IPO Note

December 11, 2024

Sai Life Sciences Limited

Issue Snapshot:
Issue Open: December 11 – December 13, 2024

Price Band: Rs. 522 – 549

*Issue Size: Up to Rs 3042.6 cr (Fresh issue of up to Rs 950 cr + Offer for sale of upto 3,81,16,934 eq sh)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	alteast	15% eq sh

((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))

Retail	alteast	35% eq sh

Face Value: Rs 1

Book value: Rs 55.93 (September 30, 2024)

Bid size: - 27 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	19.1 cr
*Post issue Equity:	Rs.	20.8 cr

Listing: BSE & NSE

Book Running Lead Managers: Kotak Mahindra Capital Company Limited, IIFL Capital Services Limited, Jefferies India Private Limited, Morgan Stanley India Company Private Limited

Sponsor Bank: Axis Bank & HDFC Bank Ltd

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	41.82	35.24
Public	58.18	64.76
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Sai Life Sciences Ltd. (SLSL) is an innovator-focused, contract research, development, and manufacturing organization ("CRDMO"). It provides end-to-end services across the drug discovery, development, and manufacturing value chain, for small molecule new chemical entities ("NCE"), to global pharmaceutical innovator companies and biotechnology firms. It possesses both (a) discovery / contract research ("CRO") and (b) chemistry, manufacturing, and control ("CMC") / contract development and manufacturing organization ("CDMO") capabilities. It is the fastest-growing Indian CRDMOs among listed Indian peers in terms of revenue CAGR as well as EBITDA CAGR from Financial Year 2022 to Financial Year 2024.

Its CRDMO platform provides multiple entry points for it to acquire customers in the intermediate stages of their new drug discovery to commercialization journey. SLSL is also one of the few CRDMOs to have a differentiated delivery model of having research laboratories for discovery and development located near overseas innovation hubs at Watertown (Greater Boston, MA), United States ("US") and Manchester, United Kingdom ("UK"), complemented by large-scale research laboratories and manufacturing facilities in cost competitive locations in India.

During the Financial Year 2024 and six months' period ended September 30, 2024, it served more than 280 and 230 innovator pharmaceutical companies, respectively, including 18 of the top 25 pharmaceutical companies (in terms of revenue for the calendar year 2023), across regulated markets, including the US, the UK, Europe and Japan. During both the Financial Year 2024 and six months' period ended September 30, 2024, it also provided CRO services to more than 60 customers, respectively, on an ongoing basis, for their integrated drug discovery programs. As of September 30, 2024, its CDMO product portfolio included more than 170 innovator pharmaceutical products, including 38 products that were supplied for manufacturing of 28 commercial drugs.

The Company provides services through its globally accredited manufacturing and R&D facilities with quality systems that are supported by a qualified pool of scientists, engineers, and other scientific staff. As of September 30, 2024, it had 2,353 scientific staff, with majority of scientific team holding advanced degrees, including 302 PhDs and 1,475 master's degrees. Its manufacturing facilities have received several regulatory approvals from the United States Food and Drug Administration ("USFDA"), the Pharmaceuticals and Medical Devices Agency, Japan ("PMDA") and the state level drug control departments which are arms of the Central Drug Standards Control Organization, India ("CDSCO"). During the past three Financial Years and the six months' period ended September 30, 2024, its manufacturing units were subject to more than 100 audits by customers. These facilities feature flexible manufacturing setups, including large scale reactors for high-volume products and some production areas specifically designed to accommodate modern drug development pipelines that produce relatively smaller quantities but involve more intricate chemical processes.

As of September 30, 2024, SLSL had 3,135 employees, with capabilities across the CRDMO value chain. The company is supported by an experienced Board and financial investors, including TPG Asia VII SF Pte Ltd and HBM Private Equity India, who have partnered with it since 2018 and 2016, respectively. Its Board is committed to corporate governance principles that ensure accountability, fairness, and transparency in business practices. It is the first India-headquartered Company to become a member of the Pharmaceutical Supply Chain Initiative's ("PSCI") and has also received silver rating sustainability by EcoVadis, a global provider of business sustainability ratings.

Objects of Issue:

The Offer comprises the Fresh Issue and the Offer for Sale.

Offer for Sale

Each of the Selling Shareholders shall be entitled to its respective portion of the proceeds of the Offer for Sale, after deducting its proportion of the Offer-related expenses and the relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Fresh Issue

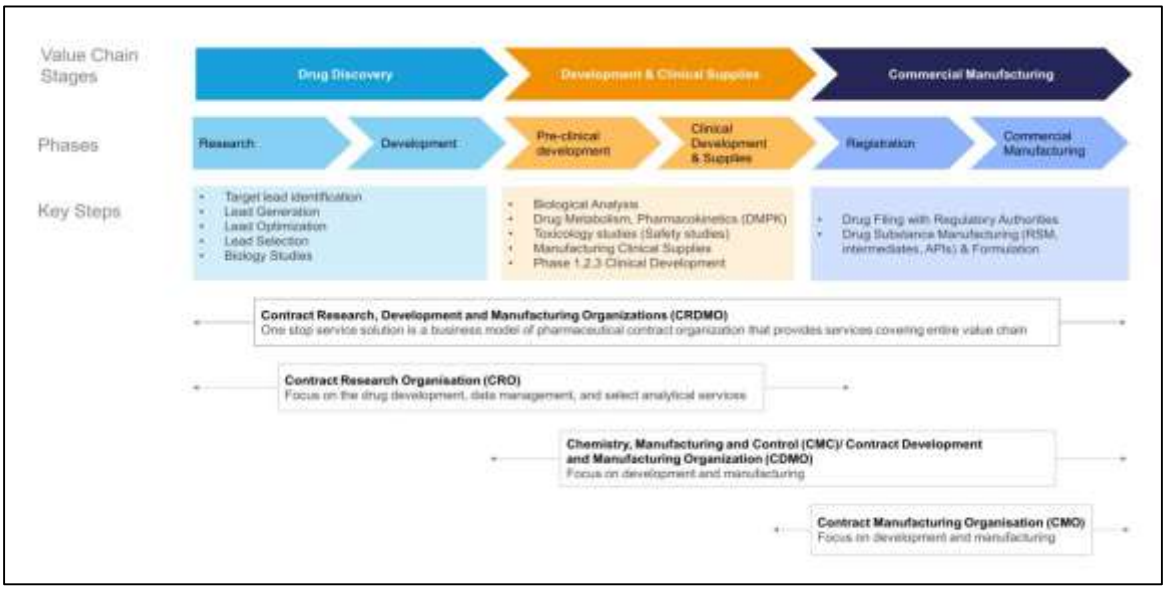
SLSL proposes to utilise the Net Proceeds towards funding the following objects:

- Repayment/prepayment, in full or part, of all or certain outstanding borrowings availed by the Company; and
- General corporate purposes.

Further, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, including enhancement of the Company's brand name and creation of a public market for its Equity Shares in India.

Competitive Strengths

One of the largest integrated Indian CRDMOs in terms of revenue from operations for the Financial Year 2024, acting as a one-stop platform for discovery, development and manufacturing: SLSL is one of the largest integrated CRDMOs among listed Indian peers in terms of revenue from operations for the Financial Year 2024, serving as a one-stop platform for discovery, development and manufacturing. The table below represents the value chain stages, phases and key steps provided by the Company which allows it to provide end-to-end support from discovery to commercialization



As illustrated in the image above, SLSL has established capabilities across drug discovery, development and manufacturing value chain. This provides several advantages, which include the ability for it to provide end-to-end support from discovery to commercialization (*"follow the molecule"*) as well as multiple entry points to acquire customers in intermediate stages of their discovery to commercialization journey. By establishing and maintaining connections with customers early in the drug discovery process, SLSL is able to accompany its customers end-to-end in every stage of drug development, from initial research to final production if its customers engage it throughout their discovery or commercialization journey.

Furthermore, SLSL has demonstrated its capabilities to take over and scale-up customers' programs through technology transfers from other CRDMOs. As of September 30, 2024, its CDMO portfolio constituted 50 "late phase" (products which are undergoing or have completed Phase III clinical trials) or commercial products, 34 of which underwent process development in its R&D facilities before entering Phase III clinical trials, and the remaining 16 were transferred to its manufacturing facilities from another facility. With respect to the CRO services, for the Financial Year 2024 and six months period ended September 30, 2024, 75.19% and 83.46% of SLSL's total revenue from chemistry services, respectively, was derived from customers who also engaged its biology and/or DMPK service.

CDMO platform with a diverse mix of commercial and under-development molecules: SLSL provides end-to-end development and manufacturing services covering the full value chain for intermediates and APIs. As of September 30, 2024, its development and manufacturing portfolio constituted 38 products used in the production of 28 commercial drugs, including seven blockbusters (drug products with annual sales of over US$1 billion in the Financial Year 2023) and 12 products used in the production of 11APIs that were either undergoing or had completed Phase III clinical trials (Source: F&S Report). In addition, as of September 30, 2024, it also has a portfolio of 120 products in various stages of development across pre-clinical, Phase I and Phase II clinical trial stages.

Strong technical and R&D infrastructure capabilities, availability of skilled scientific talent and quality manufacturing with clean track record of regulatory compliance, are some of the key success factors for a CDMO. The Company offers comprehensive small molecule technology capabilities through its scientific talent and laboratory infrastructure combined with a differentiated delivery model. It also offers manufacturing services that are supported by its R&D capabilities. Its infrastructure and equipment are built with a high degree of containment, automation and connectivity for the plant infrastructure to increase safety, precision of data collection and ensure that the final products manufactured consistently meet the required quality standards. As of September 30, 2024, approximately 28.00% of the combined total of 50 late phase (commercial, Phase III and post-Phase-III products) and 35.83% of the 120 early-phase products in its portfolio are APIs. This percentage of APIs in the product portfolio reflects its customers' confidence in its quality and regulatory compliance.

Fast-growing, integrated Discovery capabilities with focus on biology, chemistry and DMPK services: SLSL's Discovery business grew at a CAGR of approximately 34.77% from Financial Year 2022 to Financial Year 2024. It added 230 new customers from the Financial Year 2019 to the Financial Year 2024, and it served more than 200 customers in each of the Financial Years 2022, 2023 and 2024 and 176 customers for the six months period ended September 30, 2024. The number of customers outsourcing their integrated discovery programs to it increased from 29 in the Financial Year 2019 to over 60 in the Financial Year 2024 and in the six months period ended September 30, 2024. In the past five years and the six months period from September 30, 2024, it provided services for more than 200 small molecule discovery programs, with at least five of these programs having culminated in the approval of drugs that are now commercially available in the market, and at least 40 programs have resulted in IND filings. Its co-located technical competencies spans biology, chemistry and DMPK services within its Unit II Hyderabad Facility where its scientific services are conducted by a single CRO for time and cost efficiencies, enables an "integrated drug discovery" process for its customers. SLSL's has biology capabilities both in the Unit II Hyderabad Facility and the Greater Boston Facility, which enables it to engage an increasing share of customers to co-locate their discovery activities with it.

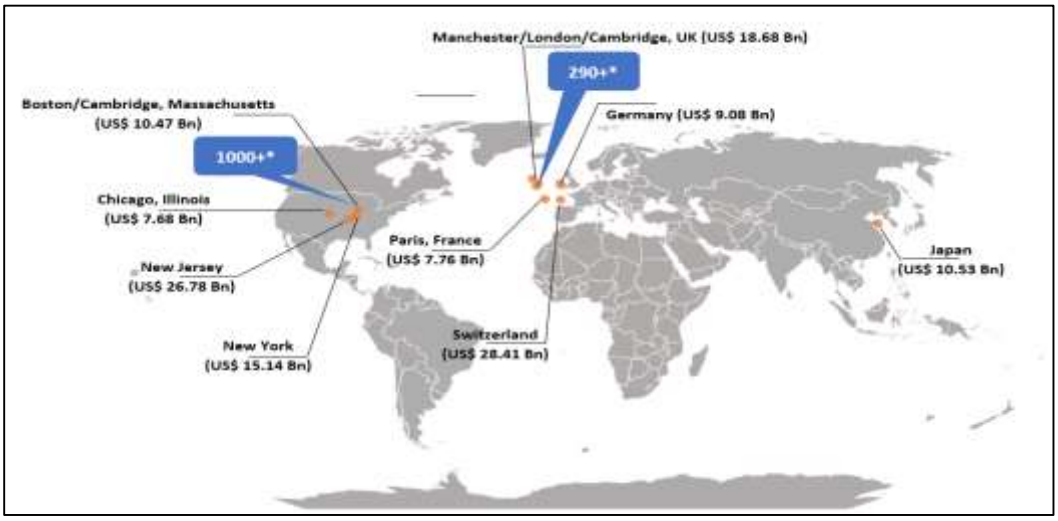
SLSL's scientific talent and laboratory infrastructure support diverse therapeutic areas such as oncology, immuno-oncology, CNS, autoimmune diseases, metabolic disorders, fibrosis, rare diseases, and more. As of September 30, 2024, it had 1,092 scientific staff engaged in offering discovery services, with majority of its scientific team holding advanced degrees, such as PhDs or master's degrees. It uses high-throughput automated equipment in its biology and DMPK laboratories to deliver quality and high-volume data with very short turnaround times. SLSL is also one of the few CROs to have a dedicated R&D facility for one of its customers.

Long-standing relationship with a diverse base of existing and new customers: SLSL has a diversified customer base that helps to reduce customer concentration. As of September 30, 2024, no single customer accounted for more than 8.00% of its revenue from operations. Its diverse customer base includes global pharmaceutical companies and biotechnology companies, including 18 out of the top 25 pharmaceutical companies in terms of revenue for the calendar year 2023, across the regulated markets of the US, the UK, EU and Japan The number of customers SLSL serviced among the top 25 pharmaceutical companies, doubled from nine in the Financial Year 2019 to 18 in the Financial Year 2024. As of September 30, 2024, it has signed master services agreements ("**MSAs**") with eight pharmaceutical companies, facilitating an ongoing flow of early phase products into its portfolio and creating additional opportunities to "*follow the molecule*" to enhance commercial product portfolio. Additionally, it also focuses on providing services to mid and small-size pharmaceutical companies.

SLSL's business development team consists of 16 experienced and scientifically qualified professionals, of which six are in the US, nine are in the UK and Europe and one member is located in Japan. Its business development team identifies new opportunities and continues to maintain the local point of contact with customers throughout its relationships with these customers. Its delivery leads and project management teams remain in continuous contact with its customers' technical items during the execution of its customers' projects, and this helps it to identify new opportunities. Its continuous customer engagement provides SLSL's insights into global best practices and expectations, and it continuously adapt its infrastructure, processes, technical capabilities, and business models to stay up to date with the latest developments in the industry.

Modern R&D infrastructure with a differentiated delivery model and strong regulatory track-record: SLSL has established a fully integrated CRDMO platform with access to talent from across the world. It is the only CRDMO among the listed Indian peers that can conduct development activities in close proximity to its customers, and transfer technology for manufacturing back to India. It has

strategic presence and it is located in close proximity to innovation clusters in the Greater Boston Facility and the Manchester Facility. Presence in innovation hubs facilitates access to the latest research trends, talented global workforce, and potential collaboration within innovation hubs, while its facilities in India offer a cost-competitive advantage for conducting drug discovery research activities at scale, development and large-scale commercial production of products. The map below indicates the global pharmaceutical and innovation hubs:



SLSL's facilities have received several regulatory approvals and are subject to stringent quality standards and specifications, specified by its customers. Its facilities feature flexible set-ups, including large-scale reactors for high-volume products, with some of its production areas specifically designed to accommodate modern drug development pipelines that produce relatively smaller quantities but involve more intricate chemical processes. It has four main facilities, each serving a unique purpose in drug discovery, development, and manufacturing and adhering to applicable standards of safety, quality and regulatory compliance in:

- Bidar, India (the "Unit IV Bidar Facility"):
- Hyderabad, India (the "Unit II Hyderabad Facility"):
- Watertown (Greater Boston, MA), United States (the "Greater Boston Facility"):
- Manchester, United Kingdom (the "Manchester Facility"):

In addition to the above-mentioned facilities, SLSL also has an intermediate manufacturing plant ("Unit III Bollaram Facility") with 44 kL of reactor capacity in Bollaram near Hyderabad, India.

Experienced management team and Board supported by a qualified scientific talent pool: SLSL is led by its team of senior management who possess significant experience in the pharmaceutical industry, both in India and internationally. Members of its senior management team have more than 25 years of average experience. It is supported by its financial investors, including TPG Asia VII SF Pte Ltd and HBM Private Equity India, who have partnered with it since 2018 and 2016, respectively. Its experienced Board is committed to corporate governance principles that ensure accountability, fairness and transparency in its business practices

The Company is also supported by a qualified team of scientists and scientific staff, with over eight years of average industry experience. Beyond their qualifications, its scientists actively engage in ongoing education about the latest scientific and regulatory insights. Their collective expertise spans various disciplines, equipping them to undertake and oversee a multitude of functions across its business segments. This multidisciplinary knowledge allows it to allocate resources to meet customers' needs and enhances its overall efficiency. As of September 30, 2024, the majority of SLSL's scientific team held advanced degrees, such as PhDs and master's degrees.

Strategic business investments with improving profitability metrics: SLSL is the fastest-growing Indian CRDMO among listed Indian peers in terms of revenue CAGR as well as EBITDA CAGR from Financial Year 2022 to Financial Year 2024. This growth is complemented by a trend of improving margins. Its strategic initiatives which are focused on operational efficiencies, cost management and value creation allow it to not only grow but also improves its profitability and return on capital. For Financial Years 2024, 2023, 2022 and six months period ended September 2024, its profit after tax was ₹828.09 million, ₹99.89 million, ₹62.26 million and ₹280.12 million, respectively. This positions it well against competitors and provides the foundation for future financial health and shareholder value. One of its notable investments in this regard includes its organizational transformation initiative, "*Sai Nxt*", to augment its talent, processes, and infrastructure.

Business Strategy:

Increase cross-selling with existing customers and win new customers: SLSL seeks to increase average spending from existing customers through deeper engagement and cross selling of its services. It served a diverse customer base of more than 280 and 230 innovator pharmaceutical companies, that includes global pharmaceutical companies and biotechnology firms in Financial Year 2024 and in the six months period ended September 30, 2024, respectively. Its clientele includes 18 out of the top 25 pharmaceutical companies, in terms of revenue for the calendar year 2023, across regulated markets, including the US, the UK, Europe and Japan. In addition to increasing penetration with existing customers, securing new customers is a key priority for the Company. Over the past three Financial Years and the six months period ended September 30, 2024, it has onboarded three large pharmaceutical companies and 147 biotechnology companies. These new partnerships have not only demonstrated its strengths but have also opened opportunities for cross-selling and upselling its services. By delivering quality research and manufacturing solutions, SLSL aims to deepen these relationships, turning initial contracts into long-term collaborations. it also aims to capitalize on the increasing demand for integrated Indian CRDMOs. Demand for Indian CRDMOs providing integrated services is significantly increasing, driven by shifting geopolitical factors that are significantly increasing, such as the "China plus one" strategy, effect of the Biosecure Act and Inflation Reduction Act, among others.

Continue to build a strong commercial development and manufacturing portfolio of CMC capabilities: As of September 30, 2024, SLSL's development and manufacturing portfolio consisted of 38 APIs and intermediates used in the manufacturing of 28 commercial drugs, including seven blockbusters (drug products with annual sales of over US$1 billion in the Financial Year 2023) and 12 products for 11 APIs that were either undergoing or had completed Phase III clinical trials. The Company expects to continue this "*follow the molecule*" strategy through the MSAs with eight pharmaceutical companies that provide it with an ongoing flow of early phase products and grow its commercial portfolio by continuing to support the advancement of the early-stage products in its portfolio to late phase and eventual commercialization. Additionally, it continues to expand its pipeline of products through business development team located in close proximity to its customers in the US, the UK, Europe and Japan. The Company also intends to strengthen its position as an alternative for customers looking to add outsourcing sites in Asia and directly add late phase and commercial products through technology transfer. Pharmaceutical companies typically engage two manufacturers closer to commercialization or post-commercialization of the drugs that they manufacture to mitigate the risk associated with relying on a single supplier.

Pursue more integrated Discovery projects to drive customer stickiness along with larger integrated Discovery programs: The revenue from SLSL's contract research increased from ₹2,737.28 million in the Financial Year 2022 to ₹4,971.70 million in the Financial Year 2024 and from ₹2,622.50 million in the six months period ended September 30, 2023 to ₹2,879.24 million in the six months period ended September 30, 2024. During both the Financial Year 2024 and six months period ended September 30, 2024, more than 60 customers, respectively, availed its services for their integrated drug discovery programs, an increase from 29 customers availing its services for integrated discovery programs in the Financial Year 2019. While chemistry is the largest Discovery service SLSL provides in terms of revenue and laboratory capacity utilization, 75.19% and 83.46% of its revenue from chemistry services for the Financial Year 2024 and six months period ended September 30, 2024, respectively, was from customers who engaged its biology and/or DMPK services. The Company intends to leverage its integrated Discovery offerings, built on its advanced, co-located chemistry, biology and DMPK capabilities to acquire new customers and increase its market share in existing programs. During the Financial Year 2024 and six months period ended September 30, 2024, SLSL provided Discovery services, including chemistry, biology and DMPK services to 222 and 176 customers, respectively. It also intends to increase its revenue from Discovery services by providing standalone chemistry, biology and DMPK services to new customers acquired through the effort of its business development teams located in US, UK, Europe and Japan. Additionally, SLSL intends to deepen engagements with global pharmaceutical companies through its technical and execution capabilities. It has initiated actions to leverage its existing relationships with the large pharmaceutical companies that use its CDMO services to cross sell its Discovery services.

Continue to expand existing capacity and add new technical capabilities: Based on SLSL's current CMC product portfolio, it expects the need for increased manufacturing capacity as the commercial products grow in volumes, and development phase molecules advance through clinical trials and achieve commercialization. It is investing in increasing its manufacturing capacity to support future growth. The Company is adding new production blocks and ancillary facilities in the Unit IV Bidar Facility as well as the new Unit VI Bidar Facility. Additionally, to meet the needs of its growing portfolio of customers availing Discovery services and additional growth opportunities, it is in the process of expanding its Discovery laboratory capacity by fully utilizing the available footprint in Hyderabad, India. It will also continue to broaden its capabilities through acquisition or investment in new technologies, while also expanding its laboratory infrastructure and manufacturing capacities. Going forward, SLSL intends to expand its Discovery and CMC services to cater to emerging therapeutic modalities, including antibody drug conjugates, oligonucleotides, peptides mRNA therapeutics, cell and gene therapies as well as growing areas such as oncology APIs and animal health APIs. It also continues to implement robotic automation, automated liquid handling, real-time data acquisition and parallel experimentation in both its Discovery and CMC R&D laboratories. Such laboratory automation not only frees up its scientists from daily routine that could be mechanized for more advanced research activities, but also allows it to generate higher volume of accurate data that would not be possible if done manually.

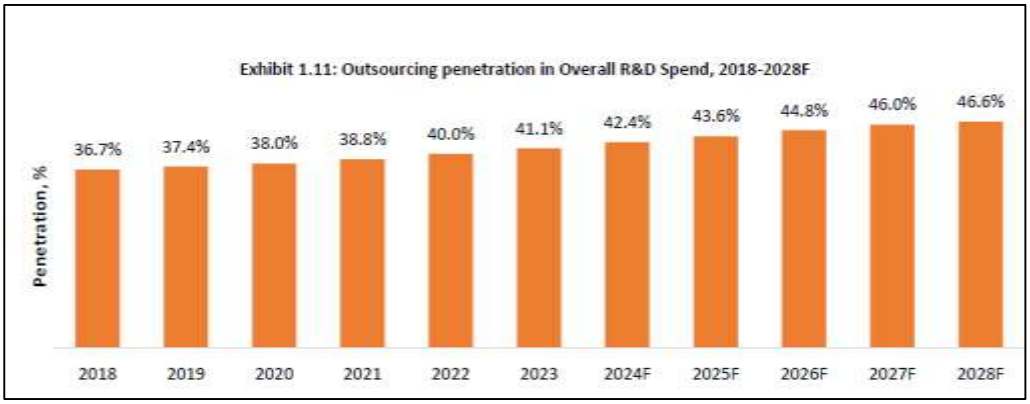
Continue to drive operational excellence initiatives to improve profitability and return metrics: SLSL continues to enhance operational efficiency and increase productivity by leveraging technology and enhancing its infrastructure and operating processes. It plans to leverage its technology-enabled processes and tools to streamline operations across all its functions and facilities. It also aims to leverage new-age technologies to optimize its operations and service delivery. The Company also intends to improve its human capital by providing training programs and workshops, which will help increase the efficiency of its workforce and aid in improving its operational efficiency. As part of its digitalization and automation strategy, it digitalizes data and automate tasks with the aim of driving efficiency, speed, innovation, quality and service diversification. Under its "Digital, Analytics and Automation" initiative, SLSL engages in paperless data acquisition, science-based modelling and predictive analytics. It will continue to deploy tools to shorten lead times for better customer experience and in turn, customer retention.

Continue to attract, train and retain quality talent to support rapid growth: The success of SLSL's endeavors also relies on its talent pool. It will continue to take initiatives to recruit, train, upskill and retain its talent pool, particularly research scientist staff. It continues to utilize its recruitment channels, which include a combination of structured campus recruitment programs, lateral hiring programs and internal referrals. Furthermore, it will continue to offer learning and research opportunities to its employees through continuous training and upskilling programs, conferences, seminars, training sessions, trade shows, speaking engagements and seminars, among others. Additionally, one of the main focus areas of its "Sai Nxt" initiative is also people and culture, which aims to strengthen its workforce by expanding the scientific talent pool, induct global scientific and leadership talent, role-based integrated online training and shop floor transformation, being an established transformation initiative in manufacturing. Further, to retain and incentivize its employees, SLSL will continue to enhance its performance-based compensation and review system to reward and promote service excellence. Its transparent performance evaluation, clear career progression opportunities, technical and managerial training and competitive compensation positions it well to attract and retain talent.

Industry Overview

Global Pharmaceutical Innovator R&D – Increasing Trend of Outsourcing

The pharmaceutical and biotech industry is characterized by certain challenges, notably the R&D expertise and associated costs required to develop portfolio of increasingly complex drugs, the high capital expenditure required to establish and maintain manufacturing units, the need for technical know-how and trained workforce, increasing pricing pressure from payors and governments alike, navigating disruptions within the supply chain, and regulatory compliance, among others. As a result of these challenges, global pharmaceutical companies have sought to control their costs and improve their efficiency, and the industry has witnessed a trend of increased R&D outsourcing by pharmaceutical companies.



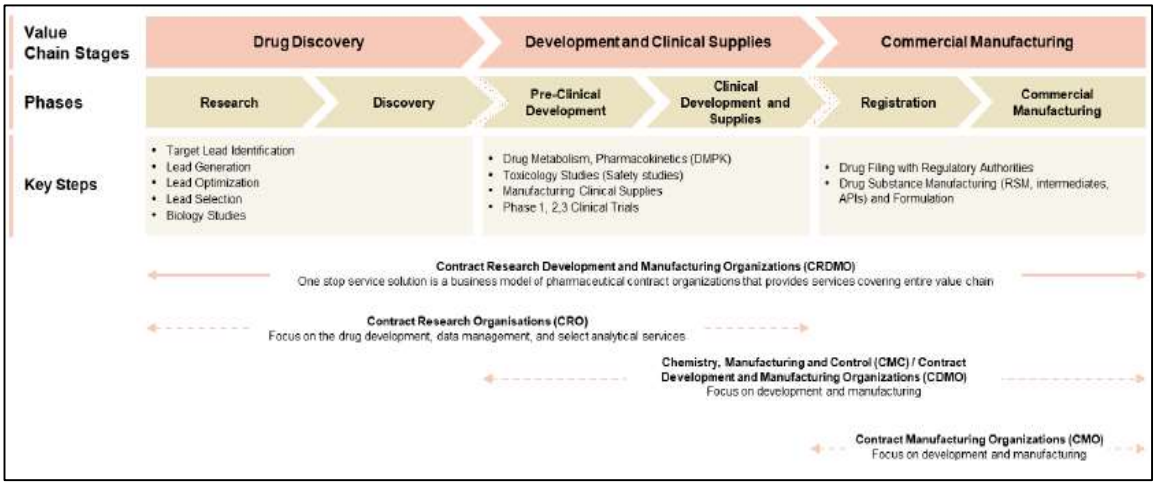
The overall penetration of the global R&D outsourcing services market increased from 36.7% in 2018 to 41.1% in 2023. The penetration is further expected to grow to 46.6% by 2028F.

Contract Research Development and Manufacturing Organization (CRDMO) Industry

CRDMOs, who serve as outsourcing partners to pharma innovators, are playing an increasingly prominent role in the pharma value chain, from drug discovery to commercialization across multiple geographies, in response to increasing outsourcing demands from pharma innovators

CRDMO industry primarily comprises of 3 key types of players: CRDMOs (Contract Research Development and Manufacturing Organizations), Contract Research Organizations (CROs) and Contract Development and Manufacturing Organizations (CDMOs). CRDMOs are integrated contract service organizations which provide end-to-end services spanning the entire drug discovery, development, and manufacturing lifecycle. They provide pharmaceutical innovators with economically viable and tailored solutions for the various challenges they face across the value chain. By leveraging their expertise, infrastructure, and resources, pharmaceutical innovators can accelerate the drug development process, reduce costs, and access specialized capabilities that may not be available in-house.

CROs specialize in offering various scientific functions of the discovery, preclinical and clinical stages of pharmaceutical R&D. CDMOs provide commercialization manufacturing as well as process/formulation development to support the preclinical and clinical stages (also known as Chemistry, Manufacturing and Control (CMC) services).



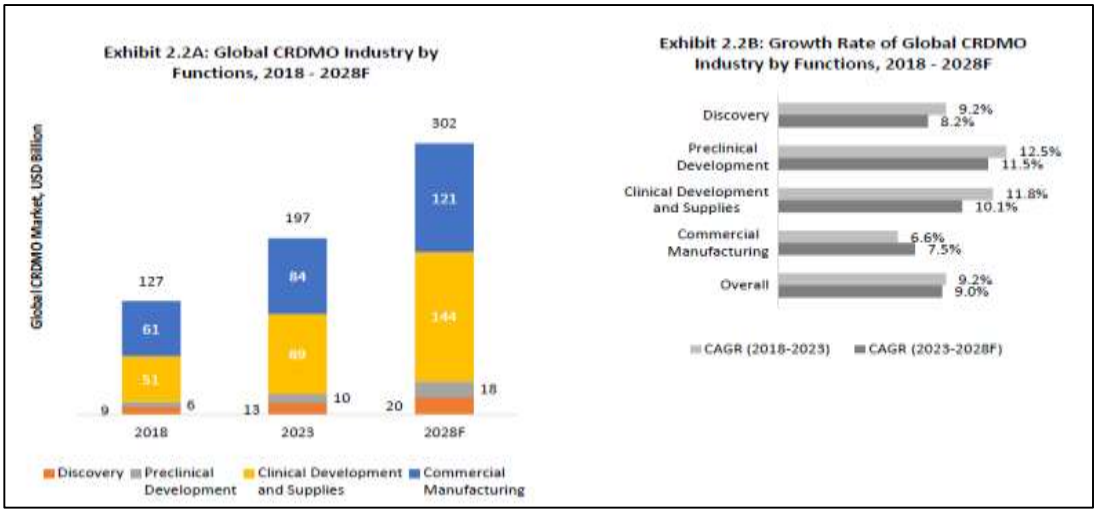
Emergence of CRDMOs: Integrated Discovery, Development and Commercial Manufacturing Services Across the Pharma Value Chain

CRDMOs with integrated services have gained significant traction in recent times, with an increasing inclination among pharmaceutical innovators to engage a singular partner for services covering the entire pharmaceutical value chain. This is even more relevant for small pharma innovator companies and biotechs which have a lean team with a few decision makers. Pharmaceutical companies generally collaborate with Contract Research Organizations (CROs) for drug discovery and Contract Development and Manufacturing Organizations (CDMOs) for drug development and manufacturing, with some overlap in services such as API and formulation development. However, pharmaceutical innovators are increasing leveraging integrated CRDMOs for several benefits. By providing research, development, and manufacturing capabilities under one roof, integrated CRDMOs offer a seamless and efficient approach to drug development, from early-stage research to commercial production, enhanced collaboration, technology transfer and communication throughout the drug development process, leading to expedited decision-making, heightened efficiency, and improved project outcomes.

Global CRDMO Industry Size

In 2023, the global CRDMO industry was assessed at an estimated value of USD 197 billion. The industry is anticipated to expand at a CAGR of 9.1% over the forecast period, culminating in USD 302billion by 2028.

The CRDMO industry comprises of discovery, preclinical, development and commercial manufacturing services. Traditionally, pharmaceutical companies retained in-house control over discovery and preclinical stages due to intellectual property (I.P.) sensitivities while outsourcing these activities. However, with the emergence of smaller pharmaceutical and biotech firms and enhanced IP protection protocols at CRDMOs, there has been a noticeable surge in the outsourcing of these services. The drug discovery industry stands at USD 13 billion in 2023, while the preclinical development market was at USD 10 billion in the same year. In line with the growth in the overall Research and Development (R&D) spending, the discovery and preclinical services industry is projected to reach a cumulative value of $37 billion in 2028 and comprise 41% of total R&D spend in these areas.



CRO and CRDMO INDUSTRY

3.1 Global CRO Industry

The CRO industry includes outsourced R&D services provided to pharmaceutical and biotech companies for drug discovery and early development. CROs have been widely used by the life sciences industry since the 1970s. As the CRO industry gained significant momentum, services offered by CROs have evolved from basic supporting services to a wide range of lab and analytical services across the R&D value chain, enabling them to become preferred strategic partners to pharma innovators. Some of the CROs are also setting up dedicated R&D facilities for their customers. These dedicated facilities demonstrate ability to serve customer with comprehensive set of capabilities and long-term commitment by the customers.

CROs now provide integrated solutions for challenges across the entire R&D value chain

Drug discovery begins with disease target identification and validation. The next step is an iterative process of lead identification and optimization culminating in drug candidate nomination. This is followed by pre-clinical studies as an input to an IND Application. Different scientific skill sets are required at each of these stages of drug discovery. For example, sophisticated biology understanding is required during target identification and validation, while deep medicinal and synthetic chemistry capabilities combined with high throughput and high-quality biology studies are critical for lead generation and nomination. ADME and Toxicology studies become very important as lead candidates get narrowed down to select development candidates and pre-clinical data is generated to enable IND Applications. Integrated CROs are well equipped to handle all of these activities in a rapid and seamless manner by transferring samples, data, knowledge and technical feedback between scientists of various disciplines.

CROs can help significantly lower drug development costs, facilitate a more seamless and timely entry into new markets with varying regulatory requirements, avoid the expense and labor of managing capital-intensive infrastructure and allow pharmaceutical sponsors to concentrate on their core skills while proactively mitigating any development risks. CROs have elevated their role and often emerged as co-innovators led by the expansion of small and frequently virtual biotech companies with lean teams, that rely almost entirely on an outsourcing partner for their drug discovery and development needs. By utilizing their extensive range of services, CROs can help lower drug development costs by approximately 30% when compared to in-house research.

The global CRO industry size increased from $40.1 Bn in 2018 to $76.5 Bn in 2023, representing a CAGR of 13.7%, and is expected to reach $126.4 Bn in 2028, representing a CAGR of 10.6% primarily driven by increasing outsourcing, improving technological capabilities and global expertise.

Global CRO Industry by Value Chain Service Type

There are further 2 CRO player archetypes: Non-clinical CROs (comprising Discovery and Pre-clinical services) and Clinical CROs. In the early drug discovery stages of clinical research, non-clinical CROs are responsible for not only identifying potent drug candidates, but also for designing and conducting laboratory tests, analysing the resulting data, and confirming that the safety of the potential drug is suitable to proceed to the next stage of development and human clinical trials. Clinical CROs, in contrast, are involved in the later stages of drug development, encompassing the stages of clinical research that involve testing a drug on human subjects from phase I to phase III or IV trials. The clinical phase of drug research tests the findings from preclinical studies in real-life conditions within the target disease population with human volunteers.

Pharmaceutical companies have historically outsourced clinical trials more than discovery and preclinical work. This is because the need for patent protection and maintaining control over the fundamental discovery process is higher during the early discovery and pre-clinical phases. With strengthening IP protection laws and increasing focus on R&D productivity, pharmaceutical companies have begun to increasingly rely on CROs for early discovery and preclinical studies. Also, in the last decade, there has been a noticeable increase in the outsourcing of nonclinical services due to the emergence of smaller pharmaceutical businesses and biotechs that rely more on CROs and enhanced intellectual property protection procedures at CROs. By 2028, the preclinical and discovery industries are projected to have grown to a combined value of USD 37.3 billion, growing at a CAGR of c.10% over 2023-28F. The discovery related outsourcing penetration was at 25% in 2018 and expected to reach 35% by 2028. Similarly, pre-clinical activities are poised to see significant growth from 30% in 2018 to 42.5% in 2028.

Global CDMO Industry

The CDMO industry includes services provided for drug development and commercial manufacturing. Historically, pharma has often concentrated on selling high-volume products and used contracts with CDMOs to leverage increased manufacturing capacity. But as the mass-distribution blockbuster pharmaceuticals faded and precision medicine, specialty indications, and more R&D in complicated treatments took center stage, pharmaceutical sponsors are starting to view CDMOs as strategic partners rather than vendors. Pharma innovators increasingly leverage cost efficiencies, specialist knowledge, latest manufacturing technologies and other benefits from CDMOs. In addition, the growing pipeline of sophisticated pharmaceutical products and the increased focus on efficiency and innovation has further driven the global outsourcing of research and manufacturing tasks to CDMOs. The reliance on CDMOs will further grow going forward as they continue to offer innovator pharmaceutical companies commercially feasible solutions for a range of drug development and manufacturing services, such as pharmaceutical formulation, analytical development, process optimization, and scale-up manufacturing. Strong technical and R&D infrastructure capabilities, availability of skilled scientific talent and quality manufacturing with clean track record of regulatory compliance, are some of the key success factors for a CDMO. The global CDMO industry size increased from $86 Bn in 2018 to $120 billion in 2023, representing a CAGR of 6.9%, and is expected to reach USD 176 billion in 2028, representing a CAGR of 7.9%.

Competitive Landscape of CRDMOs

The global CRDMO industry is marked by high fragmentation, with over 1000 global players competing for market share. This landscape encompasses a diverse range of players, including various CROs and CDMOs and limited number of pure-play full-service CRDMOs.
The Indian CRDMO industry constitutes a limited number of scaled up companies. With increase in demand of Indian CRDMOs significantly driven by shifting geopolitical factors such as China+1, Biosecure act amongst others, the scaled up CRDMO players in the industry are expected to gain disproportionally due to their preference by pharma companies as well as biotechs driving up their market share. Also, companies with large and marquee pharma innovators as clients have a strong competitive edge due to significant opportunities to cross-sell and have higher growth.

Key Concerns

- Financial performance depends on SLSL's ability to secure business from biotechnology and pharmaceutical customers and consequently it may be subject to risks, uncertainties and trends that affect its customers in these industries.
- Business may be adversely affected if customers fail to develop or manufacture commercially viable drugs, including due to industry specific challenges they may face.
- SLSL may not be able to continue to serve its customers if it fails to meet its standards in audits and inspections and this could significantly harm its reputation and result in the termination of ongoing projects by its customers
- Depend on research and development activities generally for future growth and its inability to achieve the desired outcomes in research and development activities may result in customers opting to discontinue their partnerships with SLSL.

- SLSL is subject to extensive government regulation, and if it fails to obtain, maintain or renew its statutory and regulatory licenses, permits and approvals required to operate its business, results of operations and cash flows may be adversely affected.
- Manufacturing interruptions or delays could affect the ability to meet customer demand and lead to higher costs.
- SLSL is subject to risks associated with conducting business internationally, and any operational delays and/or additional financial burdens may affect the business and results of operations.
- Largest customer contributed 8.00% and 9.55% of the total revenue from operation for the six months period ended September 30, 2024 and the year ended March 31, 2024 respectively. The potential loss of major customers or any of its large contracts could materially and adversely affect the business, financial condition and results of operations.
- SLSL conducts animal testing, which can result in adverse publicity liability and other issues, including potential disruption to its facilities as a result of protests against animal testing.
- Depend on a stable and adequate supply of quality raw materials from suppliers (including international suppliers), and any increase in the price of raw materials or interruptions of such supply could have an adverse impact on its business.
- Inability to safeguard the trade secrets, sensitive information and other business information of customers and partners may have an adverse effect on the business.
- Face the risk of losing revenue from products supplied to innovator pharmaceutical companies after the expiry of its patent protection period.
- If SLSL inadvertently infringes on the patents or intellectual property rights of others, it may be subjected to legal action and its business and reputation may be adversely affected.
- Fluctuations in exchange rates may result in foreign exchange losses and adversely impact the profitability
- Under-utilization of manufacturing capacities could result in excess production capacity and increased costs and an inability to expand manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.
- Outsourcing certain development steps to other outsourcing service providers may expose SLSL to potential risks and liabilities.
- Delay in delivery of products from scheduled timeline of projects could have an adverse effect on the business, future prospects and future financial performance.
- SLSL has significant working capital requirements. If it experiences insufficient cash flows to fund its working capital requirements and if it is not able to provide collateral to obtain letters of credit and bank guarantees in sufficient quantities, there may be an adverse effect on the business, financial condition, results of operations and cash flows.
- Pricing pressure from customers may affect gross margin, profitability and ability to increase prices, which in turn may materially adversely affect the business, results of operations and financial condition.
- Exposed to counterparty credit risk and any delay in receiving payments or non-receipt of payments may adversely impact the results of operations and cash flows.
- Rely on advanced information and communication systems to run operations and are exposed to the risks generally associated with such information and communications systems.
- Reforms in the healthcare industry in India and other countries which SLSL operates in, and the uncertainty associated with pharmaceutical pricing and reimbursement could adversely affect the pricing and demand for its products.
- Any decrease in or discontinuation of incentives or export promotion schemes SLSL is entitled to may adversely affect its results of operations, cash flows and financial condition.
- Inability to effectively accurately forecast demand for its products and manage inventory may have an adverse effect on the business, results of operations, financial condition and cash flows.

- SLSL is exposed to risks related to acquisitions, strategic investment and partnerships and its failure to execute these strategies effectively may affect its business operations.
- As a CRDMO, SLSL is subject to product and other liability risks that could adversely affect its results of operations, financial condition, liquidity, and cash flows.
- Inability to meet its obligations, including financial and other covenants under its debt financing arrangements could adversely affect its business, results of operations and cash flows.
- If SLSL does not enhance its existing technologies or introduce new technologies or offerings in a timely manner, its technologies or offerings may become obsolete or uncompetitive over time.
- The CDRMO industry is intensely competitive and its inability to compete effectively may adversely affect its business, results of operations and financial condition and cash flows.
- Failure to maintain or increase its marketing activities and capabilities could adversely affect the market share and its reputation, business, financial condition and results of operations.
- Customer contracts are governed by the laws of various countries and disputes arising from such contracts may be subject to the exclusive jurisdiction of courts situated in such countries, and managing such disputes may result in greater costs for the Company.
- Leverage ratios, finance costs, the volume of loans outstanding, and working capital components for which issue proceeds are proposed, present certain risks which could materially impact the financial condition and operations of the Company.
- The cost to develop and commercialize a new drug and lengthy research and development processes in the drug commercialization journey with low success rates may have an adverse effect on the business, results of operations, financial condition and cash flows.
- CRDMO business allows multiple entry points for client engagement, which may result in loss of customers, and this may have an adverse effect on the business, results of operations, financial condition and cash flows
- Uncertainty in continuous improvement investments may have an adverse effect on the business, results of operations, financial condition and cash flows.

Profit & Loss

Particulars (Rs in million)	H1FY25	FY24	FY23	FY22
Revenue from operations	6752.9	14651.8	12171.4	8695.9
Other Income	180.7	290.9	279.7	281.5
Total Income	**6933.5**	**14942.7**	**12451.1**	**8977.4**
Total Expenditure	**5469.5**	**11796.9**	**10522.1**	**7483.1**
Cost of material, chemicals & reagents consumed	1823.9	4233.0	4271.8	2695.9
Changes in inventories of work-in-progress	-51.8	224.3	-45.9	-28.3
Employee benefits expense	2650.9	4949.1	4172.9	3089.7
Other expenses	1046.5	2390.5	2123.4	1725.8
PBIDT	**1464.0**	**3145.8**	**1929.0**	**1494.3**
Interest	421.5	859.1	770.6	495.7
PBDT	**1042.5**	**2286.7**	**1158.4**	**998.6**
Depreciation and amortization	669.9	1194.4	994.3	901.6
PBT	**372.6**	**1092.3**	**164.1**	**97.0**
Tax (incl. DT & FBT)	**92.5**	**264.3**	**64.2**	**34.7**
Current tax	0.0	77.6	100.3	94.2
Deferred tax	92.4	186.7	-36.1	-59.5
PAT	**280.1**	**828.1**	**99.9**	**62.3**
Adj. PAT	**280.1**	**828.1**	**99.9**	**62.3**
EPS (Rs.)	1.5	4.6	0.6	0.4
Face Value	1	1	1	1
OPM (%)	19.0	19.5	13.6	13.9
PATM (%)	4.1	5.7	0.8	0.7

Balance Sheet

Particulars (Rs in million) As at	H1FY25	FY24	FY23	FY22
Non-current assets				
Property, plant and equipment	9,618.3	9,263.6	7,776.2	7,429.0
Capital work-in-progress	1,520.2	1,069.0	1,510.0	1,886.9
Right-of-use assets	2,543.8	2,397.1	2,478.7	2,211.0
Intangible assets	120.8	137.7	114.3	80.5
Financial assets				
Investments	18.7	18.7	18.7	0.2
Other financial assets	35.85	40.67	26.6	30.5
Deferred tax assets	147.7	131.3	80.6	57.1
Non-current tax assets (net)	169.2	132.8	76.6	138.1
Other non-current assets	247.4	109.4	145.3	355.3
Total non-current assets	**14,421.9**	**13,300.2**	**12,227.0**	**12,188.5**
Current assets				
Inventories	1,058.9	874.4	1,395.3	1,269.1
Financial assets				
Trade receivables	2,295.1	2,561.8	2,840.5	2,429.0
Cash and cash equivalents	490.5	236.6	699.1	1,159.4
Bank balances other than cash and cash equivalents	1,346.4	1,351.4	164.2	143.5
Other financial assets	829.9	794.8	1,784.7	1,443.8
Other current assets	4,325.2	3,632.1	2,755.6	3,008.9
Total current assets	**10,345.9**	**9,451.1**	**9,639.5**	**9,453.8**
Total assets	**24,767.8**	**22,751.4**	**21,866.5**	**21,642.3**
EQUITY & LIABILITIES				
Equity				
Equity share capital	188.8	180.5	180.1	179.4
Other equity	10,266.8	9,570.9	8,700.8	8,606.2
Total equity	**10,455.6**	**9,751.4**	**8,880.9**	**8,785.7**
Liabilities				
Non-current Liabilities				
Financial Liabilities				
Borrowings	2,902.9	2,772.5	2,609.7	2,971.7
Lease liabilities	1,726.7	1,757.2	1,958.0	1,895.7
Other financial liabilities	26.0	13.3	37.3	28.0
Deferred tax liabilities (net)	967.2	862.7	625.3	626.0
Provisions	226.7	195.2	166.8	189.3
Total non-current liabilities	**5,849.5**	**5,600.9**	**5,397.0**	**5,710.7**
Current liabilities				
Financial liabilities				
Borrowings	4,742.0	4,329.2	4,382.6	4,541.5
Lease liabilities	550.4	417.8	373.5	245.6
Trade payables				
Total Outstanding dues of Micro Enterprises and Small Enterprises	180.9	90.1	80.9	122.1
total outstanding dues of creditors other than micro enterprises and small enterprises	1,951.1	1,904.0	2,008.6	1,869.9
Other financial liabilities	594.0	317.5	227.8	93.7
Provisions	96.0	83.7	72.0	59.3
Other current liabilities	348.3	256.8	409.5	188.3
Current tax liabilities (net)	0.0	0.0	33.7	25.7
Total current liabilities	**8,462.7**	**7,399.0**	**7,588.5**	**7,146.0**
Total liabilities	**14,312.2**	**12,999.9**	**12,985.6**	**12,856.7**
Total equity and liabilities	**24,767.8**	**22,751.4**	**21,866.5**	**21,642.3**

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