

24th June 2024

Concord Biotech – BUY

CMP : Rs.1,531.0
Target Price : Rs.1,980.0
Upside : 29%+
Stop Loss : Rs.1,375.0(Closing basis)

Investment Thesis

- Concord Biotech Ltd. (Concord Biotech) prioritizes geographic reach expansion, product portfolio diversification, and customer base growth. In FY24, it strategically added new 2 APIs (Immunosuppressants & Anti-Infectives) and 21 formulations (Nephrology, Critical Care & Rheumatology), strengthening their offerings to 98 products in niche segments. Concord Biotech's strength lies in its well-regarded API portfolio, featuring leading products across Immunosuppressants (Tacrolimus, Mycophenolate Mofetil, Cyclosporine), Oncology (Mitomycin, Everolimus), and Anti-Infectives (Mupirocin Calcium, Vancomycin Hydrochloride). These niche complex molecules are exposed to limited competition and generate healthy margins. Additionally, Concord Biotech has on boarded over 1000 doctors in key specialties, expanding their expertise in this domain. Continued R&D investment fuels a robust pipeline of new products (10+ planned) and exploration of the CDMO business further amplifies growth prospects.
- Concord Biotech benefits from significant barriers to entry in the fermentation-based API space. Complex processes, technical expertise needs, large-scale infrastructure requirements, and long gestation periods create a challenging landscape for new entrants. Concord Biotech's strengths lie in its established, compliant facilities, flexible manufacturing capabilities, backward integration, and diverse fermentation API portfolio. This unique business model offers a sustainable competitive advantage.
- Concord Biotech's new injectable plant, expected to be operational in Q3FY25, marks a strategic move towards forward integration. This facility will enable them to offer a comprehensive range of formulations, including injectables alongside existing oral solids. This not only bolsters their product portfolio but positions them as a one-stop shop for customers across diverse geographies. Furthermore, Concord Biotech's potential to manufacture and formulate fermentation-based APIs domestically (potentially import substitutes) presents a unique opportunity to capture market share and establish themselves as the preferred vendor. Concord Biotech has also benefited from India's Production Linked Incentive (PLI) scheme.

Financials

- Concord Biotech has reported a revenue growth of 16.8% YoY and 32.4% QoQ in Q4FY24 to Rs.319Cr and a growth of 19.2% YoY to Rs.1017 Cr for FY24 driven by segment tailwinds like the growing number of organ transplants, execution track record and capacity utilization.

Consol. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	713	853	1017	1251	1514
EBITDA	274	344	432	475	530
EBITDA Margin %	38.4%	40.3%	42.5%	38.0%	35.0%
PAT	179	238	305	328	366
EPS	17.1	22.8	29.1	31.4	35.0
PE	90.3	67.8	54.4	54.1	55.2
RoE	17.0%	19.9%	21.6%	19.6%	18.5%

Stock Data

Market Cap (Rs. Mn)	160,143
Market Cap (\$ Mn)	1917
Shares O/S (in Mn)	104.6
Avg. Volume (1 month)	442,127
52-Week Range (Rs.)	1,725 / 900

Shareholding Pattern

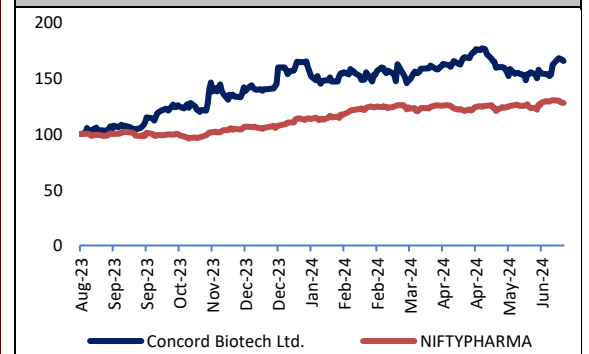
Promoters	44.08%
FII's	6.49%
Institutions	8.41%
Others (incl. body corporate)	41.02%

Key Ratios

Div Yield	0.56%
TTM PE	54.4x
ROE	20.9%
TTM EPS (Rs.)	29.1/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	7.4%	14.6%	NA
NIFTY PHARMA	1.7%	20.3%	NA



- Concord Biotech delivered impressive financial results, with EBITDA and PAT surging 26% and 28% YoY to Rs.432 Cr and Rs.305 Cr, respectively. This growth was accompanied by margin expansion, with EBITDA margins rising 230 bps to 42.8% and PAT margins increasing 220 bps to 30.3%. This robust performance reflects their expertise in the high-barrier fermentation API segment, strong client relationships, and consistent execution capabilities.
- Concord Biotech's Q4 FY'24 API revenue grew 14% YoY to Rs.265.4 Cr, with full-year growth of 9% YoY to Rs.828 Cr. Temporary customer base shifts impacted growth, but normalization is expected in FY25. The company is actively diversifying its API portfolio, with a focus on oncology and antibiotics to reduce reliance on immunosuppressants. Formulations revenue surged 37% YoY in Q4FY24 and 106% YoY for FY24, driven by expanded capabilities and a focus on critical care, nephrology, and rheumatology in the domestic market. New product launches and increased presence in hospitals and institutions further support this segment's growth.

Key Business Highlights

- Concord Biotech is a leading R&D driven biopharma company founded in 2000. It has transformed itself from a single-product API manufacturer to a broad-spectrum solution provider, offering fermentation & semi-synthetic APIs, finished formulations and contract research & manufacturing services across diverse therapeutic segments (immunosuppressants, oncology, anti-bacterials, etc.). Concord Biotech had a portfolio of 56 brands and 77 products manufactured by them, including 30 APIs and 98 formulations. The company commands 20%+ global market share across fermentation-based immunosuppressants APIs, including mupirocin, sirolimus, tacrolimus, mycophenolate sodium and cyclosporine. Its total annual installed fermentation capacity is 1250 m³.
- Concord Biotech boasts a robust global manufacturing infrastructure with all facilities adhering to cGMP compliance and has undergone inspections by leading regulatory bodies like USFDA and EUGMP. Their core facilities include:
 - Dholka (Unit I), established in 2000, is the first API manufacturing unit with a footprint of 112,302 sq.m. and a fermentation capacity of 450 m³, spread across 22 manufacturing blocks.
 - Valthera (Unit II), established in 2016, focuses on finished formulations (oral solids and liquids) within a 94,826 sq.m. area.
 - Limbasi (Unit III), the most recent addition in 2021, is a dedicated API manufacturing facility spanning 596,309 sq.m. This largest facility boasts a significant fermentation capacity of 800 m³ and highlights their commitment to expansion, with 19 blocks dedicated to production (including 6 fermentation and 13 downstream processing blocks).
- Concord has a global presence in over 70 countries with established distribution networks in the US, Europe, and other key markets with over 200 customers. It actively partner with leading global pharmaceutical companies to meet its API and formulation development needs.

Valuation

Currently, Concord Biotech is trading at **Rs. 1,531**, implying a TTM PE / EBITDA multiple of 54x / 37x vs the average of its pharmaceutical peers of 61x / 28x. This suggests that Concord Biotech is fairly valued. Continued market share gains in key API segments, new client additions, and commercialization of new drugs position them for strong revenue growth. Their expertise in high-margin fermentation APIs and operational efficiency are expected to offset the impact of their growing formulations segment. Selective expansion into adjacent high-growth areas like steroids and biosimilars offers long-term upside. Its strong market position and execution capabilities position it for continued value creation.

Therefore, considering the above, we assign a **BUY** rating for **Concord Biotech** with a **target price** of **Rs. 1,980**, translating to an **upside** of **29%+**.

Risk & Concern

- Product Concentration:** Reliant on API segment, esp. immunosuppressants. Diversification efforts underway (formulations, new API units) but medium-term lag.
- Working Capital:** High due to long customer credit terms and fermentation process inventory needs. This can strain cash flow and limit operational flexibility.
- Execution Risk:** Successful scale-up of capex projects (injectables etc.) critical for growth and profitability. Timely ramp-up and returns essential for profitability.

Graphs & Charts

Figure 1: Net Sales Trend

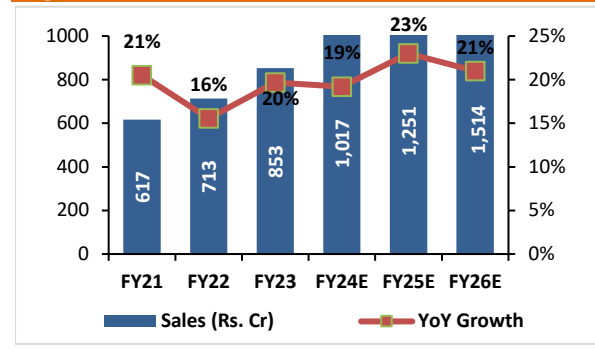


Figure 2: EBITDA & EBITDA Margin Trend

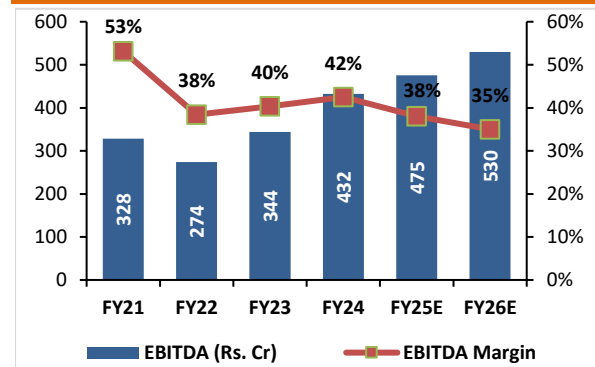


Figure 3: PAT Trend

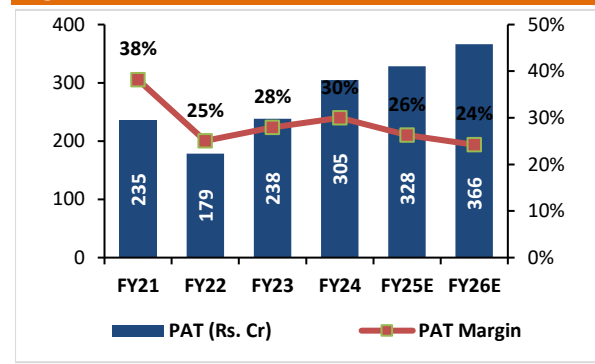
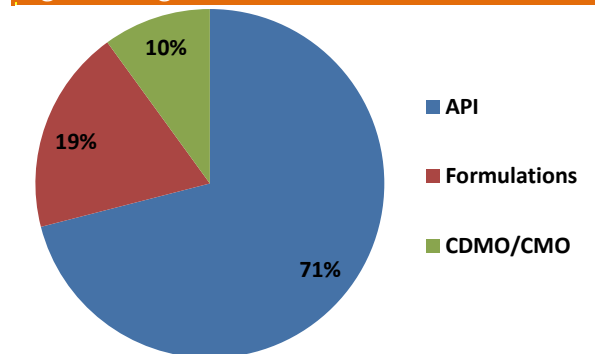


Figure 4: Segment-wise Revenue (FY24)



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