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SME

IPO ANALYSIS AND OVERVIEW

INDEGENE

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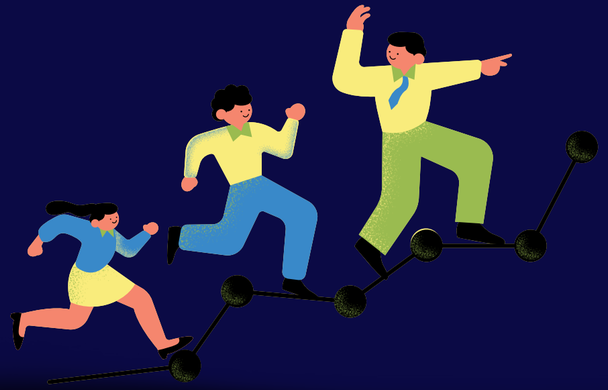

HIGHLIGHTS:

(i) INDEGENE is coming out with a 100% book building; initial public offering (IPO) of 4,16,07,150 shares of Rs 2 each in a price band Rs 430-452 per equity share.

(ii) Not more than 50% of the issue will be allocated to Qualified Institutional Buyers (QIBs), including 5% to the mutual funds. Further, not less than 15% of the issue will be available for the non-institutional bidders and the remaining 35% for the retail investors.

(iii) The issue will open for subscription on May 6, 2024 and will close on May 8, 2024.

(iv) The shares will be listed on BSE as well as NSE.

(v) The face value of the share is Rs 2 and is priced 215 times of its face value on the lower side and 226 times on the higher side.

(vi) Book running lead managers to the issue are Kotak Mahindra Capital Company, Citigroup Global Markets India, J.P. Morgan India and Nomura Financial Advisory and Securities (India).

(vii) Compliance Officer for the issue is Srishti Ramesh Kaushik.

PROFILE OF THE COMPANY:

The company provides digital-led commercialization services for the life sciences industry, including biopharmaceutical, emerging biotech and medical devices companies, that assist them with drug development and clinical trials, regulatory submissions, pharmacovigilance and complaints management, and the sales and marketing of their products. Its solutions enable life sciences companies to develop products, launch them in the market, and drive sales through their life cycle in a more effective, efficient and modern manner. It achieves this by combining over two decades of healthcare domain expertise and fit-for purpose technology. Its portfolio of solutions covers all aspects of commercial, medical, regulatory and R&D operations of life sciences companies. Positioned at the intersection of healthcare and technology, the company's solutions span across different stages of the commercialization lifecycle of drugs and medical devices. Its Enterprise Commercial Solutions and its Omnichannel Activation solutions cater to the commercial functions of life sciences companies while its Enterprise Medical Solutions and Enterprise Clinical Solutions cater to their medical and R&D functions.

The company's Enterprise Commercial Solutions primarily involve assisting life sciences companies with their digital marketing operations. Sales and marketing were the largest segment of life sciences operations expenditure in 2022. Service providers in this segment assist life sciences companies by creating customized marketing plans and campaigns, expanding their reach to healthcare professionals (HCPs), and providing insights on HCP preferences. Its Omnichannel Activation solutions help life sciences companies leverage a 'digital first' approach for optimizing the last-mile promotion of biopharmaceutical products and medical devices to HCPs across multiple channels. Here, it plays the role that has traditionally been played by medical representatives who promote products to HCPs through face-to-face interactions. However, using digital technologies and proprietary analytics, it seeks to achieve the same outcome at higher efficiencies and reduced costs. The channels it uses include emails, virtual sales representatives, social media and other digital platforms.

Under its Enterprise Medical Solutions, the company establish centers of excellence (CoEs) to consolidate large scale regulatory and medical operations for its clients. CoEs comprise multidisciplinary teams that work on one or more client engagements. Through these CoEs, it assist with: (i) writing medical content, regulatory submissions, product labels and other medical information; (ii) reviewing medical communications to ensure compliance with regulatory guidelines and ethical practices; (iii) pharmacovigilance services, i.e., the monitoring and processing of adverse occurrences arising from the use of biopharmaceutical products; and (iv) conducting real-world evidence (RWE) based medical research to support market access and pricing strategies. It also offers Enterprise Clinical Solutions and consultancy services. Its Enterprise Clinical Solutions help drive efficiencies in the drug discovery and clinical trial operations of life sciences companies. These solutions include digitally enabled patient recruitment for clinical trials, clinical data management and assistance with regulatory submissions.

PROCEED IS BEING USED FOR:

- Repayment/prepayment of indebtedness of one of Material Subsidiaries, ILSL Holdings, Inc.
- Funding the capital expenditure requirements of the company and one of its Material Subsidiaries, Indegene, Inc.
- General corporate purposes and inorganic growth.

INDUSTRY OVERVIEW:

The life sciences industry comprises entities engaged in the research, development, and manufacturing and marketing of drugs and medical devices. The two main segments within this industry are the biopharmaceutical and medical devices segments: (I) Biopharmaceutical. This segment comprises companies that discover, develop, manufacture, and sell drugs (chemical and biological-based) to cure, vaccinate, or alleviate symptoms of medical conditions or diseases. (II) Medical devices: This segment comprises companies involved in the research, development, production, and sale of systems and devices of medical applications, i.e., to treat or diagnose diseases or medical conditions. The combined sales of the biopharmaceutical and medical devices segments was estimated at Rs 138.3 trillion ($1.8 trillion) in 2023, with biopharmaceuticals constituting 69% or Rs 95.4 trillion ($1.2 trillion). By 2026, the combined sales of the biopharmaceutical and medical devices segments are expected to reach Rs 163.5 trillion ($2.1 trillion) with biopharmaceuticals constituting 69% or Rs 113 trillion ($1.4 trillion).

Life sciences operations spend has grown at a CAGR of approximately 6.7% from 2020 to 2022 and was estimated at approximately Rs 12.0 trillion ($156 billion) in 2022. The overall life sciences operations spend is expected to grow at a CAGR of approximately 6.5% to reach Rs 15.5 trillion ($201 billion) by 2026, driven by rise in aging population, increasing prevalence of chronic diseases and discovery of new diseases, among other factors. The historical growth rate (from 2020 to 2022) is higher than the forecasted growth rate (from 2022 to 2026) because historical growth was driven by the pandemic and was one-off in nature.

However, the overall growth trajectory and underlying factors remain intact. The biopharmaceutical segment contributed approximately 69% or Rs 8.3 trillion ($107.4 billion) of overall life sciences operations spend in 2022. As compared to previous years, the medical devices segment has increased its contribution to approximately 31% in 2022. The contributions of the two segments varies from 2021 because the medical devices segment has surged in growth due to factors such as changes in global regulations (such as post-pandemic transition plans in the U.S., increasing scrutiny on compliance in China and Japan, the United Kingdom's formalized exit from the EU leading to divergence in regulations and phased implementation of the IVDR in the EU), expansion of the wearables market, and increasing investment capital from private equity and venture capital. The combined segments are expected to grow at a CAGR of approximately 6.5% between 2022 and 2026. While the biopharmaceutical segment saw a dip in growth in 2022 due to the restructuring of clinical trials, growth is expected to pick up, driven by advances in drug developments and increasing penetration of digital tools and technologies, among other factors.

PROS AND STRENGTHS:

- **DOMAIN EXPERTISE IN HEALTHCARE:**

The company's understanding of the healthcare domain enables it to efficiently modernize and digitize the key functions involved in the life sciences commercialization process. This requires in-depth domain expertise of the journey of a drug from the research lab to the market to be able to organize and analyze scientific and clinical data, navigate the regulatory landscape and the ethical guidelines within which the industry operates, and develop medical content for healthcare professionals, patients, and payers. Its teams have extensive healthcare expertise, with 20.49% of its delivery employees (i.e., employees who do not belong to corporate and support functions, which include sales and marketing, R&D, finance, human resources, admin, and legal) as of December 31, 2023, having healthcare-related educational backgrounds including MD, MBBS, PhD, BDS, MPharm and BPharm degrees. Its domain expertise assists it in contextualizing the use of technology to, among other things, 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.

- **ROBUST DIGITAL CAPABILITIES AND IN-HOUSE DEVELOPED TECHNOLOGY PORTFOLIO:**

Over the years, the company has developed a suite of proprietary tools and platforms, including applications that automate and create AI-based efficiencies using AI, ML, NLP and advanced analytics capabilities that are core components of its solutions. These proprietary 'NEXT'-branded tools and platforms assist in driving transformation across the commercialization lifecycle of biopharmaceutical products and medical devices. It aims to drive efficiency, effectiveness and quality in various aspects of the R&D and commercialization processes of life sciences companies. Having previously leveraged AI across its solutions, it is now able to adapt Gen AI to enhance its solutions. Utilizing Gen AI in the life sciences context requires technology to be contextualized and trained through curated data sets, and business processes to be re-engineering and deployed by companies which have both technology and life sciences expertise. Its technology innovation is supported by a dedicated team of 650 individuals who work on data science, data engineering, NLP, Natural Language Generation (NLG), Gen AI, machine vision, speech-to-text conversion and classification, and prediction model development. When deploying technology, it leverages cloud third-party infrastructure vendors.

- **TRACK RECORD OF ESTABLISHING LONG-STANDING CLIENT RELATIONSHIPS:**

The company has long-standing relationships with marquee biopharmaceutical companies including each of the 20 largest biopharmaceutical companies in the world by revenue for the Financial Year 2023. Additionally, it also serves clients in the mid-sized pharma, emerging biotech and medical devices industries. It typically enters into MSAs with its clients ranging from one to three years, which broadly set out terms of its engagements, and it execute separate work orders for individual engagements setting out commercial terms. It has high client stickiness and retention (based on its retention rates) since its solutions, once implemented, are deeply integrated with its clients' workflow. Due to the sticky nature of its solutions, recurring revenues account for a high proportion of its total revenues. Its retention rates (i.e., revenues from existing customers as a percentage of revenues from such customers earned in the previous year) were 122.83%, 159.89%, and 129.90% for the Financial Years 2023, 2022 and 2021, respectively.

- **GLOBAL DELIVERY MODEL:**

The company caters to the needs of its clients from six operation hubs and 17 offices located across North America, Europe and Asia. Its solutions are offered primarily through two delivery models, namely its enterprise-wide technology-enabled COEs and its digital Omnichannel Activation solutions. Its COEs comprise individuals with subject expertise across multiple functional areas who work closely with its clients to deliver its technology-enabled solutions. These CoEs work closely with its clients to deliver its multi-year, enterprise-wide, global solutions. These CoEs have the ability to stitch together multiple upstream and downstream activities and work with multiple business verticals or with different global and regional teams of the same organization. Its digital Omnichannel Activation capabilities allow it to run sales and marketing campaigns digitally; and thereby reduce or eliminate the need for biopharmaceutical companies to engage medical representatives.

RISKS AND CONCERNS:

- **RELY ON SUB-CONTRACTORS AND THIRD-PARTY SERVICE PROVIDERS:**

The company executes arrangements with sub-contractors and third-party vendors to provide services including: (i) quality control services for pharmacovigilance; (ii) payroll services; (iii) software and web development; (iv) quality assurance; (v) medical information support; and (vi) campaign management. It cannot assure that there will be no disruptions in the provision of such services or that these sub-contractors and third-party vendors will adhere to their contractual obligations. If there is a disruption, or if these sub-contractors or third-party vendors discontinue their agreements with it, its business, financial condition and results of operations will be adversely affected. In case of any dispute, it cannot assure that the terms of such agreements will not be breached, and this may result in litigation or other costs. Certain sub-contractors and third-party vendors also have access to its clients' and its intellectual property and confidential information. In certain instances, its agreements with such third parties do not include provisions clarifying the ownership of intellectual property generated in the course of their service engagements.

- **THE ADOPTION OF GEN AI BY LIFE SCIENCES INDUSTRY COULD LEAD TO CHANGES IN CUSTOMERS' OPERATIONS:**

The adoption of Gen AI by the life sciences industry could lead to changes in the company's customers' operations, including their methods of authoring medical reports, and of designing and delivering commercial content to end customers for marketing. As the adoption of Gen AI increases, its customers may develop in-house capabilities allowing them to leverage Gen AI across their clinical, medical and commercial operations, which could impact the extent to which they rely on its solutions. In addition, it has been integrating Gen AI into its own tools and platforms. Integrating Gen AI poses significant data privacy and security risks. While Gen AI offers significant benefits to the pharmaceutical industry, it also has its own unique challenges such as availability and quality of training data sets, security and privacy concerns, cost considerations, and complex integration issues. While it has defined policies to regulate the access and use of Gen AI, any unintended breach of its data could adversely impact its business and reputation. Further, Gen AI is still an evolving technology. As part of its adoption of Gen AI, it is also integrating third-party large language models (LLMs) into its solutions. The performance and efficacy of such third-party LLMs are outside its control and may reduce over time, which could in turn adversely impact the performance and efficacy of its solutions.

- **THE COMPANY'S INTERNATIONAL OPERATIONS EXPOSE IT TO COMPLEX MANAGEMENT, LEGAL, TAX AND ECONOMIC RISKS:**

The company generates a substantial portion of its total revenue from its international markets, primarily North America and Europe. The accounting standards, tax laws and other fiscal regulations in the jurisdictions it operates in are subject to differing interpretations, which may exist within various governmental ministries, thus creating uncertainty and potential unexpected results. It risk failing to comply certain of their accounting and taxation standards as it may be less familiar with their interpretations. It also faces the risks associated with geopolitical tensions between the countries in which it operates, including sanctions as a result of political or economic conflicts. Additional risks associated with international operations include difficulties in enforcing contractual rights, foreign currency risks, the burdens of complying with foreign laws and potentially adverse tax consequences, including permanent establishment and transfer pricing issues, tariffs, quotas and other barriers and potential difficulties in collecting accounts receivable. The company may face competition in other countries from companies that may have more experience with operations in such countries or with international operations generally. It may also face difficulties in integrating employees that it hires in different countries into its existing corporate culture. If it does not effectively manage its international operations and the operations of its overseas subsidiaries, it may affect its profitability from such countries, which may adversely affect its business, financial condition and results of operations.

- **RESTRICTIONS ON WORK PERMITS OR TRAVEL MAY AFFECT ABILITY TO COMPETE FOR AND PROVIDE SERVICES TO CLIENTS IN NORTH AMERICA OR OTHER REGIONS:**

Some of the company's projects require a portion of the work to be undertaken at its clients' facilities which may be outside India. In order for its employees to work in North America, Europe and other regions outside India, they must obtain the necessary visas and work permits or travel permits. Historically, the process for obtaining visas for Indian nationals to certain regions, including North America and Europe, has been lengthy and cumbersome. Immigration laws in North America and in other regions are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. This could hamper its growth and adversely affect its business, results of operations and financial condition. Any further changes in existing laws or the enactment of new legislation imposing restrictions on the deployment of work visa holders at client locations could adversely impact its ability to do business in the jurisdictions in which it has clients. It is difficult to predict the political and economic events that could affect immigration laws (which are subject to continuous change), or the restrictive impact they could have on obtaining or maintaining business visas for its employees. Its reliance on visas for a number of employees makes it vulnerable to such changes and variations and may affect staffing decisions on projects abroad.

OUTLOOK

Indegene is a digital-first, life sciences commercialization company. It helps biopharmaceutical, emerging biotech and medical device companies develop products, get them to the market, and grow their impact through the life cycle in a more effective, efficient, and modern way. It brings together healthcare domain expertise, fit-for-purpose technology, and an agile operating model to provide a diverse range of solutions. Over the years, it has developed a suite of proprietary tools and platforms, including applications that automate and create AI-based efficiencies using AI, ML, NLP and advanced analytics capabilities that are core components of its solutions. These proprietary 'NEXT'-branded tools and platforms assist in driving transformation across the commercialization lifecycle of biopharmaceutical products and medical devices. On the concern side, the company's clients face increasing competition from competing products and, in particular from lower cost generic products, which, in turn, may affect their ability to pursue clinical development and commercialization activities. In North America and Europe, political pressure to reduce spending on prescription products has led to legislation and other measures which encourage the use of generic products.

The company is coming out with an IPO of 4,16,07,150 equity shares of face value of Rs 2 each. The issue has been offered in a price band of Rs 430-452 per equity share. The aggregate size of the offer is around Rs 1789.11 crore to Rs 1880.64 crore based on lower and upper price band respectively. On performance front, total income increased by 39.85% to Rs 23,640.98 million for the Financial Year 2023 from Rs 16,904.97 million for the Financial Year 2022 due to increases in revenue from operations and other income. The company's restated profit for the year increased by 63.43% to Rs 2,660.99 million for the Financial Year 2023 from Rs 1,628.18 million for the Financial Year 2022. Meanwhile, the company aims to expand the scale and scope of operations by continuing to invest in technology. It has also been working on new Gen AI-enabled solutions that can help it improve its clinical, pharmacovigilance and regulatory offerings and increase its market share in these areas. It continues to work and consult with its clients to help them understand how to best integrate Gen AI in their business processes, including by identifying and evaluating use cases as well as conducting proof of concepts (PoCs).

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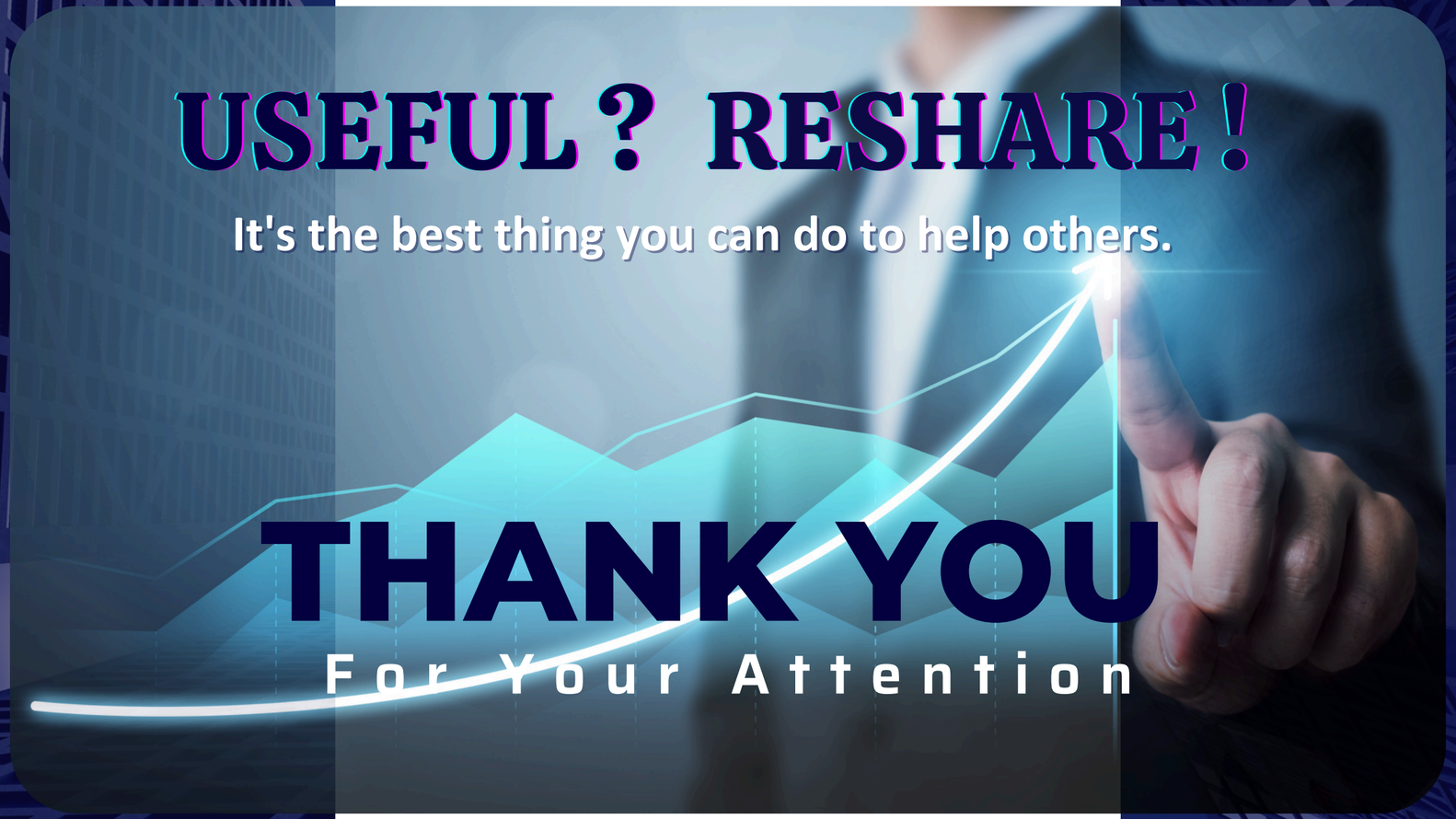

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