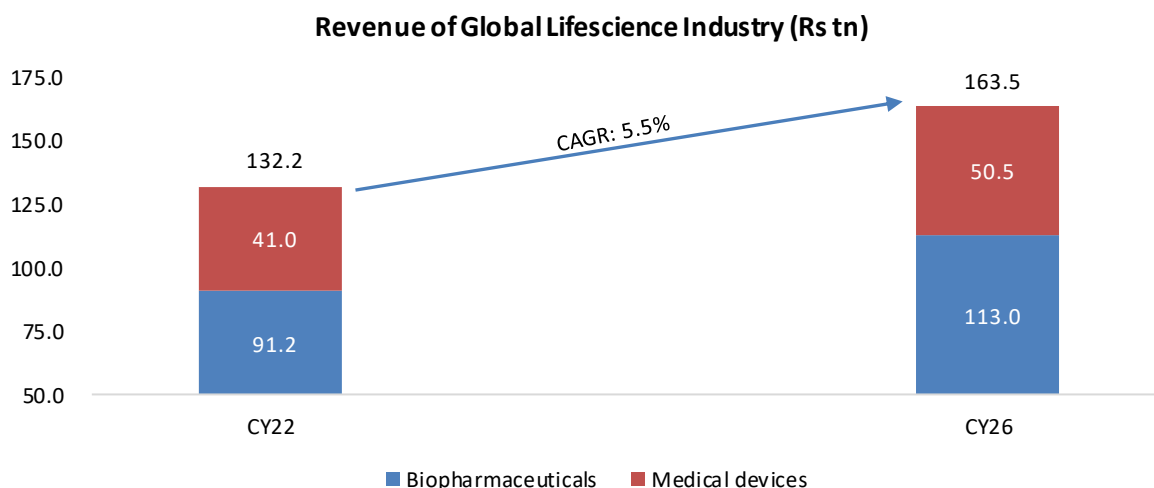
Client Profile

| | FY21 | FY22 | FY23 | 9MFY24 |
|---|------|------|------|--------|
| Total number of Active Clients | 44 | 46 | 62 | 65 |
| Number of Active Clients added | 10 | 2 | 16 | 3 |
| No of clients contributing between USD 1-10 mn | 27 | 23 | 26 | 27 |
| No of clients contributing between USD 10-25 mn | 5 | 2 | 4 | 5 |
| No of clients contributing above USD 25 mn | 3 | 3 | 4 | 3 |

Industry Overview

Global Life Sciences Industry

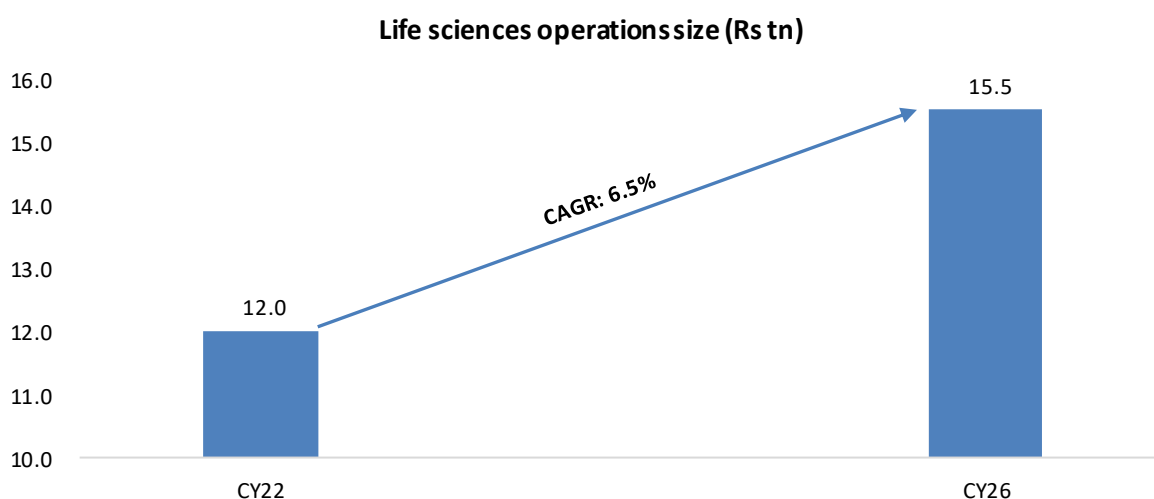
The life sciences industry comprises entities engaged in the research, development, and manufacturing and marketing of drugs and medical devices. The combined sales of the biopharmaceutical and medical devices segments was estimated at Rs 132.2 tn in CY22, with biopharmaceuticals valued at Rs 91.2 tn. The combined sales of the biopharmaceutical and medical devices segments are expected to grow at a CAGR of 5.5% between CY22-CY26 to reach Rs 163.5 tn with biopharmaceuticals and medical devices expected to be valued at Rs 113.0 tn and Rs 50.5 tn respectively.



Source: RHP, SSL Research

Life sciences Industry Operations spend

Life sciences operations spend on the value chain stood at Rs 12.0 tn in CY22. The operation value chain includes drug discovery, clinical trials, regulatory & medical affairs, marketing & sales, pharmacovigilance, manufacturing and supply chain distribution. The overall life sciences operations spend is expected to grow at a CAGR of 6.5% between CY22-CY26 to reach Rs 15.5 tn by CY26, driven by rise in aging population, increasing prevalence of chronic diseases and discovery of new diseases, among other factors.



Source: RHP, SSL Research

Financial Snapshot

| INCOME STATEMENT | | | |
|----------------------------|-------------|-------------|-------------|
| (Rs cr) | FY21 | FY22 | FY23 |
| Revenue from Operations | 966 | 1,665 | 2,306 |
| % YoY growth | - | 72.3 | 38.5 |
| Employee Cost | 536 | 1,014 | 1,465 |
| Other Operating Expenses | 200 | 363 | 445 |
| EBITDA | 231 | 287 | 396 |
| EBITDA margins (%) | 23.9 | 17.2 | 17.2 |
| Other Income | 31 | 26 | 58 |
| Interest Expense | 7 | 6 | 31 |
| Depreciation | 26 | 33 | 60 |
| Exceptional Items | 3 | -47 | - |
| PBT | 231 | 226 | 363 |
| Tax | 46 | 64 | 97 |
| Adj. PAT | 183 | 210 | 266 |
| Adj. PAT margin (%) | 18.9 | 12.6 | 11.5 |
| Adj. EPS | 8.2 | 9.5 | 12.0 |

| BALANCE SHEET | | | |
|---|------------|--------------|--------------|
| (Rs cr) | FY21 | FY22 | FY23 |
| Assets | | | |
| Net Block | 23 | 34 | 41 |
| Right of Use Assets | 23 | 46 | 105 |
| Intangible Assets | 39 | 58 | 519 |
| Other Non-current Assets | 51 | 86 | 91 |
| Current Assets | | | |
| Current Investment | - | 120 | 614 |
| Inventories | - | - | - |
| Trade receivables | 285 | 444 | 642 |
| Cash and Bank Balances | 140 | 517 | 86 |
| Short-term loans and advances | - | - | - |
| Other Current Assets | 34 | 49 | 107 |
| Total Current Assets | 459 | 1,130 | 1,449 |
| Current Liabilities & Provisions | | | |
| Trade payables | 50 | 74 | 73 |
| Other current liabilities | 108 | 309 | 343 |
| Short-term provisions | 21 | 35 | 50 |
| Total Current Liabilities | 179 | 419 | 466 |
| Net Current Assets | 280 | 711 | 983 |
| Total Assets | 417 | 935 | 1,738 |
| Liabilities | | | |
| Share Capital | - | - | 44 |
| Reserves and Surplus | 324 | 764 | 1,019 |
| Total Shareholders' Funds | 325 | 764 | 1,064 |
| Minority Interest | 9 | - | - |
| Total Debt | 25 | 18 | 394 |
| Long Term Provisions | 12 | 26 | 35 |
| Lease Liabilities | 27 | 48 | 108 |
| Other Long-Term Liabilities | 20 | 79 | 136 |
| Net Deferred Tax Liability | - | - | - |
| Total Liabilities | 417 | 935 | 1,738 |

| Cash Flow (Rs cr) | FY21 | FY22 | FY23 |
|-------------------------------------|------|------|------|
| Cash flow from Operating Activities | 172 | 297 | 130 |
| Cash flow from Investing Activities | -24 | -160 | -893 |
| Cash flow from Financing Activities | -132 | 233 | 330 |
| Free Cash Flow | 151 | 272 | 111 |

| RATIOS | | | |
|-----------------------------|------|------|------|
| | FY21 | FY22 | FY23 |
| Profitability | | | |
| Return on Capital (%) | 67.5 | 35.7 | 27.0 |
| Return on Equity (%) | 57.2 | 21.3 | 25.0 |
| Margin Analysis | | | |
| EBITDA Margin (%) | 23.9 | 17.2 | 17.2 |
| Net Income Margin (%) | 19.2 | 9.8 | 11.5 |
| Short-Term Liquidity | | | |
| Current Ratio (x) | 2.3 | 2.6 | 3.0 |
| Quick Ratio (x) | 2.3 | 2.6 | 3.0 |
| Avg. Days Sales Outstanding | 108 | 97 | 102 |
| Avg. Days Payables | 19 | 16 | 12 |
| Fixed asset turnover (x) | 41.7 | 49.4 | 56.8 |
| Debt-service coverage (x) | 7.3 | 11.9 | 0.9 |
| Long-Term Solvency | | | |
| Total Debt / Equity (x) | 0.1 | - | 0.4 |
| Interest Coverage Ratio (x) | 33.9 | 46.8 | 12.6 |
| Valuation Ratios | | | |
| EV/EBITDA (x) | 43.0 | 33.2 | 26.1 |
| P/E (x) | 54.8 | 47.8 | 37.7 |
| P/B (x) | 30.9 | 13.1 | 9.4 |

Source: RHP, SSL Research

SBICAP Securities Limited

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

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