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Medical Consumables

Polymed - Sunrise Segment in Healthcare

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DOLAT CAPITAL

December 23, 2020

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Polymed - Sunrise Segment in Healthcare

Established in the year 1996, Polymed is one of the largest exporter of consumable medical devices from India since past 8 years. Expertise in fluid management disposables, the Company is engaged in manufacturing and marketing of medical disposables, products like Intravenous (IV) Cannula, Blood Transfusion (BT) set and Insulin syringes. It is one of the top 3 IV Cannula manufacturer in the world. Polymed has 5 manufacturing facilities in India and a subsidiary in China, Italy and Egypt. The Company garners ~72% of its revenue from exports of which 40% is Europe.

Polymed has grown at 14% and 20% CAGR in revenue and PAT respectively during FY17-20 with margins improving by 400 bps to 24.5% in FY20. Management guides for the growth momentum to sustain in teens with an EBITDA margin improvement of 500bps over the next 4 years. Company has announced a QIP of Rs4bn to be utilized for Greenfield expansion under the latest PLI scheme to expand its renal segment. With improving penetration and A/O, we believe the company can grow at 19-20% earnings CAGR generating CFO/EBITDA at ~80%. Management has guided to become debt free by FY22E (current D/E is 0.4x). At CMP, the stock trades at 29.4x FY22 and 24.2x FY23E EPS of Rs17.2 and Rs20.9 respectively.

Similar to the diagnostics and CRAMS industry in India, medical consumables are highly fragmented with few players having a revenue size of >$100mn. Further, lack of infrastructure and government support has led to import of ~75% of devices used in India. However, **the incumbent government's push towards "Make in India" and "Vocal for Local" through policies which will aid in regularization of the sector has brought the focus on this fast growing segment. Ongoing pandemic has highlighted the criticality of this segment.**

Given that there is no direct comparable of this business, we benchmark our valuations to the diagnostics industry and use DCF as our valuation methodology. Assuming mid-teens growth and sustained margins, WACC of 11% and terminal growth of 5%, we initiate coverage on Polymed with a BUY recommendation.

The global medical consumables market size was valued at US$248bn in 2019 and is expected to grow at a CAGR of 16.7% from 2020 to 2027. Medical disposables are the medical apparatus that are rendered for temporary or one-time use like surgical sponges, gloves, syringes, hypodermic needles, and others; after which they are disposed as solid waste. The main objective of disposable devices is to control infection. The growth is attributed to an increasing number of surgical procedures, rising incidence of Hospital Acquired Infections, prevalence of chronic diseases leading to longer hospital admission, and rising awareness on self-care.

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While US and EU are the largest markets, India's medical devices market at US$11bn (including implants, consumables and medical electronics) is expected to grow to US$50bn by 2025, 21% CAGR. Telemedicine, wearable devices and robotic surgeries are the latest technologies coupled with government initiatives is expected to drive the medical consumables industry in India. In accordance with National Health Policy, the government health expenditure would increase from 1.7% of GDP in 2019 to 2.5% of GDP by 2025.

Currently, the Indian medical device industry is 4% of global medical devices market. With enabling policy framework and ecosystem support, India's contribution to the incremental growth of global market is expected to be 31% which is significant. **We expect India to be a major participant in the global supply chain of medical devices. In the near term, the focus is towards manufacturing of low and mid-tech products, with a gradual shift towards developing capabilities for design and manufacturing of high-tech products. We play this space through Polymed.**

Key Catalysts (Industry)

1) Scheme for promotion of medical device parks
2) Regulation of medical devices through the amendment in rules, 2020
3) Financial incentive for production of targeted medical devices, total Outlay-$456mn (PLI scheme)
4) Ease of doing business – 100% FDI allowed via automatic route and Preferential Purchase Order – PPO 2017
5) Increased demand for portable medical devices
6) National Health Mission emphasizing on healthcare through PPP, already implemented in parts for renal care (dialysis)

Key Concerns

1) Low entry barrier, ~75% products are imported from international players
2) Currency risk given high revenues from international market
3) Abuse of medical devices in India (re-usage)

Key Catalyst (Company)

1) Diagnostics sample collection, dialysis and oncology products are key specialty areas for Polymed
2) We believe Polymed is an active participant in National dialysis services programme under the National Health Mission to provide dialysis services in district hospitals via PPP model by 2024 and the current QIP is WIP for the same
3) ~72% of its total revenues from export, of which Europe is 40%. Company will start exporting its products to Brazil, Russia and China from FY22E onwards

Key Concern (Company)

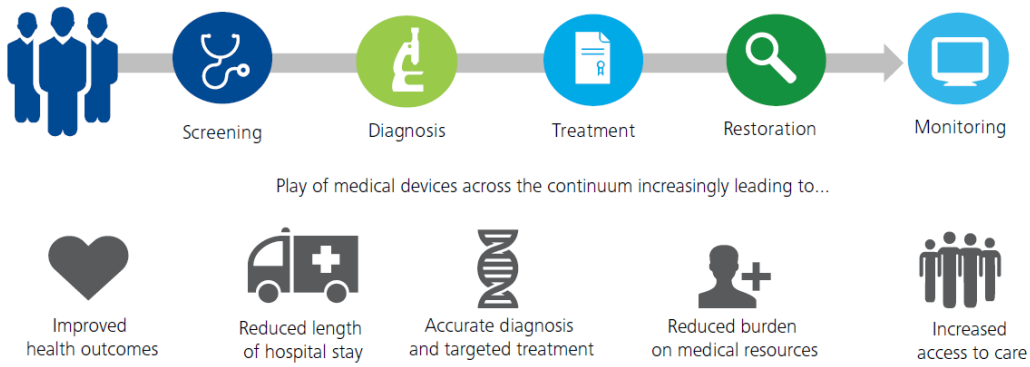
1) Job work (manufacturing) for certain products done through promoter led company, Vitromed Healthcare (Natural products & medical devices). Management may consider to merge this entity with Polymed at a later stage.
2) So far, only 37 devices have been regulated by the government from ~3000 available.
3) The export business is largely distribution driven, could lead to low product realization in the future, however, Polymed has a reasonable presence in export markets and deeper penetration should result in higher volumes.

About the industry

What is the role of medical devices within healthcare?

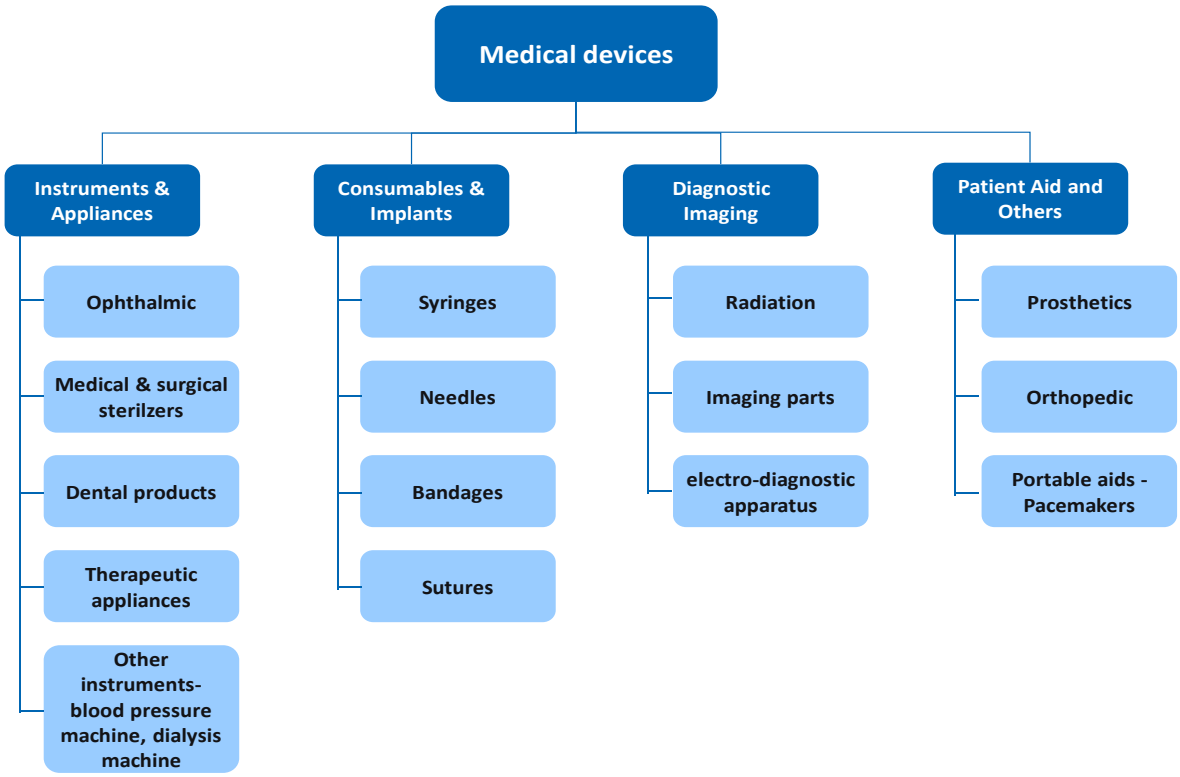
Medical devices play a role not only in screening, diagnosing and treating patients but also in regularly monitoring health indicators to prevent diseases. With technological advancements, the role of medical devices is now expanding to improve quality of care across each stage of the healthcare segment.

Role of medical devices across the healthcare segment



Source: Industry, DART

Medical device and its subsets: (A) Segment-wise

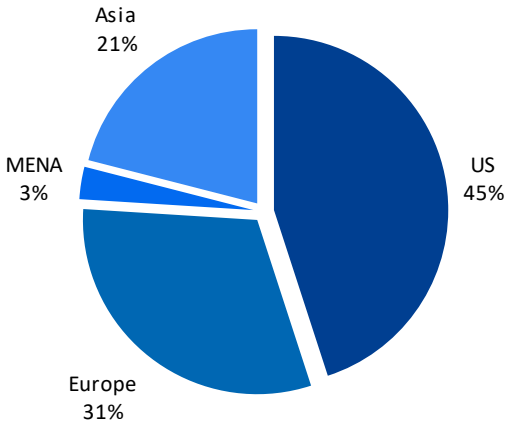


Source: Company, DART

What is the size, scope and segmentation of the industry?

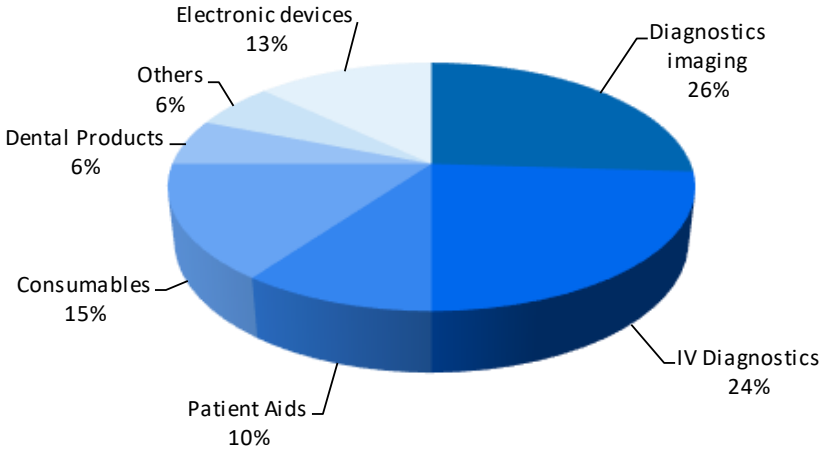
The global medical device market is currently estimated at US$457bn in 2019 and is expected to grow at a CAGR of 5.4% by 2025 to US$613bn. The Indian medical device market is US$11bn expected to grow at 21% CAGR to US$50bn by 2025, and contributes ~10% to the US$97bn Indian healthcare industry.

(B) Geography wise sale of medical devices



Source: Industry, DART

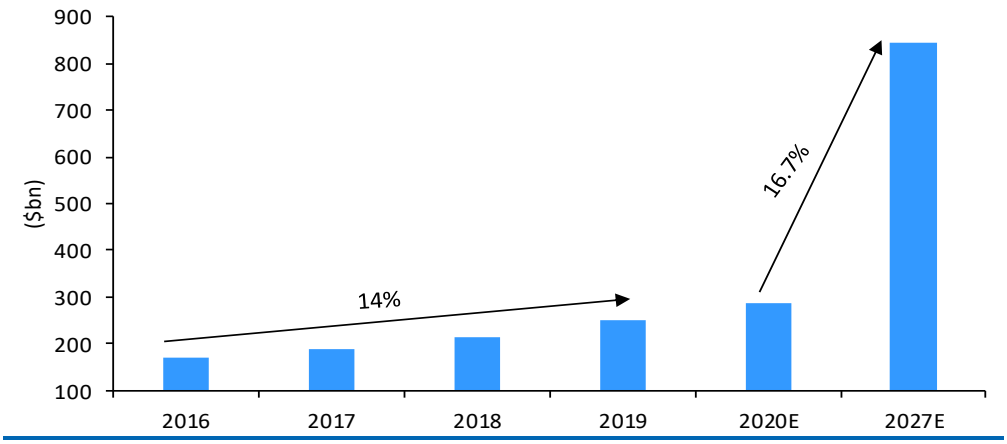
(C) Medical device global revenue constituents



Source: Industry, DART

Medical consumables constitute 54% of the global medical devices market and is expected to grow much faster at 16.7% CAGR over the next 6-7 years. Growing self-care, increase in surgeries, have been the key drivers for increase in the demand.

Exhibit 1: Medical disposables market Outlook 2016-2027E



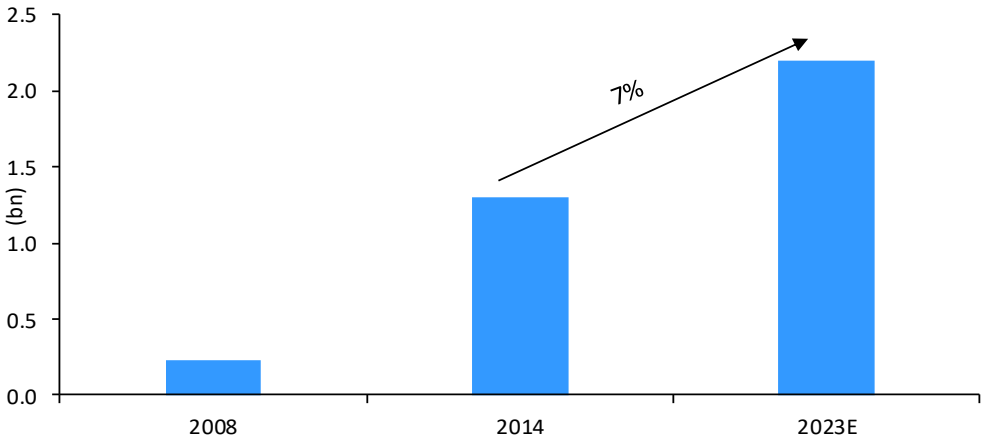
Source: Industry, DART

What will drive this growth?

Increasing number of surgical procedures

Growing number of surgeries globally is a key factor expected to drive the market. For example, as per Health Care AB, 70mn surgical procedures are performed every year in Europe. As such, medical disposables products being an essential requirement for surgical procedures are expected to witness high demand. According to Healthcare Cost and Utilization Project, in 2018, ~23mn surgeries were performed in the US within ambulatory care, which is a small segment of the entire surgeries performed in the US.

Exhibit 2: Increasing number of surgical procedures



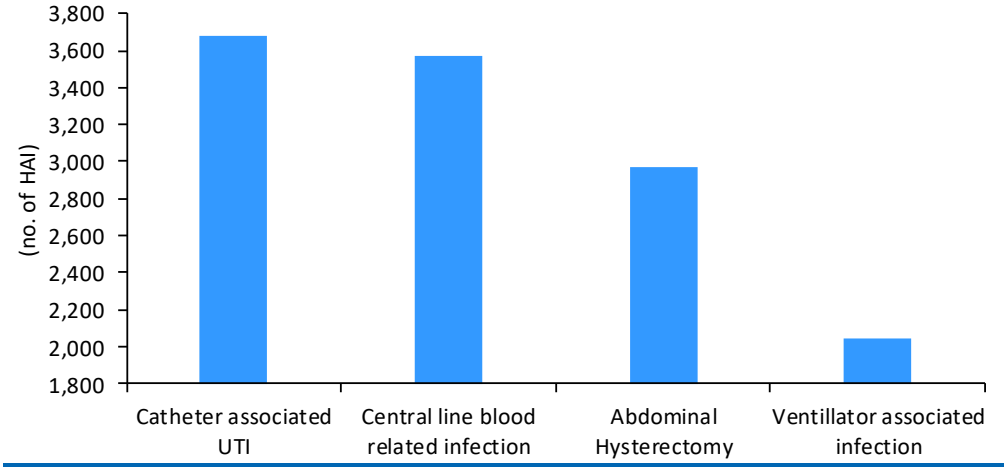
Source: Company, DART

Rising incidence of Hospital acquired infections (HAI)

With higher number of surgeries comes rising incidences of infections. Surgical-site infections were identified to be the most common HAI (23.9%), followed by hospital-acquired pneumonia (HAP) (18.3%), urinary tract infection (UTI) (16.9%), catheter-related bloodstream infection (BSI) (16.9%), ventilator-associated pneumonia (VAP) (9.9%), septicemia (8.5%) and others (5.6%).

Hospital segment is anticipated to witness fastest growth

Exhibit 3: Hospital acquired infection on the rise in the US (2017)

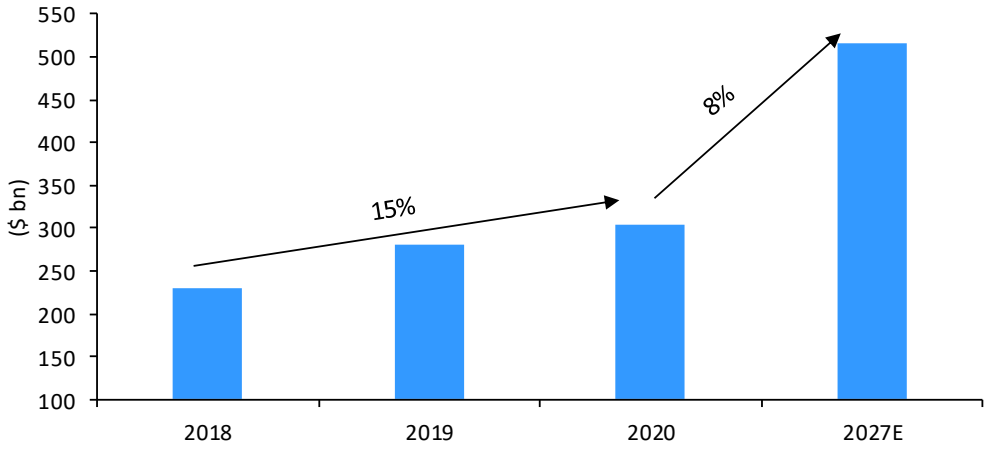


Source: Company, DART

Rise in home healthcare segment

Home healthcare is useful in getting diagnosis and treatment of the disease among patients within the comfort of their home. It includes skilled medical professionals, including physical therapy, occupational therapy, skilled nursing care, and speech therapy. Increasing prevalence of diseases such as cardiovascular, metabolic, Parkinson's diseases, infectious diseases (HIV/AIDS) and others have lead the demand for the home healthcare. Rising minimally invasive diagnostic and therapeutic interventional procedures and increasing prevalence of chronic diseases are the factors for the market growth. In 2016 the number of patients being monitored remotely grew 44% and is projected to exceed 50mn by 2021, while glob market for remote patient monitoring devices is expected to reach $1.9bn by 2025

Exhibit 4: Growth trend of home healthcare market



Source: Company, DART

Impact of COVID-19 Outbreak

The recent outbreak of COVID-19 has increased the demand of disposable gloves, disposable masks, hand sanitizers, disposable eye gear, and sterilization supplies, owing to which significant growth rate of these products are anticipated in the foreseeable future.

Technological advancement

In 2017, ~13,000 patent applications were filed with the European Patent Office (EPO) in the field of medical technology. 40% of these patent applications were filed from European countries (EU28, Norway and Switzerland) and 60% from other countries, out of which with the majority of applications filed from the US (37%). In comparison, ~6,300 applications were filed in the pharmaceutical and biotechnology field. Of the top 10 patent applications in technical fields filed with EPO (2017 data), highest is for medical technology.

Technology trends in key categories

Rapid adoption of advanced products for improved treatment and technological advancements is one of the prime focus of the market players

Auto disposable needle/syringe

1) Needle free injections
2) Pre-filled syringes, multi-chamber syringes, silicone-free technology for lubrication of syringe components

Home healthcare getting integrated with medical devices

1) Advancement in fiber technologies specifically designed for human body
2) Integration with electronic devices, including sensing, monitoring, information processing tools, able to react to the conditions and stimuli, smart watches
3) 3D technologies to prevent contact irritations and wound infection

Surgical consumables and devices are getting smarter

1) Ultrasonic devices and bipolar devices are combined into one resulting in minimum heat/thermal spread to damage neighboring tissues
2) Better cuff materials, secretion management tools, antimicrobial coatings, biofilm removing tools for invasive airway devices
3) Use of stealth technology to perform complicated neurosurgeries for back and spine results in smaller incisions, greater accuracy, reduced surgery time

Implants are getting more specialized

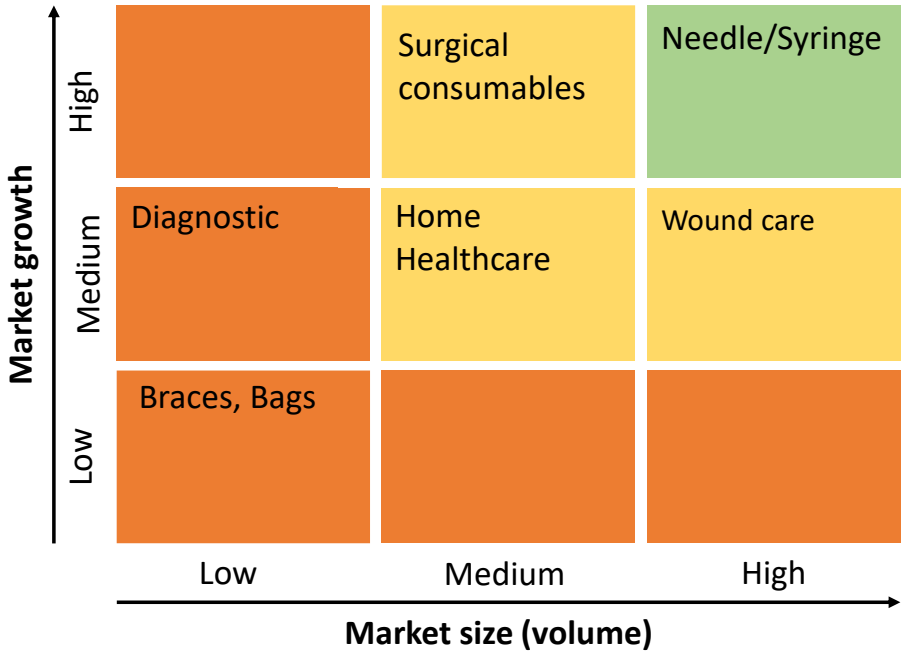
1) Category is high specialization oriented
2) Micro needles to safely and effectively deliver drugs into eye
3) Neuro-modulation

What are the key products and their growth prospects under medical consumables?

In the medical consumables segment, **needles and syringes** enjoy a large volume in the market and are expected to grow at a CAGR of 12-14% annually. This high demand is not only attributed to the disposable usage of syringes, but also to the growing disease rates of certain types of diseases like diabetes.

The next set of products in the category that are projected to be fast growing are **wound care and home healthcare**. The wound care market is fast evolving with the discovery of new technologies, especially in the areas of recovery for surgical wounds.

Exhibit 5: Volume based growth segmentation of medical consumables



Source: DART

Wound management products

Wound management product segment includes products such as wound cleaning products, wound closure devices, and bandages. The advancement in wound care management and introduction of innovative devices, such as negative pressure bandages and keratin-based products, are the major factors expected to fuel the growth of the disposable wound management products segment. Availability of separate disposable wound care kits and increasing usage of disposable devices to minimize the spread of wound infections are the factors expected to boost the demand for these products in the near future. This segment is expected to grow at 4.6% CAGR to US$24.8bn from US$19.8bn in 2019.

Catheters

A catheter is a medical device that can be inserted in the body to treat diseases or perform a surgical procedure. It is used in administration of intravenous fluids, medication or parenteral nutrition.

There are three main types of catheters: indwelling catheters, external catheters, and short-term catheters. The global catheters market is projected to reach US$24bn by 2025 from US$15.9bn in 2020, at a CAGR of 8.7%. Of this, Indian market is estimated to grow much faster from US$466mn in 2019 to US$1.6bn by 2027, a CAGR of 17%.

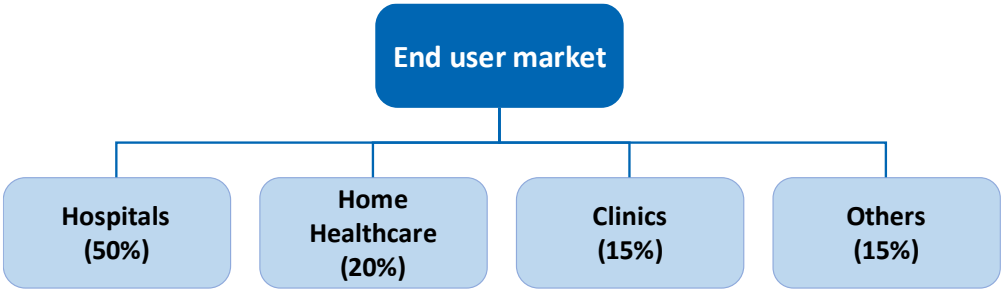
Urinary and PIV catheters are the leaders in the catheters segment followed by Hemodialysis catheters. Increasing number of heart and cancer diseases has led to surge in demand for catheters. US was the largest market for peripheral intravenous catheters, accounting for over 45% revenue share of the overall market, followed by Europe with around 27% share.

Cannula

A cannula is a tube that can be inserted into the body, often for the delivery or removal of fluid or for the gathering of data. It is also called an intravenous (IV) cannula. IV therapy is used for dehydration, nutrition, surgery, blood transfusions, chemotherapy and medication administration. **IV Cannula is amongst the most extensively used medical disposables as it is used in most applications like cardiac, orthopedic, neurology, diabetes, etc.** The IV cannula market is estimated to grow at a CAGR of 6.2% from 2017 to reach US$13.6bn by 2022.

Medical Disposable: End user market

Exhibit 6: Medical disposable – market segmentation

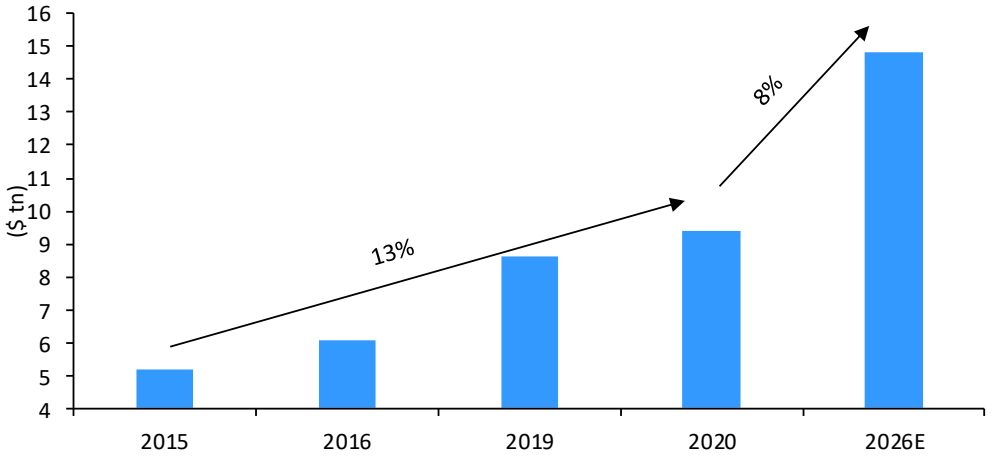


Source: Industry, DART

Hospitals

The hospital segment dominates with a market share of >50%. Pandemic like SARS, COVID-19 has only aided in increased admission rate. As per the study conducted by University of California, San Francisco, in 2016, >2000 tons of waste are generated by operating room per day, of which, a significant portion of waste is from disposables medical supplies.

Exhibit 7: Global hospital services market growth trend



Source: Industry, DART

Home healthcare

The global home healthcare market size was valued at US$282bn in 2019 and is expected to grow at a CAGR of 7.9% from 2020 to 2027. Ageing population, increased patient preference for value-based healthcare and technological advancements of home care devices are anticipated to fuel market growth. In the US, Medicare reimbursements are highly favorable in providing value-based healthcare for improved patient outcomes at a low cost. Thus, in-home care has become a modality of choice for treatment. In Europe, the central government offers some reimbursement benefits for this service. The Indian home healthcare market size was valued at US$5.2bn in 2019 and is projected to expand at a CAGR of 19.2% from 2020 to 2027.

Which are the major geographies for medical devices and consumables?

US

US is the largest market for the medical devices industry and commands a lion's share of 45% at US$156bn in 2017. By 2023, it is expected to grow to US$208bn. US exports of medical devices was >US$43bn in 2018.

Europe

The European medical technology market is estimated to grow at 5% CAGR to US$61.4bn from $49bn in 2020. Based upon manufacturer prices the European medical technology market is 31% of the world market. It is the second largest medical technology market after the US.

In Europe, ~10% of GDP is spent on healthcare. Out of the total healthcare expenditure, ~7.2% is attributed to medical technologies, i.e. less than 1% of GDP. The spending on medical technology is estimated to vary significantly across European countries, ranging from 5-10% of the total healthcare expenditure.

There are almost 27,000 medical technology companies in Europe. Most of them are based in Germany, followed by the UK, Italy, Switzerland, Spain and France. Small and medium-sized companies (SMEs) make up around 95% of the medical technology industry, the majority of which employ <50 people (small and micro-sized companies).

Germany has the highest absolute number of people employed in the medical technology sector, while the number of med-tech employees per capita is highest in Ireland and Switzerland. This high level of employment shows that the medical technology industry is an important player in the European economy.

Asia, Middle East, Africa (AMEA)

The AMEA hospital equipment and supplies market is expected to reach $102bn by 2024, growing at a CAGR of more than 9% during 2018-2024. The demand for advanced healthcare technology to improve patient care services is expected to be the key driver. Industry suppliers, medical device companies, IT vendors, and pharmaceutical manufacturers are partnering with public and private sectors to introduce outcome-based insurance models for expensive healthcare services.

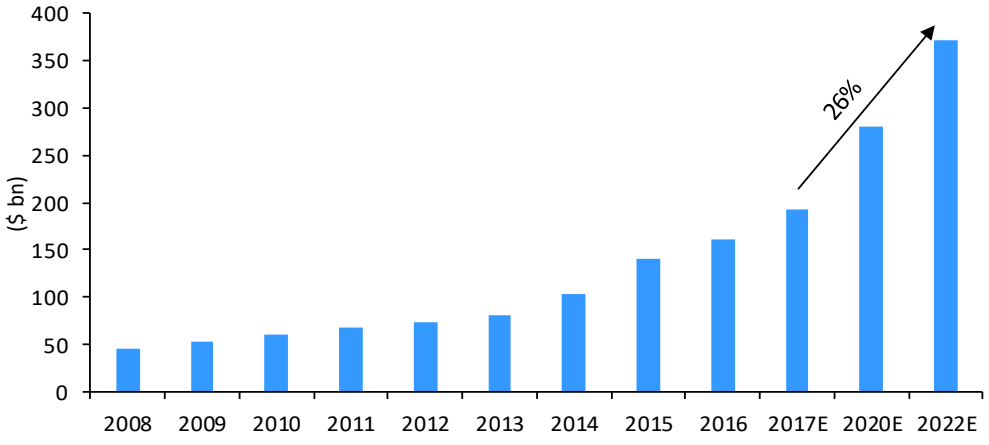
Further, the exponential growth in digital healthcare & telehealth services is driving the AMEA market. Digital technologies are supporting the healthcare sector, especially hospitals to shift to a new patient-centered care model and develop smart health approaches to increase access, improve quality, enhance affordability, and reduce cost.

Where does India stand globally?

Although US will continue to dominate the medical device industry in 2030, crossing $300bn in sales, the top 5 markets will also include China and India. The later two are already growing at twice the pace of the overall market, driven by healthcare reform, local government incentives and overall rising demand for healthcare. India is already known as global center for producing low cost indigenous devices with global market potential.

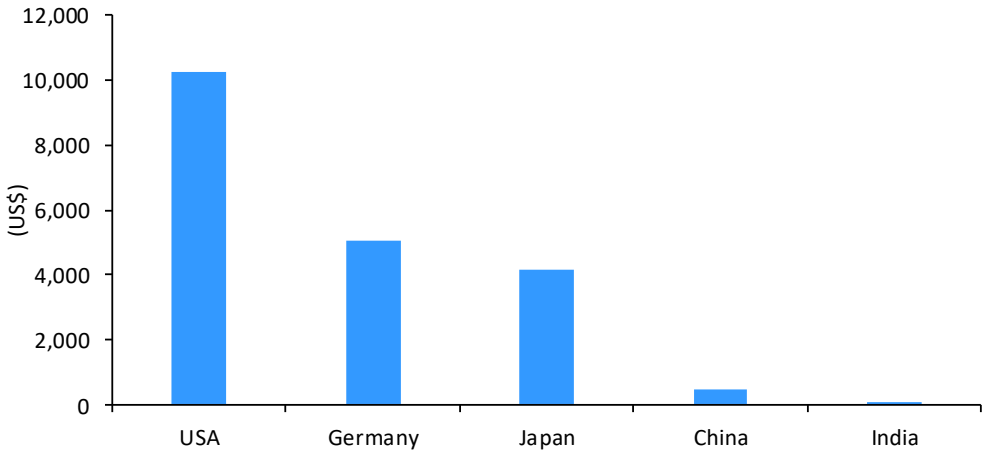
Current landscape of Indian healthcare

Exhibit 8: Indian healthcare market



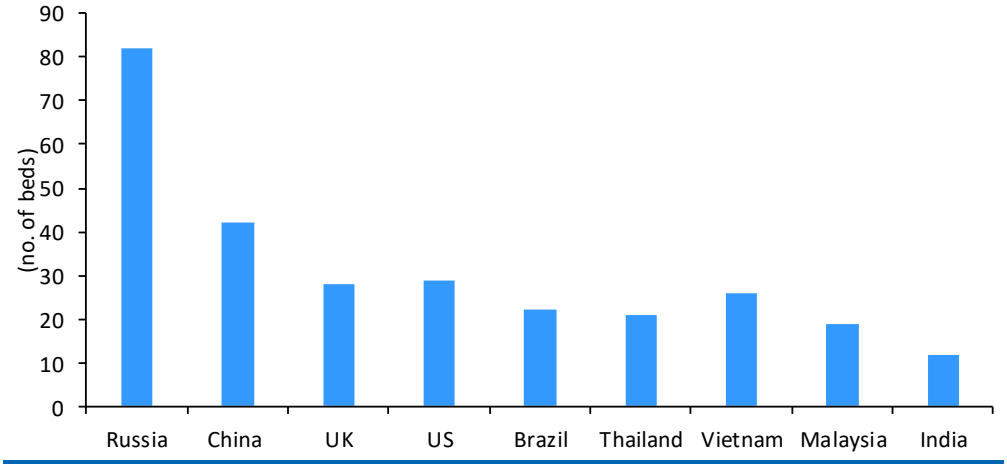
Source: Statista, DART

Exhibit 9: Low expenditure on healthcare



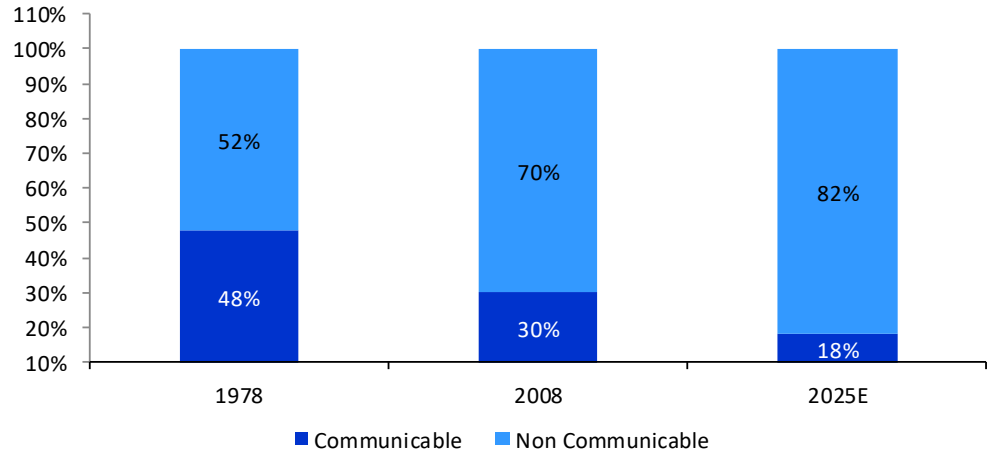
Source: WHO, World Bank, DART

Exhibit 10: Hospital bed density (per 10,000 population)



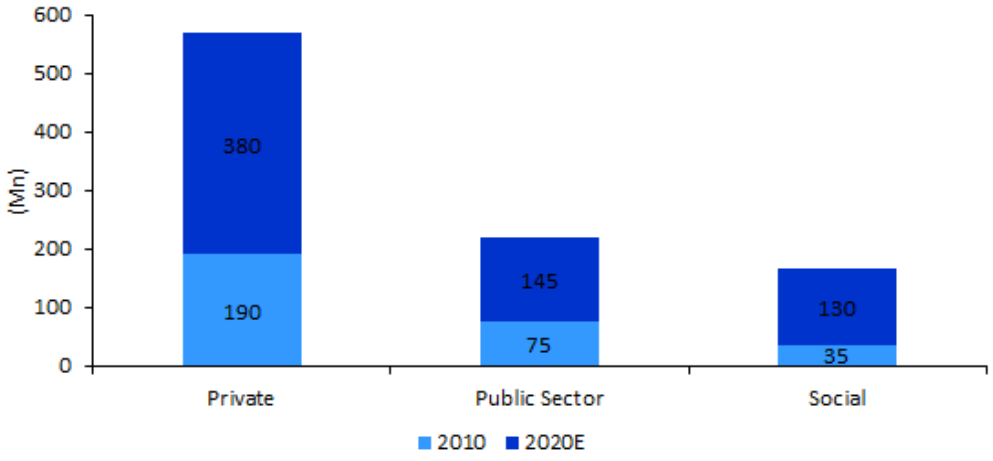
Source: Apollo AR FY20, DART

Exhibit 11: Dual disease burden



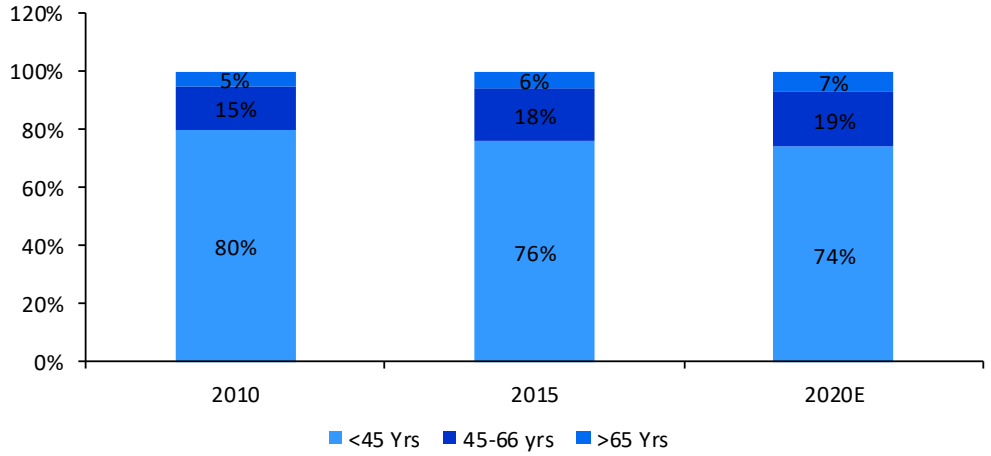
Source: WHO, DART

Exhibit 12: Increase in insurance penetration



Source: WHO, DART

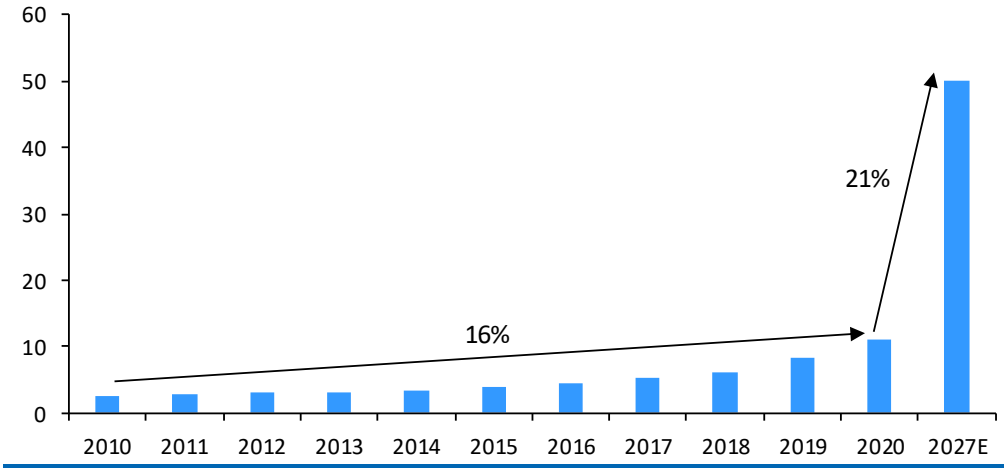
Exhibit 13: Ageing population



Source: WHO, DART

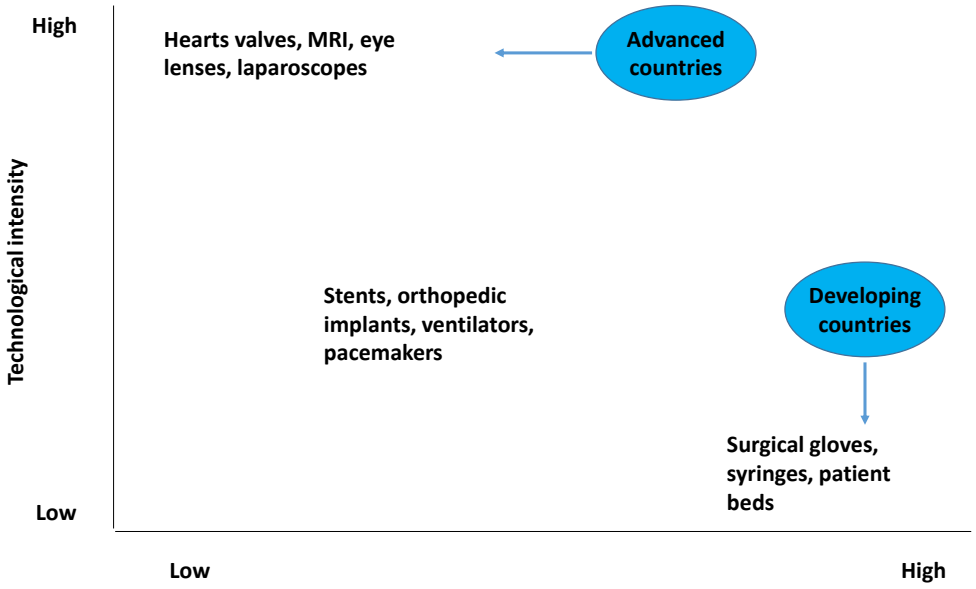
At US$11bn market size, India's medical devices industry is small with disproportionate reliance on imports and a complex regulatory environment. Despite this it is amongst the top 20 global medical device markets and is the fourth largest in Asia after Japan, China, and South Korea. However, the per capita spend on medical devices in India is the lowest among BRIC countries at US$3 (US$7 in China, US$21 in Brazil and US$42 in Russia). It is significantly behind developed economies like the USA (US$340). **This current under penetration of medical devices in India represents a sizeable growth opportunity.**

Exhibit 14: Medical device market in India



Source: Industry, CII, DART

Exhibit 15: Mapping medical device capability



Source: Industry, DART

Why is India largely import dependent?

Imports constitute ~70-80% of the medical devices industry sales in India. Reasons being:

1) An inverted duty structure historically favoring import of finished goods than raw materials /components for medical devices manufacturing

2) Absence of a concrete regulatory framework specific to medical devices constraining investments in the market and, lack of a component manufacturing ecosystem and skills base to support domestic manufacturing of medical devices. In addition, global capacities of multinational firms are also boosting imports

Exhibit 16: Major countries from where devices are imported

% YoY growth rate	FY16	FY17	FY18	FY19
US	10	7	7	3
Germany	12	7	8	22
China	17	3	20	13
Singapore	8	30	14	97
Netherlands	44	(4)	13	257

Source: Ministry of commerce, DART

Exhibit 17: Import value of medical devices for top 10 countries in 2018

Country	$ bn
China	1.5
Germany	1.0
US	0.4
Italy	0.3
Poland	0.2
Indonesia	0.2
UK	0.1
France	0.1
Switzerland	0.1

Source: UN commodity trade statistics database, DART

Does this mean there are few local players in India?

No. There are ~750 medical devices manufacturing companies in India making the segment highly fragmented, but most manufacture low end consumables. However, just like diagnostics and CDMO business, there are few players who has decent size and scale.

Besides, in order to bridge the gap existing in medium to high end technology products, an increasing number of MNCs have established in India. Nearly all of the top 40 global medical devices companies today have a presence in India. The share of MNCs is ~40-50% in consumables and instruments. Most MNCs have their production base outside India and import their products for the Indian market.

Why do we then like the India story?

With changing economic and regulatory environment, the medical devices industry is expected to grow significantly. The Indian Government has taken some early steps to boost this sunrise segment in the country, including:

Regulatory landscape strengthening

- **Materio-vigilance Programme of India (MvPI) -** This programme will help enhance the safety of medical devices and provide evidence-based feedback to the manufacturers on the efficacy of medical devices.
- **Delinking of schedule M-III -** In December 2015, the Health Ministry delinked Schedule M-III of the Drugs and Cosmetics Rules (DCR), 1945, which deals with medical devices, from Schedule M, which deals with drugs and pharmaceuticals. This will provide relief to the existing medical device manufacturers who had been arbitrarily inspected so far according to the Schedule M for pharmaceuticals.
- **Drugs and Cosmetic (Amendment) Bill, 2015 –**
    - The government in the amendment Bill has adopted the Global Harmonization Task Force's definition of medical devices.
    - Rules pertaining to conducting clinical trials of medical devices have been developed to safeguard the rights, safety and well-being of all trial participants.
    - Strict legal action/ punishment and penalties have also been introduced for conducting clinical trials without permission or following protocol.
- **Draft National Medical Device Policy, 2017 –**
    - Creation of an autonomous body 'National Medical Device Authority' (NMDA) to provide a single window mechanism and a supportive framework for the local medical devices industry.
    - Incentives for both Greenfield and Brownfield units like interest subsidy, concessional power, favorable tax/ duty structure, minimum duty on import of raw materials/ parts etc.
    - Institutional frameworks such as common testing centers, make in India marking (BIS) for medical devices, and a Skill Development Committee under NMDA.
    - Establishment of 'Centers of Excellence' (CoE) for supporting product development and validation/certification.
    - Price controls for devices including surgical instruments, implants and diagnostic equipment by notifying a separate Medical Devices Prices Control Order.

Tax/Duty Modifications

- **Subsidies and exemptions to MSMEs -** 25% of the project cost is provided as subsidy by Government of India, balance amount is to be funded through loan from SIDBI/ banks/ financial institutions. 75% subsidy is provided to MSME manufacturing units towards licensing of product to National/ International standards.

- **Correction in inverted duty structure to boost domestic manufacturing of medical devices -** The customs department has raised import duty on 67 categories of Medical Devices from the current 5% to 7.5% to help companies manufacture these products in India itself. Simultaneously, the exemption from special additional duty (SAD) on these medical devices has also been withdrawn, and they now attract 4% SAD. Further, to give fillip to domestic manufacturing, basic customs duty is being reduced from 7.5% to 2.5% along with full exemption from SAD on raw materials, parts and accessories for manufacture of medical devices.

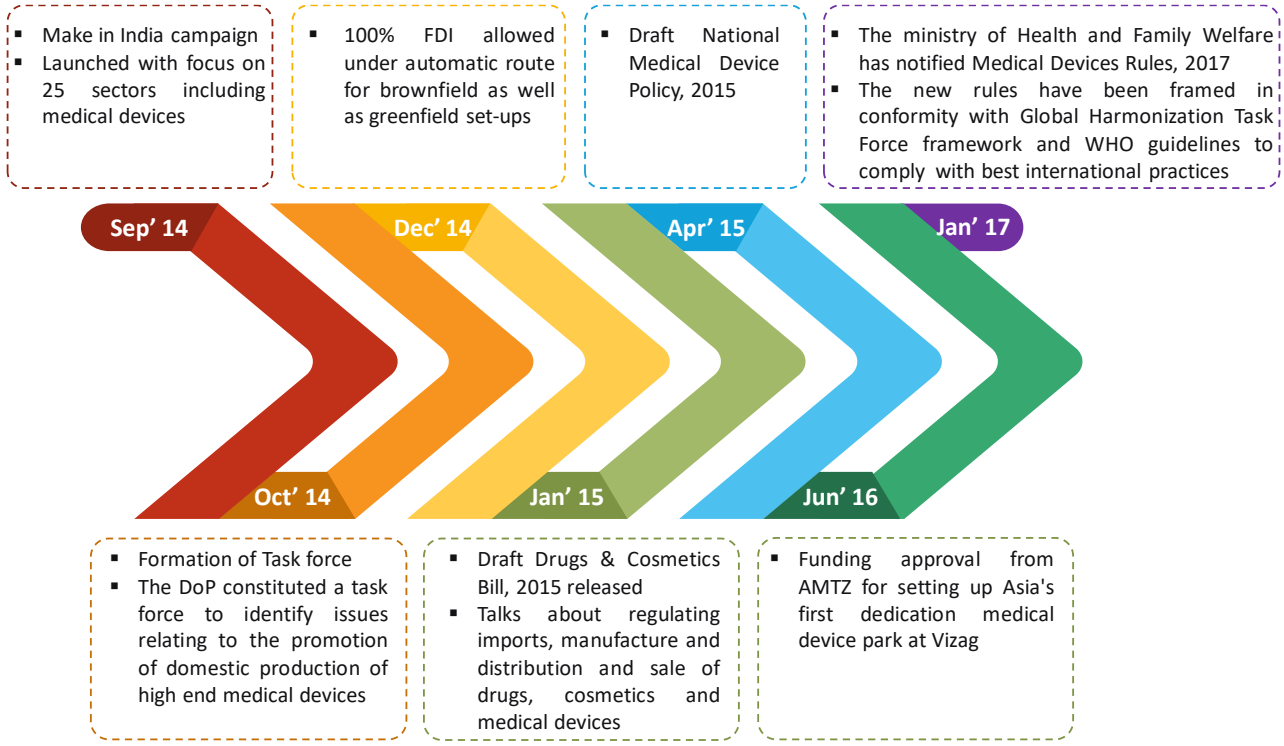
Infrastructure Boost

- **"Make in India" campaign to boost domestic manufacturing -** Medical device is one of the 25 focused sectors identified by the Indian government. Accordingly, a Task Force was formed under the Chairmanship of Secretary, Department of Pharmaceuticals (DoP), to address issues relating to the promotion of domestic production of high end medical device in the country.
- **Setting up medical device parks in three states -** Under the "Make in India" programme for the medical device sector, the government announced to set up 4 medical device parks for an investment of US$57mn. The first such park is to come up in Andhra Pradesh. Andhra Pradesh MedTech Zone (AMTZ), a company established under Government of Andhra Pradesh. AMTZ has already received funding approval by the state cabinet on 1st June, 2016 for setting up Asia's first dedicated medical device park at Visakhapatnam in Andhra Pradesh.
- **Setting up medical device testing labs in two states -** The Union government planned to set up two dedicated medical device testing laboratories in the country at Vadodara in Gujarat and Noida in UP, based on a survey conducted by NHSRC. The medical device testing lab in Gujarat would be the first and the only dedicated biomaterials and implants testing lab in the country. The lab at Noida will be set up primarily to test electrical and electronic medical devices in the country. Such type of testing labs will allow manufacturers to overcome deficiencies in their products and enhance product value in the market which is a neglected aspect until now.
- **PLI scheme:** Production Linked incentive scheme for medical devices manufacturing with outlay of ~US$500mn during the scheme tenure 2020-21 to 2025-26. AN incentive of 5% for incremental sales (FY20) will be provided on identified segments of medical devices such as cancer care/radiotherapy, radiology and imaging, anesthetics and cardio-respiratory and all implants.

Other favorable initiatives

- Exemption from Phase I clinical trials for medical devices
- Regulation of all medical devices by FY23

Exhibit 18: Timeline of initiatives launched



Source: Industry, DART

2017 was a year of significant change in the Indian medical device sector, particularly from a regulatory perspective. While complementing the Drugs & Cosmetics Act, this new regulation specifically included the following major changes:

New rules on risk based classification systems:

Classification of medical devices

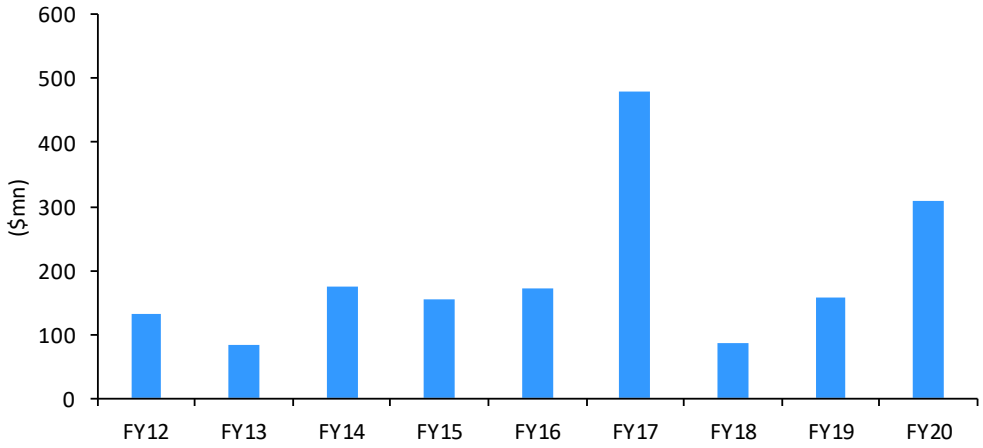
Risk level	Medical device class	Audit/Inspection requirements	Devices classified
Low risk	A	Do not require prior audit by third party or official inspection	Alcohol swabs, nasopharyngeal catheters, surgical dressings, umbilical occlusion device, bolster suture
Low Moderate risk	B	Require prior audit by third party but no official inspection	Bone marrow cell separator, Blood pressure monitoring devices, digital thermometer, IV Cannula, biopsy needle kit, angiographic needle, auto-disable syringes, catheters, disposable perfusion set, scalp vein set, cotton grudges and bandages
Moderate high risk	C	Requires prior official inspection	CT scan equipment, MRI, Defibrillators, Dialysis machine, PET, X-Ray machine, Nebulizer, Glucometer, Hypodermic needles, surgical dressings, Blood bags, Orthopedic implants, kits for monitoring drug levels, Ablation device, cardiac stents, catheters
High Risk	D		Internal Prosthetic replacements, Heart valves, Drug Eluting Stents, cardiac stents, catheters

- Single window clearance
- Certainty and rationalization of timelines
- Rules defining medical devices, active medical devices, active diagnostic medical devices, active therapeutic medical devices, etc.;
- All IVD kits/reagents are subject to registration requirements;
- Licenses issued to device registrants would remain valid indefinitely, along with payment of license retention fees, unless cancelled or surrendered;
- The rules include fee revisions based on device classification with an overall increase in application fees;
- Product standards for medical devices;
- Device manufacturing sites in India must undergo audits by Notified Bodies to obtain manufacturing licenses;
- Foreign manufacturing sites may be subject to inspection by India's Central Licensing Authority; Consolidation of registration certificate and import license;
- New regulatory framework for clinical investigation of medical devices;
- Indian regulators will require unique device identification (UDI) of medical devices and IVDs starting January 1, 2022;
- Test licenses will remain valid for three years; currently, test licenses are only valid for one year periods.

How will this changed regulations help India?

Major investments: Medical and surgical appliances received a total investment of ~ US$1.8bn from Apr 2000 – June 2019.

Exhibit 19: FDI investments in Indian Medical device sector



Source: CEA, IBEF, GoI, DART

Capacity addition: 4 Medical devices parks under development to boost capacity

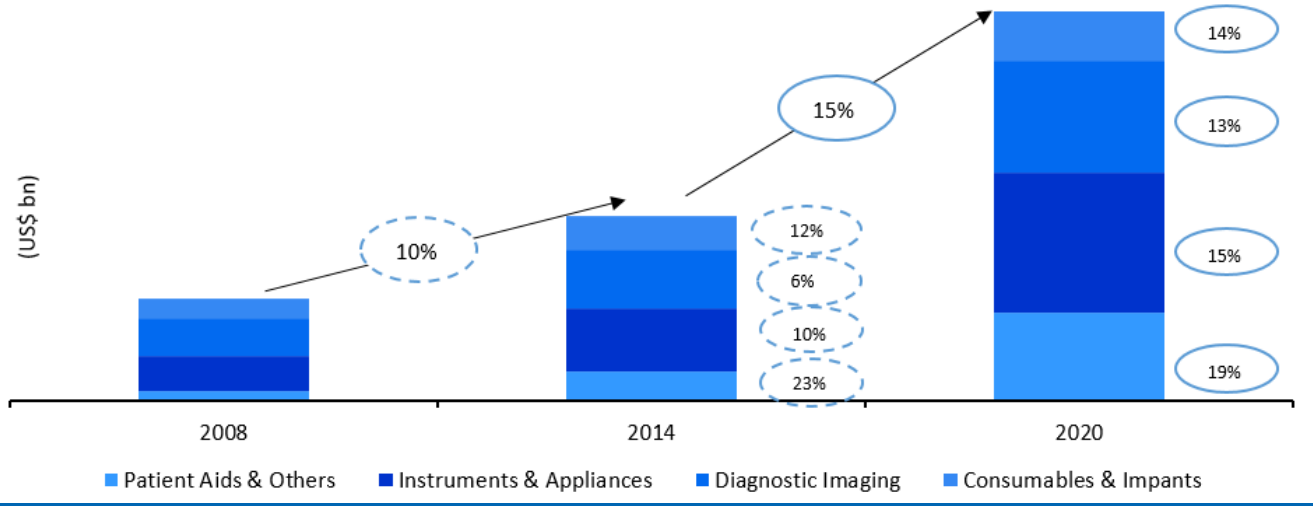
- HHES and Medical Services setting up new unit in Sikkim with ~US$141mn investment
- Govt. of Kerala developing Medical Devices cluster at Ernakulam with investment ~US$70mn
- Two dedicated bulk drugs and medical devices parks approved by central government in Gujarat

Increasing focus of healthcare providers on quality and accreditation
There has been a strong focus on upgrading medical technology by hospitals and laboratories to comply with accreditation requirements. Around 285 hospitals in India are NABH accredited with 472 additional proposals submitted for accreditation. Similarly, 347 laboratories in India are NABL accredited with 150 additional proposals submitted.

While the potential of the medical devices sector is acknowledged with its inclusion in the 'Make in India' initiative, it is essential to leverage the initiative to kick-start indigenous manufacturing and realize the twin objectives of accessibility and affordability.

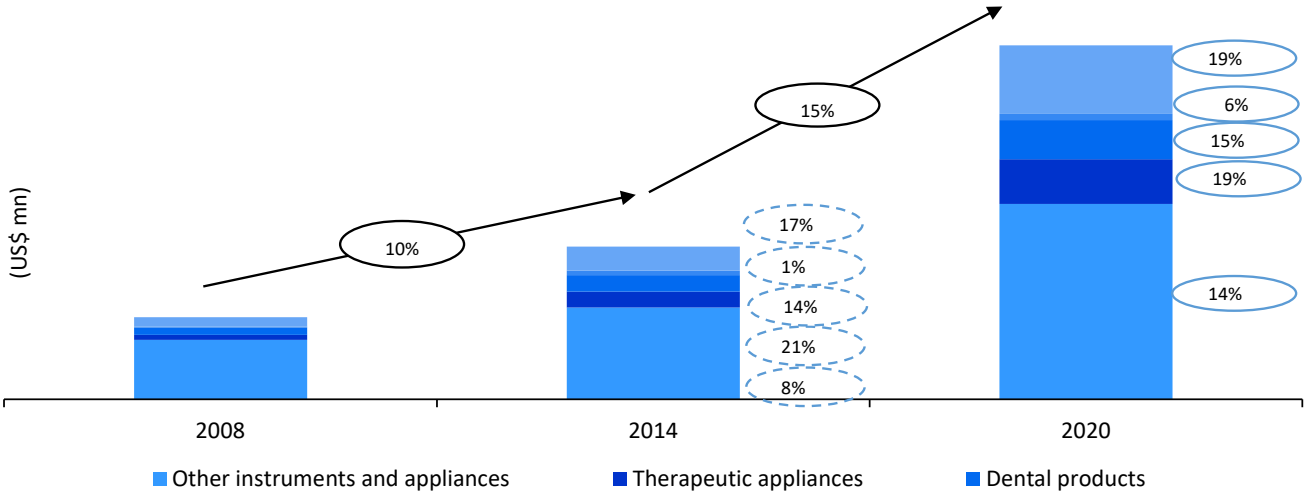
Growth trend in Indian Medical devices industry and its subsets

Exhibit 20: (A) Medical devices growth



Source: Industry, DART

Exhibit 21: (B) Growth trend in instruments and appliances segment



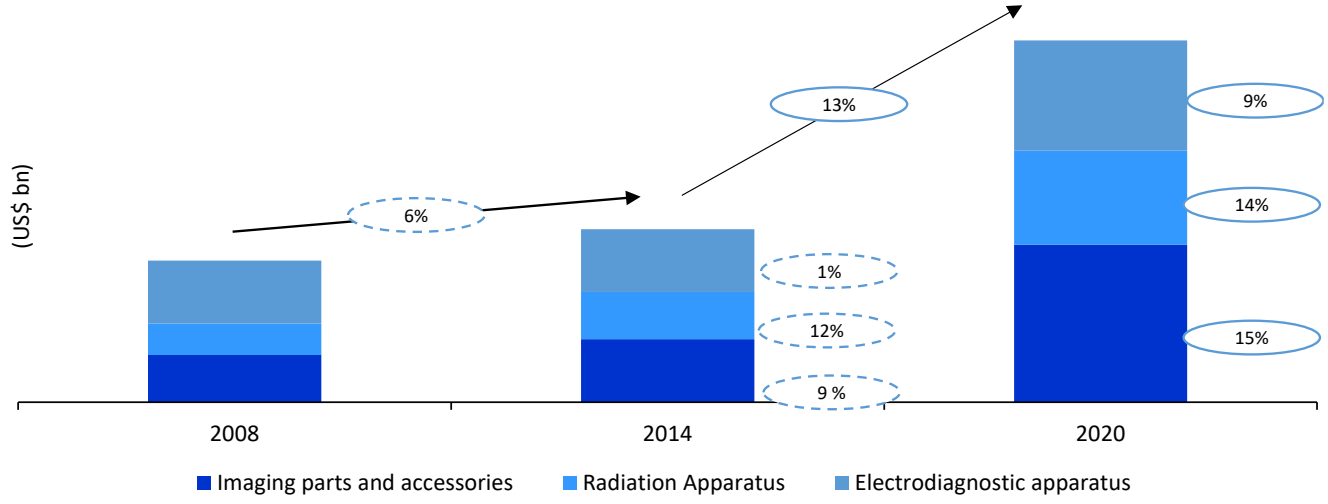
Source: Industry, DART

Instruments and appliances: Sub segments and product categories

Ophthalmic Instruments	Instruments and appliances pertaining to ophthalmic use
Medical and surgical sterilizers	All forms of medical and surgical sterilizers
Dental products	Capital equipment (dental drills, dental chairs and dental X-Ray) and instruments and supplies (dental cements, dental instruments and teeth and other fittings)
Therapeutic appliances	Mechano-therapy apparatus and therapeutic respiration apparatus
Other Instruments and Appliances	Blood pressure monitors, endoscopy apparatus, dialysis apparatus, transfusion apparatus, anesthetic apparatus and instruments, ultra-violet and infra-red ray apparatus

Source: DART

Exhibit 22: (C) Growth trend in diagnostic imaging segment



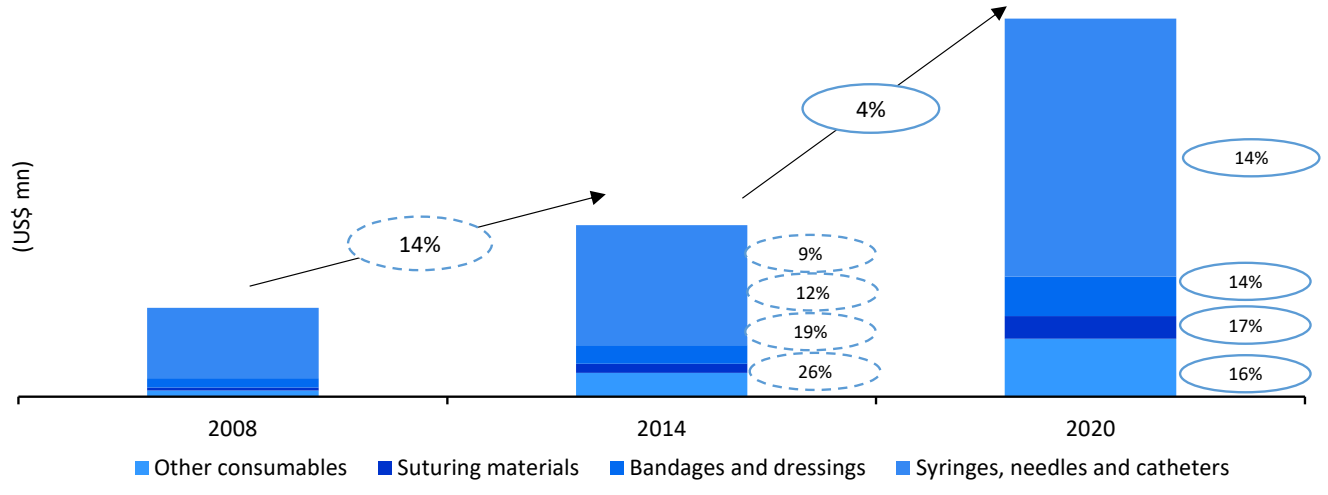
Source: Industry, DART

Diagnostic imaging: Sub segments and product categories

Electro-diagnostic apparatus	Electro-cardiographs, ultrasound, MRI, scintigraphic apparatus and other electro-diagnostic apparatus
Radiation apparatus	CT scanners, X-Ray, and other A, B, C ray apparatus
Imaging parts and accessories	Contrast media, medical X-Ray films (flat and rolled), X-Ray tubes and other imaging parts / accessories

Source: DART

Exhibit 23: (D) Growth trend in consumables and implants segment



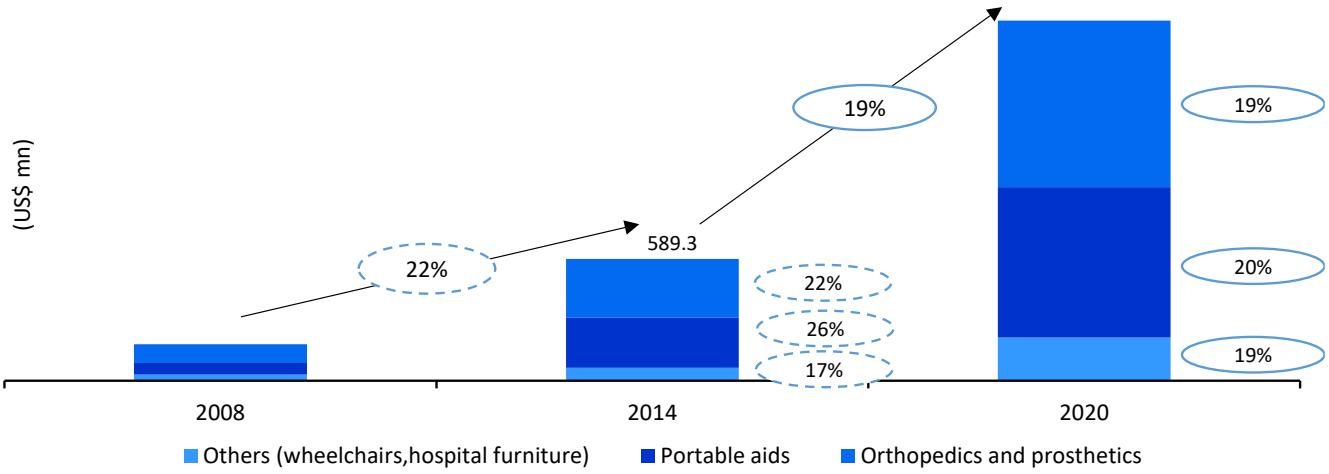
Source: Industry, DART

Consumables and implants: Sub segments and product categories

Syringes, needles and catheters	Syringes (with/without needles), tubular metal needles, needles for sutures, other needles, catheters, cannula etc.
Bandages and dressings	Medical dressings (adhesive) and medical dressings (non-adhesive)
Suturing materials	All forms of suturing materials
Others	Stents, blood-grouping reagents, first aid boxes and kits, ostomy products and surgical gloves

Source: DART

Exhibit 24: (E) Growth trend in patient aids and other segment



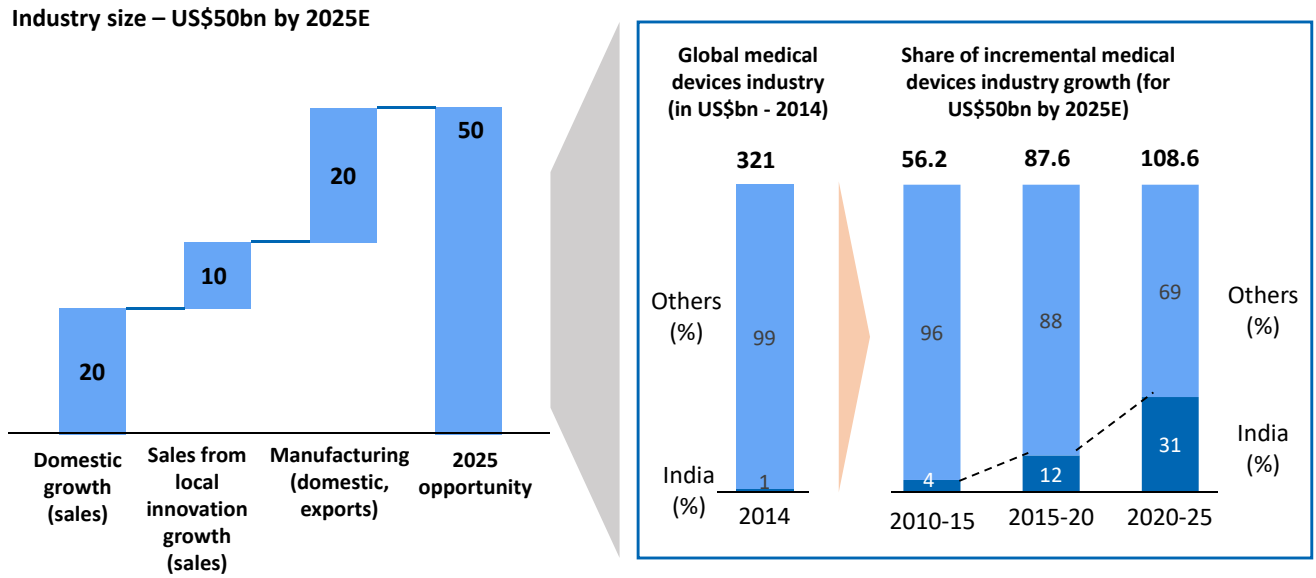
Source: Industry, DART

Patient aids and others: Sub segments and product categories

Orthopaedics and prosthetics	Fixation devices, artificial joints and other artificial body parts
Portable aids	Hearing aids, pacemakers and other portable aids
Others	Wheelchairs and hospital furniture

Source: DART

Exhibit 25: Share of incremental medical devices industry growth



Source: Industry, DART

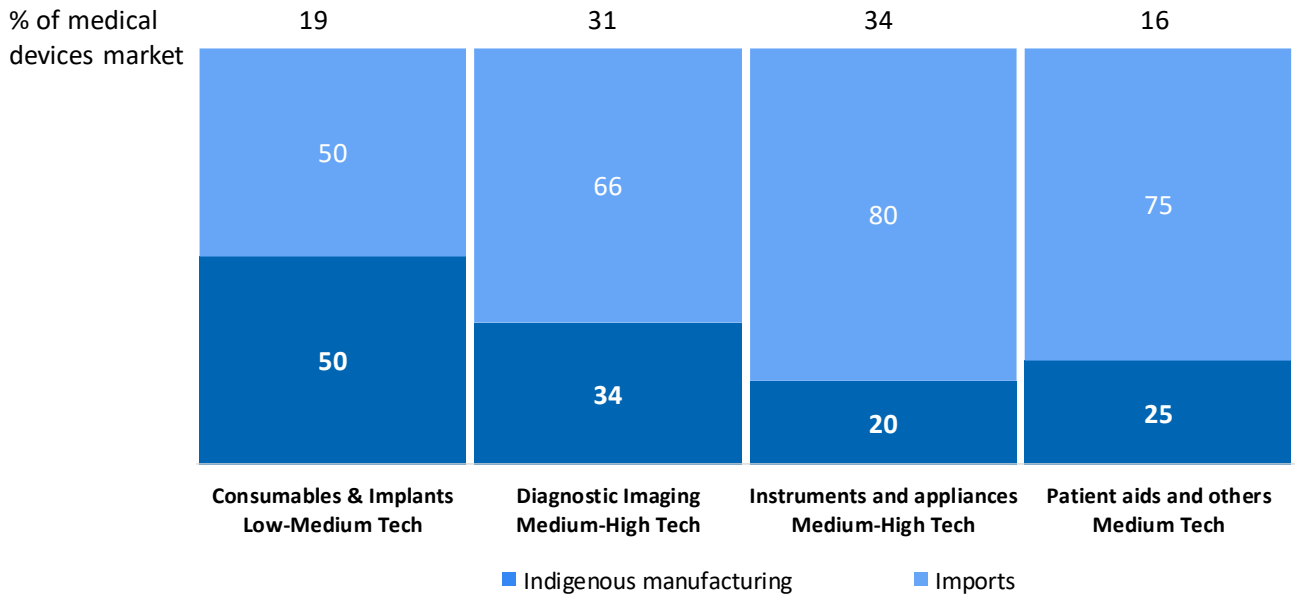
Which of the subset has the largest potential for growth?

Between the four segments, the level of indigenous manufacturing is high for consumables and implants. However, within this segment too, there is still dependence on imports for mid to high-tech products.

But the Indian market is still import dependent and fragmented!

The Indian market is largely dependent on imports, which currently comprise 70% of the market. The contribution of the industry to the overall import bill is estimated to be US$5.7bn in FY20.

Exhibit 26: Level of imports across segments



Source: Industry, DART

Exhibit 27: High potential segments in India where import dependency could be lowered

Key Segment	Sub-segment	% of import dependency	Share of the overall medical device market (%)	Overall attractiveness for Indian manufacturers to invest in this segment
Consumables	Cardiac Catheter, Needles, Syringe, Lab reagent, Suture, Strips, cartridge, Dialyzers and Filters, Cannula	35	16	High
Dental Product	Dental implant, Artificial Teeth, Dental instruments	60	3	Medium
Diagnostic imaging	X-ray tubes, USG Probe, Radiation beam delivery system, CT scan, MRI, PET scan, ALPHA, BTA/GMA, Radiation for other use in radiography equipment	52	30	Very high
IV Diagnostics	Lab reagent and accessories	67	10	High
Orthopedic and Prosthetics	Artificial joints and joint implants	62	8	High
Others	Artificial Dialysis Apparatus & Hemodialysis, Defibrillator, Lithotripsy Equipment, ECHO, EEG, ECG, Anesthesia equipment's, Laparoscope, Endoscope	83	24	Very high
Patient Aids	Pacemaker, Hearing Aid, Cochlear Implant, Stents	50	9	Medium

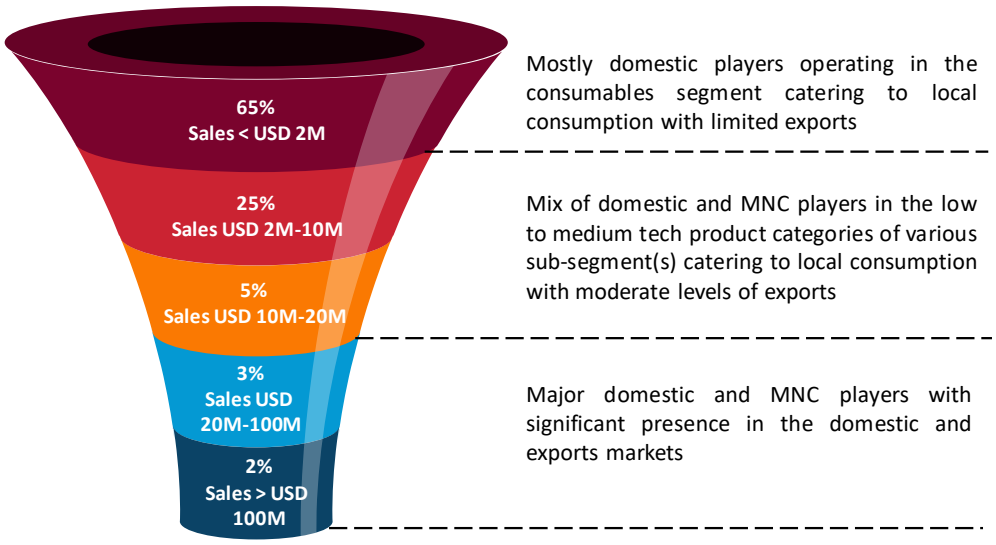
Source: Industry, DART

The size of indigenous manufacturing is small and fragmented although characterized by the presence of both domestic and MNC players. Complex medical devices are manufactured in a limited manner by multinational companies present in India or imported. Local manufacturers are primarily focusing their R&D efforts on developing affordable medical devices for the lower and middle income segments of the Indian market and therefore operate predominantly in the low priced, high volume market segments.

Of the ~750 medical devices manufacturers present in India, a majority are SMEs and MSMEs (90% have an annual turnover of less than US$10mn) and contribute 30% to the Indian medical devices market.

Fragmented industry

750 medical device manufacturing firms in India



Source: DART

Exhibit 28: Fragmented industry

Areas	Segment characteristics	Measure (%)
Organizational data	MSME/NSIC registration	69
	Import Export code available	93
	Component manufacturing	66
	ISO certification	85
	R&D department	66
Mode of investment	Self	61
	Financed	19
	Self-financed	12
Financial Data	Average investment	Rs170-200mn
	Average Turnover	Rs450-500mn
	Average export turnover	Rs170-180mn
	Average import turnover	Rs70-80mn
Human Resources	Skilled	52
	Unskilled	48
Range of products manufactured per company	1 to 10	49 (79%)
	10 to 20	6 (10%)
	20 & above	7 (11%)
Certifications	EU-CE	85
	US-FDA	7
	Others	8

Source: Industry, DART

While the domestic industry is fragmented, does export hold value?

Export of medical devices have grown at ~6% during FY12-16, reaching a value of US$983mn in 2016. This indicates strong performance of the domestic manufacturing industry although limited in size. The Consumables and implants segment accounts for >40% of exports from India with US being the leading destination of export of medical devices.

Exhibit 29: Medical device segment wise import trade

(%)	2012	2013	2014	2015	2016
Diagnostic imaging	26	24	23	23	26
Consumables	11	11	11	11	10
IV Diagnostics	9	10	11	10	11
Patient Aids	8	9	9	8	7
Ortho and prosthetics	7	8	8	9	9
Dental Products	3	3	2	3	3
Others	36	35	36	36	34
Value ($ mn)	**2,459**	**2,616**	**2,632**	**2,730**	**2,873**

Source: UN trade database, DART

Exhibit 30: Medical device segment wise export trade

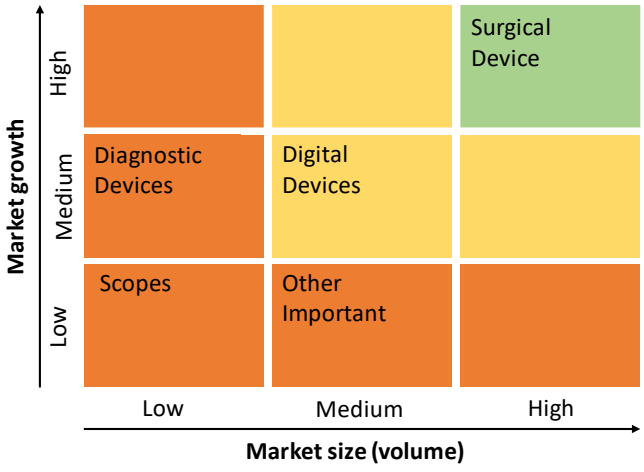
(%)	2012	2013	2014	2015	2016
Diagnostic imaging	27	29	22	23	27
Consumables	29	32	36	36	29
IV Diagnostics	3	4	4	3	4
Patient Aids	1	2	2	1	1
Ortho and prosthetics	3	3	4	4	6
Dental Products	3	2	2	2	2
Others	34	27	30	30	30
Value ($ mn)	**781**	**825**	**1,035**	**1,097**	**983**

Source: DART

Why do we believe "Make in India" would work?

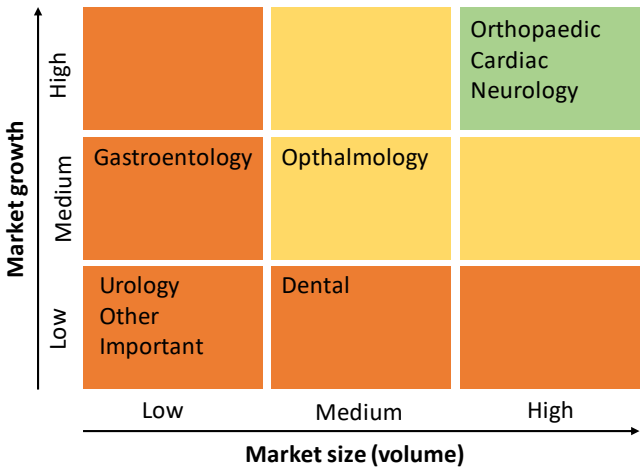
Demand and supply dynamics provide an unprecedented opportunity for manufacturing of medical devices in India. Besides, favorable regulatory environment in terms duty structure, IP enforcement laws, quality standardization and certification will aid in developing favorable ecosystem.

Exhibit 31: Medical Devices & Equipment



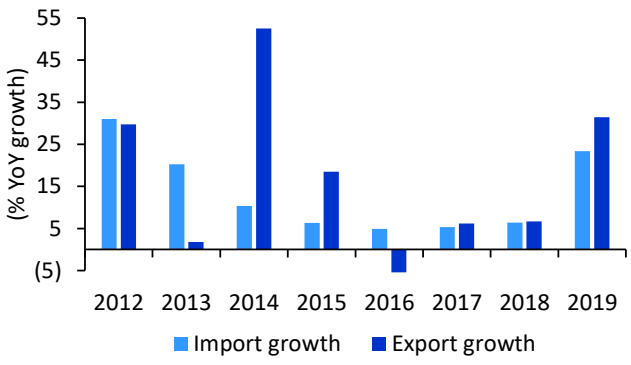
Source: DART

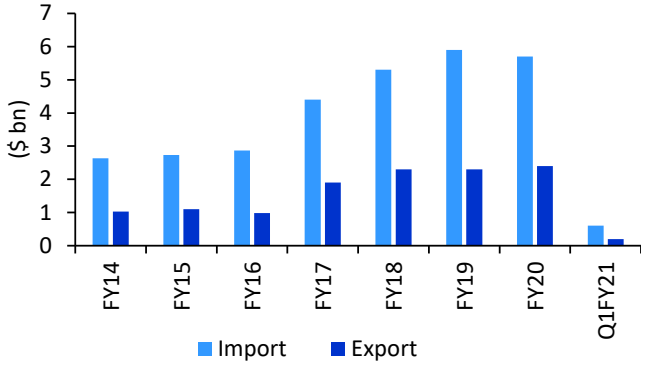
Exhibit 32: Medical Implants



Source: DART

Exhibit 33: Exports have grown in the past few years, though imports continue to remain high





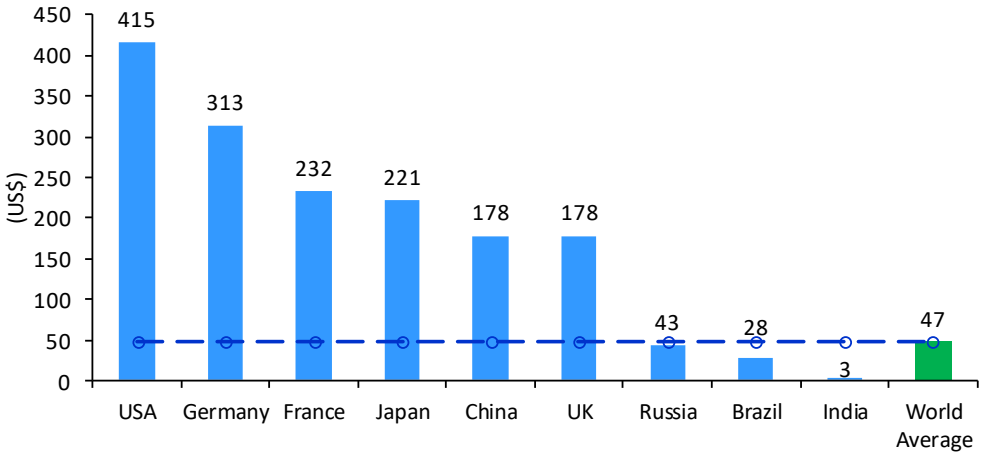
Source: Ministry of commerce and industry, DART

Increase in per capita consumption of medical devices

Indian medical devices market is expected to grow at a rate of 11% during FY19-25, fueled by government plans to achieve universal health insurance cover, initiatives like Make in India, and expansion by private healthcare firms. Despite 16% CAGR in the medical devices market in the past decade, the Indian per capita consumption of medical devices remains significantly low at ~US$3. It is much lower than the global average per capita consumption of US$47 as well as the per capita consumption of developed nations like US and Germany (US$379 and US$313 respectively, in 2017).

One of the primary causes for low per capita consumption is challenges of affordability for high-end technology devices among large portions of the Indian population. Consequently, medical devices manufacturing is primarily focusing on frugal engineering to develop India-specific low cost products, aimed at lower and middle income segments. The potential of this segment is expected to be unlocked as the demand increases and per capita consumption of medical devices improves.

Exhibit 34: Per capita consumption of medical devices



Source: WHO, World Bank, DART

Even though manufacturing remains limited to producing low technology products, a few domestic companies and MNCs with manufacturing facilities in India have successfully developed low cost products that are on par in terms of quality with existing products that require complex technical know-how to manufacture. Consequently, these products have developed a niche market in many regions globally.

Exhibit 35: Indigenous products

Indigenous products	Newly developed export markets
Heart Valve	Thailand, Kenya, Myanmar
Low cost ACT scanner	South East Asia
Ultrasound and color doppler	Japan
Intraocular lens	African countries
Low cost tech products and services	Middle East, SE Asia and Africa

Source: Industry, DART

Is the market Indian regulated as in does it have regulatory body like USFDA for inspection?

Yes, the medical devices market also under go inspection once every two years and regulatory body like the USFDA and UK MHRA have a separate department for device manufacturers. There are exemptions for Class A devices (low risk) as well as for participants in the international Medical Device Single Audit Program. Indian markets have CDSCO as their chief regulator. As per the new rules, Indian medical consumables have to be approved by BIS mark for local consumption

Annexure – Regulated product list (37 products) in India so far

S. No.	Name of the Device	Uses
1	Disposable Hypodermic Syringes	Inject substances into the body or extract fluids from it.
2	Disposable Hypodermic Needles	Inject substances into the body or extract fluids from it.
3	Disposable Perfusion Sets	It can be used to connect to a perfusion sets or catheters for infusion of contrast media.
4	Substances used for in vitro diagnosis including Blood Grouping Sera	To be used to monitor daily instrument performance by measuring fluorescence sensitivity and alignment.
5	Cardiac Stents	Intended for improving the side branch luminal diameter of arterial bifurcation liaisons.
6	Drug Eluting Stents	Stunts, coronary, drug-eluting - a metal scaffold with a drug coating placed via a delivery catheter into the coronary artery or saphenous vein graft to maintain the lumen. The drug coating is intended to inhibit restenosis.
7	Catheters	It is intended to facilitate placement of Balloons dilatation catheters during percutaneous transluminal coronary angioplasty (PTCA) and percutaneous transluminal angioplasty (PTA)
8	Intra Ocular Lenses	For correcting larger errors in near-sighted, far-sighted, and astigmatic eyes
9	I V Cannula	It is a flexible tube which when inserted into the body is used either to withdraw fluid or insert medication
10	Bone Cements	It is used for implant fixation in various Orthopedic and trauma surgery
11	Heart Valves	A device intended to perform the function of any of the heart's natural valves
12	Scalp Vein Set	It is ideal for blood sampling and injection of small amounts of infusion solutions. It is frequently used in the treatment of patients with contractures and in pediatrics
13	Orthopedic Implants	To replace missing joints or bones, or to provide support to a damaged bone
14	Internal Prosthetic Replacements	Intended to repair, replace or bypass sections of native or artificial vessels, excluding coronary or cerebral vasculature, and to provide vascular access
15	Ablation Devices	Ablation systems use heat (usually generated by radio frequency, RF, energy or a laser) or extreme cold to cause small burns. These lesions create scar tissue that block electrical signals causing the arrhythmia
16	Ligatures, Sutures and Staplers	For Surgery

Source: Industry, DART

S. No.	Name of the Device	Uses
17	Intra Utérine Devises (Cu-T)	Small devices placed in uterus to interrupt the process of insemination. Most effective form of birth control
18	Condoms	Birth Control
19	Tubal Rings	Contraception devices for female sterilization
20	Surgical Dressings	Used for applications for wounds, burns, and ulcers
21	Umbilical tapes	Used to prevent excessive bleeding of the umbilical stump and to help prevent the introduction of navel infections
22	Blood/Blood Component Bags	Designed for the collection, processing and storage of whole blood and blood components. They help in providing aseptic conditions for the separation of blood components. It acts as a closed system reducing the chances of contamination
23	Organ Preservative Solution*	Various solutions are used for organ preservation. Each differs in composition, but the purposes of each are similar: to prevent cellular edema, to delay cell destruction, and to maximize organ function after perfusion is reestablished
24	Nebulizer (effective from Jan 1,2021)	A nebulizer is a small machine that turns liquid medicine into a mist which one breathe in through a connected mouthpiece
25	Blood Pressure Monitoring Device (effective from Jan 1, 2021)	It is a device used to measure blood pressure, composed of an inflatable cuff to collapse and then release the artery under the cuff in a controlled manner, and a mercury or aneroid manometer to measure the pressure
26	Glucometer (effective from Jan 1, 2021)	It is used to measure how much glucose (a type of sugar) is in the blood (also known as the blood glucose level)
27	Digital Thermometer (effective from Jan 1, 2021)	It is used to record temperatures from the mouth, armpit or rectum
28	All implantable medical devices Equipment (effective from April 1, 2021)	An implantable medical device is one that is placed inside your body during a medical procedure, such as surgery, and is intended to stay there after the procedure
29	CT Scan Equipment (effective from April 1, 2021)	Uses sophisticated x-ray technology to help detect a variety of diseases and conditions. CT scanning is fast, painless, noninvasive and accurate
30	MRI Equipment (effective from April 1, 2021)	Uses a powerful magnetic field, radio waves and a computer to produce detailed pictures of the inside of your body. It may be used to help diagnose or monitor treatment for a variety of conditions within the chest, abdomen and pelvis

S. No.	Name of the Device	Uses
31	Defibrillators (effective from April 1, 2021)	Defibrillators are devices that restore a normal heartbeat by sending an electric pulse or shock to the heart. They are used to prevent or correct an arrhythmia, a heartbeat that is uneven or that is too slow or too fast. Defibrillators can also restore the heart's beating if the heart suddenly stops
32	PET Equipment (effective from April 1, 2021)	Uses small amounts of radioactive materials called radiotracers or radiopharmaceuticals, a special camera and a computer to evaluate organ and tissue functions. By identifying changes at the cellular level, PET may detect the early onset of disease before other imaging tests can
33	X-Ray Machine (effective from April 1, 2021)	X-ray machines are used to take pictures of dense tissues such as bones and teeth.
34	Dialysis Machine (effective from April 1, 2021)	Dialysis is a treatment that filters and purifies the blood using a machine. This helps keep your fluids and electrolytes in balance when the kidneys can't do their job
35	Bone marrow cell separator (effective from April 1, 2021)	Allows for rapid collection of an ideal marrow concentrate
36	Disinfectants and insecticide specified in Medical Devices Rules, 2017	Frequently used in hospitals, dental surgeries, kitchens, and bathrooms to kill infectious organisms
37	Ultrasound equipment (effective from Nov 1, 2020)	Ultrasound is used to detect changes in the appearance of organs, tissues, and vessels and to detect abnormal masses, such as tumors

Company Section

Poly Medicure

Buy

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH • PRECISE • ACTIONABLE

Initiating Coverage

Infusing growth

Established in the year 1996, Polymed is one of the largest exporter of consumable medical devices from India since past 8 years. Expertise in fluid management disposables, the Company is engaged in manufacturing and marketing of medical disposables, products like Intravenous (IV) Cannula, Blood Transfusion (BT) set and Insulin syringes. It is one of the top 3 IV Cannula manufacturer in the world. Polymed has manufacturing facilities at Faridabad (Unit II - USFDA audited), Jaipur and Haridwar in India and a subsidiary in China. The Company garners ~70% of its revenue from exports and 30% from domestic markets; Europe contributes 40% of the total export business.

Polymed has grown at 14% and 20% CAGR in revenue and PAT respectively during FY17-20 with margins improving by 400 bps to 24.5% in FY20. Management guides for the growth momentum to sustain in teens with an EBITDA margin improvement of 500bps over the next 4 years. Company has announced a QIP of Rs4bn to be utilized for greenfield expansion under the latest PLI scheme to expand its renal segment. With improving penetration and A/O, we believe the company can easily grow at 19-20% earnings CAGR generating CFO to EBITDA at 80%+. Company has guided to become debt free by FY22E. At CMP, the stock trades at 29.4x FY22 and 24.2x FY23E EPS of Rs17.2 and Rs20.9 respectively.

Given that there is no direct comparable of this business, we benchmark our valuations to the diagnostics industry and use DCF as our valuation methodology. Assuming mid-teens growth and sustained margins, WACC of 11% and terminal growth of 5%, we initiate coverage on Polymed with a BUY recommendation and target price of Rs620.

Leadership in organized medical disposable market

Polymed commands leadership position in an organized medical disposable market in India, producing more than 130 products and supplying products to >110 countries globally. It is one of the leading exporter and supplier of IV Cannula, Safety IV Cannula, IV infusion sets and blood bags globally. Polymed has to its credit of being the 1st indigenous dialyzer manufacturer in India. As on date, it has hospital reach of 5500+ with ~275 associates, 20 clinical specialists in India, but covers only 20% of the total market.

CMP	Rs 503
Target / Upside	Rs 620 / 23%
NIFTY	13,601

Scrip Details

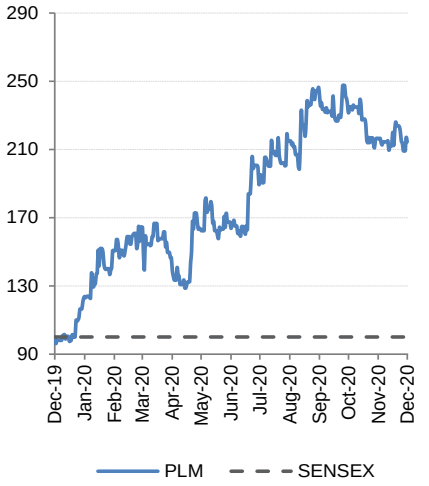
Equity / FV	Rs 441mn / Rs 5
Market Cap	Rs 44bn
	USD 601mn
52-week High/Low	Rs 559/ 200
Avg. Volume (no)	134,758
Bloom Code	PLM IN

Price Performance	1M	3M	12M
Absolute (%)	2	9	143
Rel to NIFTY (%)	2	8	151

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	48.8	48.8	48.8
MF/Banks/FIs	0.0	0.0	0.0
FIIs	2.9	2.4	2.9
Public / Others	48.3	48.9	48.4

Poly Medicure Relative to SENSEX



FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,108	6,872	7,873	9,182	10,645
Growth(%)	17.4	12.5	14.6	16.6	15.9
EBITDA	1,295	1,640	2,091	2,383	2,847
OPM(%)	21.2	23.9	26.6	26.0	26.7
PAT	654	959	1,290	1,508	1,835
Growth(%)	(7.4)	46.6	34.5	16.9	21.7
EPS(Rs.)	7.4	10.9	14.6	17.1	20.8
Growth(%)	(7.4)	46.6	34.5	16.9	21.7
PER(x)	67.9	46.3	34.4	29.4	24.2
ROANW(%)	18.2	23.5	27.4	27.3	28.0
ROACE(%)	14.8	19.1	21.3	22.0	23.8

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Broad product portfolio with global reach

Given that the medical devices segment is fragmented and unorganized, Polymed is a small player vs global leaders such as J&J, B. Braun, Medtronic, Baxter, Abbott, etc. While the larger players focus on the high end product categories, Polymed is focused on medical consumables with minimal overlap. Its current product mix of 70:30 (70% is exports) hints towards its global reach which though small is expanding in the right direction. Polymed is focusing on rapidly expanding infusion therapeutic area by setting up new facility which will chiefly cater to export markets. Domestic market has now found favor with Government's "Make in India" initiative along-with other favorable policies. With 250+ patents and R&D team of 50+ engineers, clinical consultants, the company is in a sweet spot to leverage the latest government guideline of regularization in the sector domestically.

Price leader in India

Although the domestic market is very competitive due to presence of unorganized and established players like Romson, HMD, etc. the Company has been able to increase its domestic presence through innovation, product up-gradation and strengthening of distribution channel. Except safety IV cannula, other products yield average margin of 15-20%. Safety IV cannula gives 30-35% margins. We compared Polymed's product portfolio vs peers in the domestic market and found that Polymed's pricing is superior in categories where it has niche such as Nebuliser, IV Cannula, Blood set, insulin syringe. Higher geographic penetration, entry into mid-level consumables and medical devices and healthcare standardization in India are key growth drivers.

Adequate capacity post recent capex

Polymed has 5 plants in India (2 at Faridabad, 1 each at Haridwar and Jaipur) and a subsidiary in China, a JV in Egypt and acquired an Italian company Plan 1 Health SRL (specialized in infusion and vascular products) with one plant each locally. Besides, the company has recently completed its capacity expansion at Unit 2 at its Faridabad plant (to commence operation in Dec'20) and another one at its Jaipur plant (to commence operation in Feb'21). The recent capex was ~Rs1.6bn with an A/O expected at 1.4x. Additionally, the company has recently announced a QIP of Rs4bn to be utilized for Greenfield expansion focusing on its renal product profile. Besides, it is also looking at acquiring products in cardiovascular and pediatric infusion therapies.

Robust financials

Company has managed its financials well with net D/E ratio being 0.4x. Further, it has improved its CFO/EBITDA from 60% in FY18 to 82% in FY20. The return ratios have been impressive at ~22%+. Over the past 10 years, revenue and PAT has grown at steady 16% CAGR with EBITDA margins at an average of 24%. Although there is no listed comparable, we studied Polymed's peer group and find that it has one of the best working capital management at ~80 days.

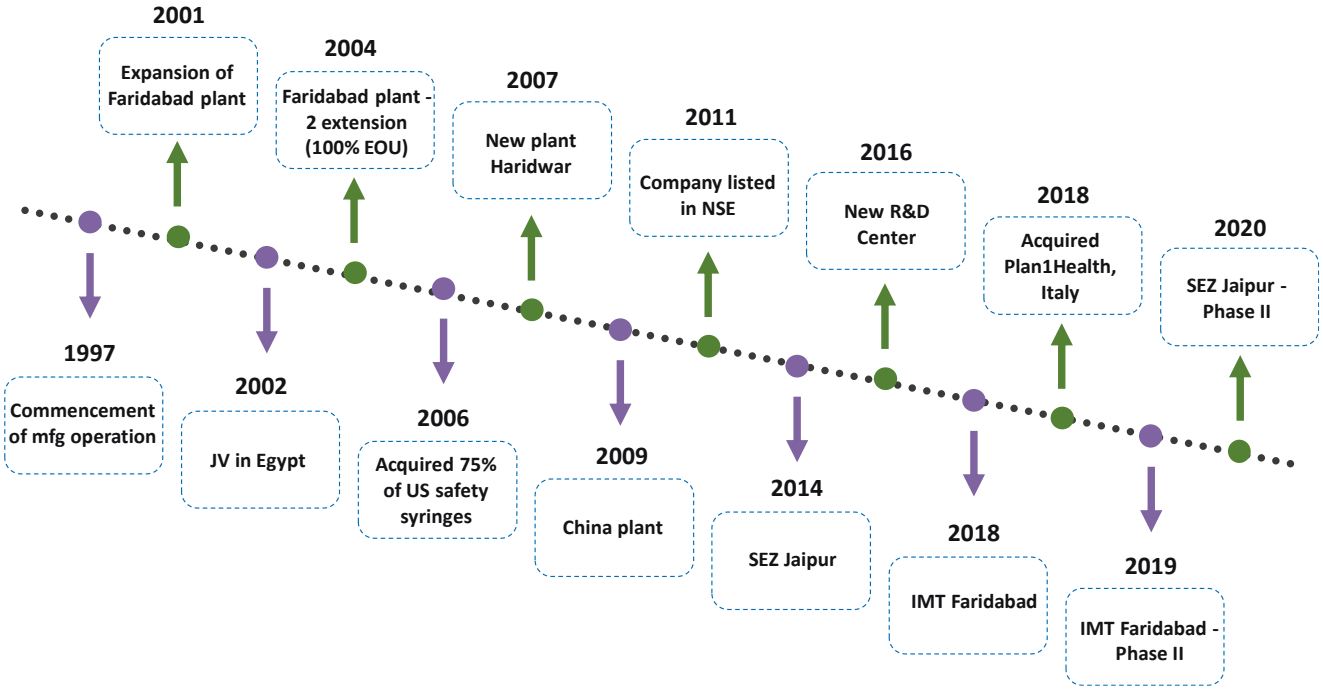
About the company

Established in 1996, Polymed is run by first generation entrepreneur, Mr. Himanshu Baid and his brothers, Rishi and Vishal. Both Himanshu and Rishi Are Engineers and have worked in Germany and US respectively early in their career. Identifying a gap in the medical technology field, they started manufacturing medical consumables and surgical devices focusing on safety and efficacy of products with high quality.

The company commenced its manufacturing operation in 1997 and expanded its plant facilities in Faridabad Plant 1 in 2001, Plant 2 in 2004, R & D Center in Haridwar in 2007, China Plant in 2009. It manufactures and exports ~130 types of plastic medical disposables and surgical devices of Infusion Therapy, Anesthesia, Urology, Gastroenterology, Blood Management and Blood Collection, Surgery and Wound Drainage, Dialysis and Central Venous Access Catheters. It supplies its products to ~110 countries. The company came out with an IPO in 1996 and was listed in NSE in 2011.

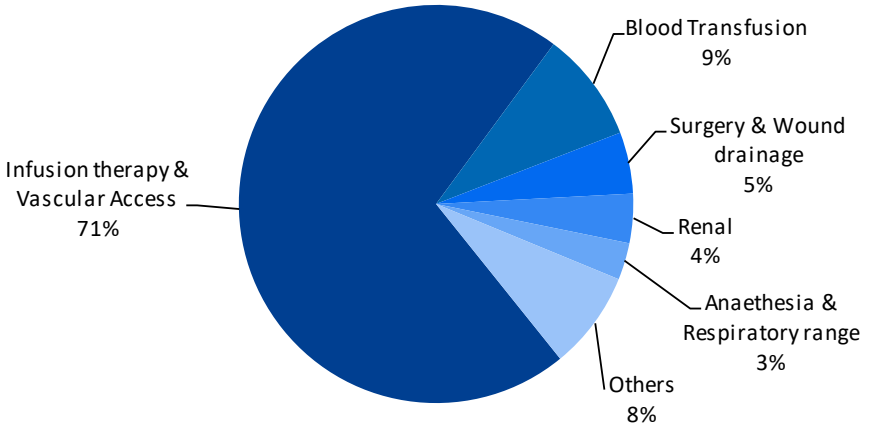
Polymed group has 4 subsidiaries, Plan1 Health India Pvt Ltd (India), Poly Medicure (Laiyang) Co. Ltd (China), Poly Medicure B.V (Netherlands) and Plan1 Health s.r.l (Italy) and 1 Associate, Ultra for Medical Products Company (Egypt). The Company had incorporated Plan1 Health India Private Limited (wholly owned subsidiary) in India, in February 2020 for the expansion in the Indian Market.

Exhibit 1: Key milestones/events



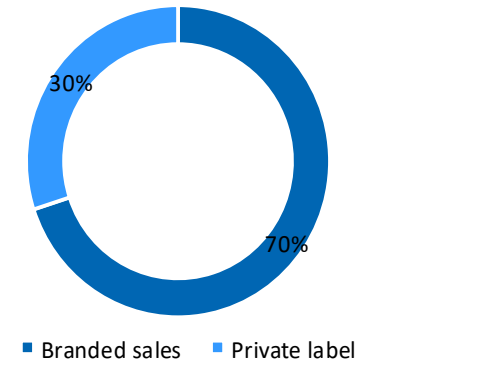
Source: Company, DART

Exhibit 2: Business Distribution



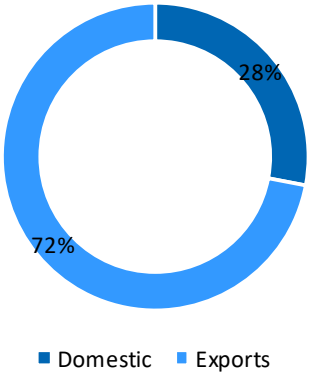
Source: Company, DART

Exhibit 3: Revenue break-up (sales wise)



Source: Company, DART

Exhibit 4: Revenue Break-up (Segment wise)



Source: Company, DART

Investment Rationale

Higher quest for scale - focus is on domestic markets

Over the years, overseas markets are the Company's major revenue drivers. Currently export business is contributing 72% of the total revenue as compared to 75% in FY11. The Company wants to have bigger pie of the growing Indian market of medical devices and disposables. Polymed is in the process of scaling activities domestically by increasing footprints across India via expansion of distribution network to reach more number of hospitals and doctors.

Diagnostics sample collection, dialysis and oncology products are key specialty areas for Polymed

Domestically it operates in two ways (1) by filling government tenders and (2) distribution to private hospitals. Presently, volume driven tendering business constitutes 30% of the total domestic business and the rest is via private hospitals a. It has 275+ sales associates, 5500+ Hospitals reach and is currently working with 20+ clinical specialists in India which shall help in penetration to tier 2 and tier 3 cities. With other ancillary products that it manufactures specially the diagnostic sample collection, dialysis is a huge opportunity for Polymed. Further, the tubes that used for oncology patients during hospitalization are its near monopoly.

While it has barely scratched the surface, the new product launches and active participation in "Make in India" and PLI scheme do assure us of management's willingness to increase domestic revenues. Besides, while exports have better margins, India is also ramping up with its cost effective model. Domestic business has grown at a CAGR of 18% between FY11-FY20 and we expect it to grow at a CAGR of 14% between FY21-FY23E.

In the annual budget of 2016, Government of India launched a National dialysis services programme under the National Health Mission to provide dialysis services in district hospitals via PPP model by 2024

National dialysis services programme- major booster for domestic markets

End Stage Renal Disease (ESRD) is one of the major burden of non-communicable disease. Providing for renal transplant facilities for ESRD patients depends upon availability of infrastructure and robust organ donation system coupled with adequate availability of trained qualified manpower. Within the limited choices, dialysis practically remains the first and in majority of cases, the only choice for ESRD patients.

Every year ~0.2mn new patients of End Stage Renal Disease (ESRD) get added in India resulting in additional demand for 34mn dialysis every year. With ~4,950 dialysis centres, largely in the private sector in India, the demand is less than half met with existing infrastructure. Since every Dialysis has an additional expenditure tag of about Rs2000, it results in a monthly expenditure for patients to the tune of Rs0.4mn annually. Besides, most families have to undertake frequent trips, and often over long distances to access dialysis services incurring heavy travel costs and loss of wages for the patient and family members accompanying the patient.

To gain from available capacity of private sector existing in dialysis care segment and their capability to install and operate dialysis care system in quick time, and compliment the emerging strengths of public sector such as availability of drugs and diagnostics, it has been proposed that Dialysis program be undertaken in Public Private Partnership (PPP).

This programme has been implemented in Assam in PPP mode on June 2019 and Apollo Hospitals is their private partner. As on date, 15 states are delivering dialysis services in PPP outsourcing model: Andhra Pradesh, Arunachal Pradesh, Bihar, Delhi, Gujarat, Haryana, Jharkhand, Karnataka, Madhya Pradesh, Rajasthan, Telangana, Tripura, Uttar Pradesh, West Bengal, Odisha.

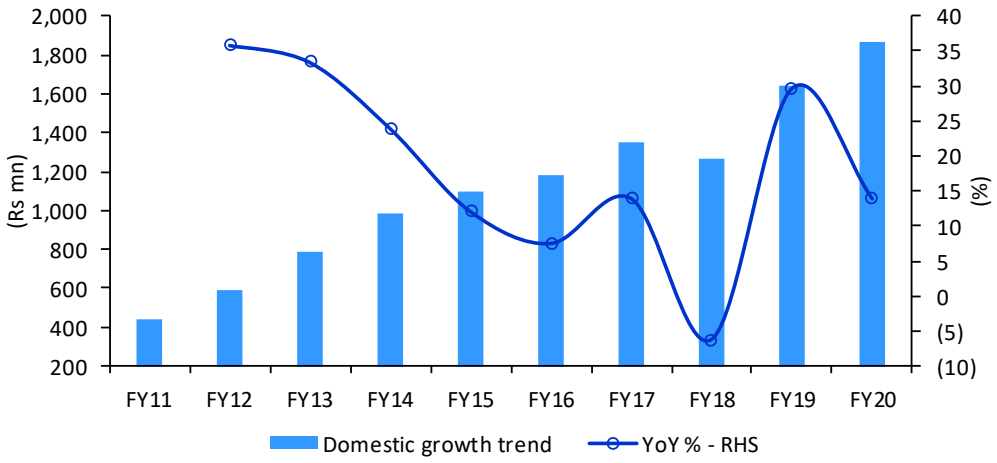
We believe Polymed is an active participant in this programme and the current QIP is WIP for the same. Not only will they do co-marketing of these equipment, they will also supply full systems used. We believe this could be a huge game changer for Polymed in the domestic market

8 states are providing dialysis services in-house: Goa, J&K, Kerala, Maharashtra, Mizoram, Puducherry, Punjab, Tamil Nadu.

8 states are in process of hiring service provider to provide dialysis service as per the NHM guidelines: Chandigarh, Himachal Pradesh, Meghalaya, Nagaland, Uttarakhand, Manipur, Chhattisgarh, Sikkim.

We believe Polymed is an active participant in this programme and the current QIP is WIP for the same. Not only will they do co-marketing of these equipment, they will also supply full systems used. We believe this could be a huge game changer for Polymed in the domestic market.

Exhibit 5: Domestic growth trend



Source: Company, DART

We have compared Polymed's key products vs local competition and believe that given the fragmented market and high competition, company has made its presence felt against international peers. The price mentioned are max retail prices but hospitals buy at a very low discounted rates.

Peer group product price comparison

Product	Company	Per unit price (Rs)
Test tube	Becton & Dickinson	22
Alcohol Swabs	Romsons	2
	Becton & Dickinson	3
	Premier Enterprise	2
	Breathe Healthcare	2
Gloves	Kanam Latex	30
	Romsons	12
Sample collection needles	Becton & Dickinson	15
	Hindustan Syringes	10
Lung Capacitor	Romson	105
	Ambitech	189
	Polymed	**142**
	Bell Cross	280

Source: Industry, DART

Product	Company	Per unit price (Rs)
IV Cannula	**Polymed**	**185**
	HMD	115
	B Braun	200
	Becton & Dickinson	145
	Romson	142
Urine Bag	**Polymed**	**36**
	Romson	24
	Steriwel Medicare	330
Mucous Extractor	**Polymed**	**85**
	Romson	74
	St Luke Med Devices	60
Blood Set	**Polymed**	**200**
	B Braun	175
	Romson	136
Catheter	**Polymed**	**52**
	B Braun	193
	Romson	52
IV Set	**Polymed**	**215**
	B Braun	244
	Becton & Dickinson	395
	Romson	149
	Global Medikit	133
Insulin Syringe	**Polymed**	**11**
	HMD	8
	Becton & Dickinson	8
	Accu shot	8
Ryles Tube	**Polymed**	**57**
	Romson	52
Spinal Needle	**Polymed**	**125**
	B Braun	140
	Becton & Dickinson	148
	Romson	138
Infant feeding tube	**Polymed**	**33**
	Romson	46
Burette Set	**Polymed**	**164**
	Romson	330
Mask	**Polymed**	**128**
	Romson	16
Oxygen Mask	**Polymed**	**210**
	Romson	231
Nebulizer	**Polymed**	**440**
	St Luke Med Devices	225
	Vinjoh Healthcare	455
Syringe	**Polymed**	**11**
	HMD	10
	Becton & Dickinson	11
	Romson	7
	Hindustan Syringes	10

Source: DART

~72% of its total revenues are derived from international markets, of which Europe is at top with 40% of its total export revenues, followed by Asia (25%), Africa (15%) and remaining from RoW

Export business is expected to grow at a CAGR of 17% during FY21-FY23E

Polymed has manufacturing presence in 4 countries namely India, China, Italy and Egypt through which it caters >100 countries world over. ~72% of its total revenues are derived from international markets, of which Europe is at top with 40% of its total export revenues, followed by Asia (25%), Africa (15%) and remaining from RoW.

Company wants to enter in US and increase penetration in Europe through higher no. of launches. New plant at Jaipur will definitely give impetus to export revenues. Company's Italian subsidiary will start exporting its products to Brazil, Russia and China from FY22E onwards. Export revenues have grown at a CAGR of 16% during FY11-FY20 and we believe it to grow at a CAGR of 17% between FY21-FY23E.

Exports is further divided into two parts - sales to OEMs and sales via distributors. In OEM segment it has about 15 clients, contributes 30% of its total export revenues and remaining 70% export business comes from distributors across the world under POLYMED brand.

The Company has JV in Egypt - Ultra for Medical Products generating profits of Rs21mn in FY20. Profits from this JV has grown at 26% CAGR over FY15-20.

Ultra for Medical Products, Egypt (Rs mn)	CY15	CY16	CY17	CY18	CY19
Shares of Associate held by the company	5,290	5,980	5,980	7,360	9,660
Amount Invested	9	9	9	9	9
% of holding	23	23	23	23	23
Net worth attributable to Shareholding	220	119	43	47	74
Profit considered in Consolidation	8	6	12	14	21
Profit not considered in Consolidation	0	23	43	52	73

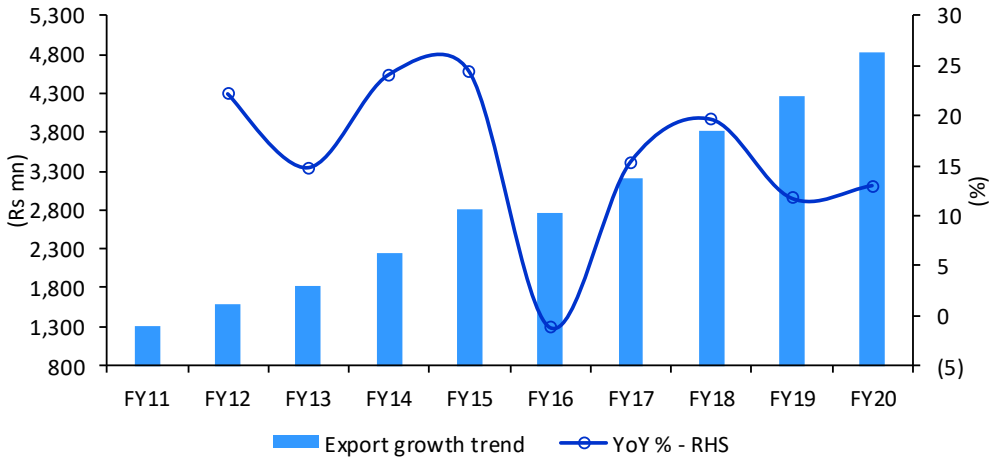
Source: Company DART

Poly Medicure (Laiyang) Co. Ltd, Chinese subsidiary which has started commercial production during FY10 with a turnover of Rs10mn and in FY13 it has achieved a turnover of Rs.138mn in FY20.

Poly Medicure (Laiyang) Co. Ltd, China (Rs mn)	FY16	FY17	FY18	FY19	FY20
Turnover	178	155	142	110	138
PAT	2	(17)	(8)	(15)	7

Source: Company DART

Exhibit 6: Export growth trend



Source: Company, DART

Easing off capacity constraint by setting up new facility at Jaipur

The Company has a state of art manufacturing facilities at Faridabad (Unit I and Unit II) and Haridwar, cumulative capacity of 500mn pieces/annum of healthcare disposables. About 70% of the total capacity is allocated to Faridabad (Unit II - USFDA audited) plant, which is primarily producing export oriented IV cannulas and Safety Cannulas and running at optimum capacity with no further scope for an expansion.

To ease off capacity constraints, company has set up Phase II at its Faridabad plant (to commence operations from Dec'20) and Phase 2 at Jaipur in Mahindra SEZ which would get commercialized by Feb'21. **This capacity would mainly add to catheters, new sizes of Dialyzers, tubing, infusion lines primarily for exports**. **Polymed has spent Rs2bn on capacity expansion and expects to generate 1.4x asset turnover from new plants.**

Automation to sustain quality and efficiency – higher penetration will lead to margin expansion

Polymed has an automated plant since Aug'12 vs labor intensive assembly line. The Company has invested about Rs500-600mn in automation and this should suffice for next 5-7 years. Apart from faster TAT, automation also helps in maintaining quality standards thereby improving operating leverage.

Margin structure details

Any medical product goes through 3 – 4 levels of distribution before reaching the end customer. A typical distribution value chain for a medical product is illustrated below:

Exhibit 7: Margin structure details

Source: DART

Depending upon the product the healthcare establishment could be a chemist shop or a hospital or both. E.g. an empty needle/syringe would be available at both chemist shop and at a hospital but any implant would be available only at a hospital.

The broad margin structure at each level of value chain for high potential products are given in table below:

Exhibit 8: Analysis of margin break-up at different levels

Products (Rs/product)	Manufacturer margin	Distributor margin	Dealer margin	Healthcare establishment margin	Total Margins
Auto-disposable needle	50-70	10 to 15	10 to 15	300	500-650
Masks/gown/head and face wear	80-100	15-20	15-20	200	450-550
Suture	60-80	10-15	10 to 15	100	380-470
Bandage	60-80	10-15	10 to 15	100	380-470
Adhesive	60-80	15-20	15-20	100	420-510
Surgical knife	60-80	15-20	15-20	100	420-510
Scalpel	60-80	15-20	15-20	100	420-510
Catheters	80-100	15-20	15-20	200	450-550
Blood pressure device	15-20	02-05	02 - 05	100	330-550
Cholesterol test	15-20	02-05	02 - 05	100	330-550
Sugar test device	15-20	02-05	02 - 05	100	330-550
Orthopedic implant	80-100	15-20	15-20	300	700-850
Cardiac implant	60-80	15-20	15-20	200-300	400-700
Neurology implant	80-100	15-20	15-20	300	700-800

Source: Industry, DART

Polymed's product portfolio mainly comprise of catheters and IV cannula where we believe its margin is highest.

It can be observed that a higher margin structure can be seen for categories such as implants and medical devices which have moderate to high levels of specialization while the least product margins are made for long life devices due to their low replacement cycles. Polymed's product portfolio mainly comprise of catheters and IV cannula where we believe its margin is highest. With volume and scale this has huge scope for improvement even further. We have factored in 290bps improvement in EBITDA margins for Polymed during FY20-23E.

Leadership hiring to expand business

Until last year, Polymed was solely run by the promoters and this restricted growth given the bandwidth issues. However, in the past 2 years, management has been hiring leaders across geographies. This shall enable higher penetration and focused approach in the export geographies.

Exhibit 9: Leadership team to aid business growth

Name	Designation	Experience
Kim Schelbe	VP & MD, US	14 years medical device experience, worked with Smiths medical, Covedien peripheral vascular and Medtronic Spine
Alessando Balboni	MD EMEA and CEO Plan 1 Health	26 years of experience, worked with Delta Med Spa, Paul Hartmann Spa as CEO
Prof. Sergio Bertoglio	Chief Medical Officer	Professor of Surgery at the department of Surgical sciences, University of Genova, Italy
Teo Wen Ching	Regional Director, SE Asia	18 years of experience, Worked with Sol-Millenium, Staunch Medical, Becton Dickenson and B Braun
Xue Wendong	GM China	20 years of experience, Managing Poly Med China facility

Source: Company, DART

While there is no direct comparable of this company in the listed space in India, we have carved out details of the private companies'.

Exhibit 10: Peer Group comparison as on FY20

Companies	Sales (Rs mn)	Gross margins (%)	EBITDA margins (%)	PAT (Rs mn)	RoE (%)	RoCE (%)
PolyMed	6,693	68.0	24.5	959	23.5	19.1
Healthium	6,517	65.9	17.6	368	7.6	15.5
Romson	2,498	65.4	26.6	428	20.3	26.6
Hindustan Syringes	6,287	66.1	18.2	556	9.3	13.1
Transasia Bio-medical	10,990	67.4	23.1	977	7.6	9.8

Source: Company, DART

Companies	Inventory days	Receivable days	Payable days	Cash conversion cycle	Working Capital days	Net D/E (x)
PolyMed	61	69	46	84	95	0.4
Healthium	214	65	92	187	92	0.1
Romson	188	55	22	221	83	-
Hindustan Syringes	221	10	28	203	237	0.0
Transasia Bio-medical	239	92	162	169	43	0.4

Source: Company, DART

Corporate governance check

Risk profile

Parameter	Summary	Concerns
Financial	No default on any loans availed by the company. Company has been in good financial health with net D/E at 0.4x	●
Bribery, corruption, anti-money laundering and sanctions	No issues were found on the company or its associated individuals	●
Personal risks and Criminal check	No issues were found on the company or its associated individuals	●
Tax demand and contingent liabilities	No issues were found on the company or its associated individuals	●
Regulatory check	One of their plants at Faridabad (Unit II) is USFDA audited, future business in US could result in high regulatory check	●
Business and operational risk	No issues were found on the company or its associated individuals	●
Legal check	In 2009, there was a patent dispute between Poly Med and B. Braun for several European patents w.r.t. IV safety catheters. The patent was revoked and case was dismissed. However, B Braun then initiated patent infringement suits against Poly Med in several countries such as Germany, Italy, Spain, Australia and India. In Italy, Spain & Germany the B Braun patents were revoked and cases were subsequently dismissed. In India one matter is still pending in courts.	●
Related party transaction	The company has job work contracts for some of the products and components of medical devices with Vitromed healthcare. In FY20, job work done was worth Rs539mn, 8.6% of total sales. Vitromed is also in medical consumables and natural products business	●

Source: Company, DART

Exhibit 11: Related party transactions with Vitromed healthcare

Year	Jobwork (Rs mn)	% of Polymed sales
2011	130	8
2012	150	7
2013	215	8
2014	262	8
2015	316	9
2016	320	8
2017	393	9
2018	486	10
2019	478	9
2020	539	9

Source: Company, DART

Exhibit 12: 44% of independent directors on board

No. of directors	FY18	FY19	FY20
Promoter Director	1	1	1
Non-Executive director	2	3	3
Independent director	4	4	4
Executive director	1	1	1
Total	8	9	9
% of Promoter director	13	11	11
% of independent director	50	44	44

Source: Company, DART

Exhibit 13: Profile of independent directors

Name	Qualification	Appointment date	Directorship in any other public company	FY20 Remuneration	% of PBT
Shri Devendra Raj Mehta	Bachelor's degree	May 26, 2005	8	1.3	0.11
Dr. Shailendra Raj Mehta	Doctorate of philosophy in economics	May 28, 2012	5	1.2	0.10
Dr. Sandeep Bhargava	M.D.	February 25, 2017	0	1.2	0.10
Shri P.C. Surana	C.A	September 22, 1997	2	1.3	0.10

Source: Company, DART

Exhibit 14: Key managerial person and directors' (Rs mn)

Name	Designation	FY18	FY19	FY20
Shri Rishi Baid	Promoter	41	43.3	60.3
Shri Himanshu Baid	M.D	41.4	44.3	62.3
Shri Jugal Kishore Baid	NED	1.0	1.0	1.2
Mukulika Baid	NED	1.0	1.0	1.2
J K Oswal	CFO	4.2	5.3	5.7
Avinash Chandra	C.S	0.7	0.9	1.0
% of PBT		9.3	9.7	10.7

Source: Company, DART

Exhibit 15: Auditors remuneration

Auditors remuneration	FY18	FY19	FY20
Name of the Auditor	M/S Doogar &Associates		M/s. M.C. Bhandari & Co
Compensation (Rs mn)	2.0	2.5	1.9
% of PBT	0.21	0.25	0.15

Source: Company, DART

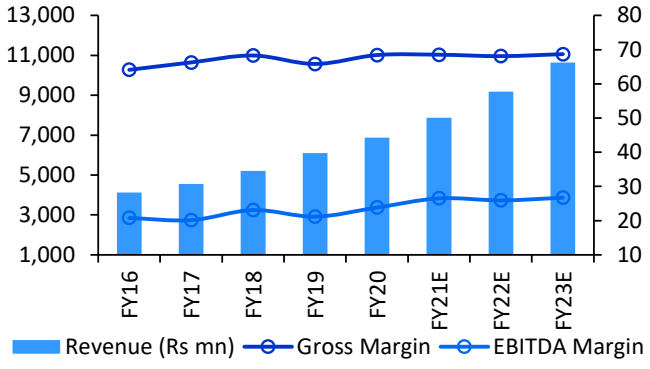
Exhibit 16: Management Profile

Name	Designation	Profile
Mr. Himanshu Baid	Managing Director	He has over 19 years of experience in manufacture of disposable medical devices. He has been associated with the Company since incorporation.
Mr. Rishi Baid	Executive Director	He has over 19 years of experience in manufacture of disposable medical devices. He has been associated with the Company since incorporation.
Mr. Devendra Raj Mehta	Chairman and a Non-Executive, Independent Director	Prior to joining the Board of the Company, he has held positions including, chairman of SEBI, deputy governor of RBI and Director General of Foreign Trade, Government of India and has held various positions with the Government of Rajasthan and the Government of India. He has been on the Board since May 26, 2005.
Mr. Jugal Kishore Baid	Non-Executive Director	He was associated with Hyderabad Allwyn Metal Works and Jai Polypan Private Limited. He was involved in setting up the rotational molding technology in Rajasthan for the manufacture of multi layered and foam filled water storage containers under the brand name "Polypan". He has been associated with the Company since incorporation.
Ms. Mukulika Baid	non-executive Director	She has 16 years of experience in management and marketing. Prior to joining the Board she has been associated with Stillocraft and Polycure Martech Limited and is associated with several non-profit organisations. She has been on the Board since July 30, 2014
Mr. Prakash Chand Surana	Nonexecutive, Independent Director	He has over 41 years of experience in the field of taxation and corporate laws.
Dr. Shailendra Raj Mehta	Non-Executive, Independent Director	He has 26 years of experience in the field of management and economics. He is currently the vice chancellor of Ahmedabad University. He has been on the Board of the Company since May 28, 2012.
Dr. Sandeep Bhargava	non-executive Director	He was a Senior Consultant in Gastroenterology, Hepatology and Interventional Endoscopy Indraprastha Apollo Hospitals, New Delhi. He was also Staff Gastroenterologist and Hepatologist, Lourdes Medical Associates, Cherry Hill, USA. He has around 26 years of experience in medical field in India and abroad.

Source: Company, DART

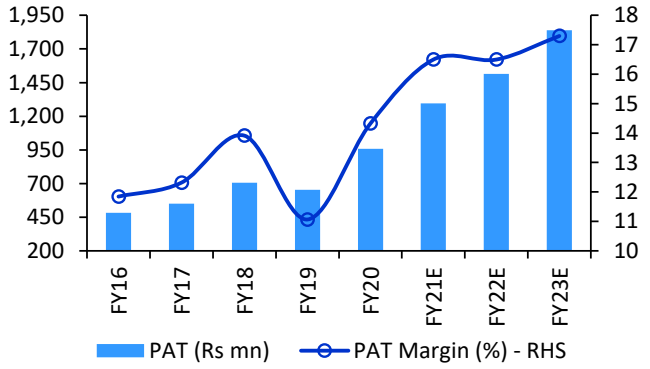
Financial charts

Exhibit 17: Increasing geographic penetration and new launches to improve run-rate



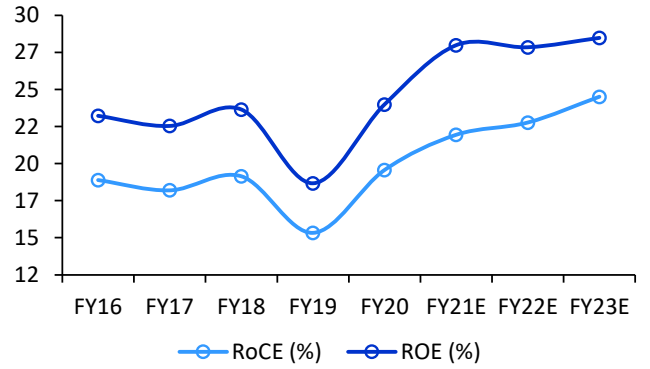
Source: Company, DART

Exhibit 18: Strong operating performance to improve profits inflow



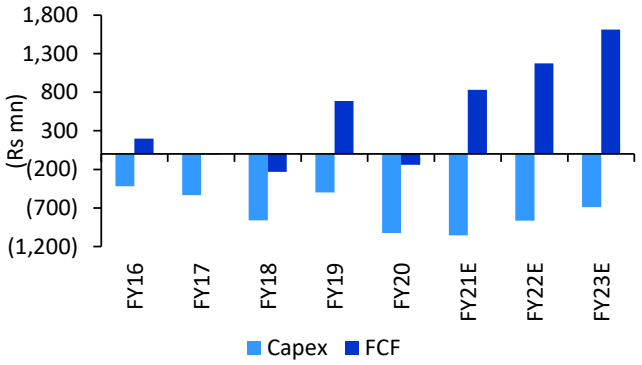
Source: Company, DART

Exhibit 19: Company guides to become debt free by FY22E, expect RoE to improve



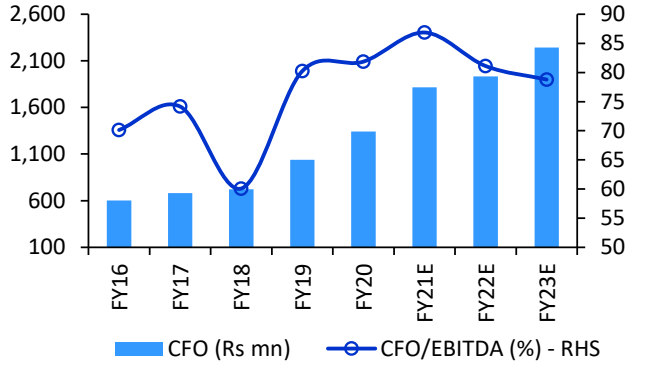
Source: Company, DART

Exhibit 20: With major investments done, expect FCF to improve significantly



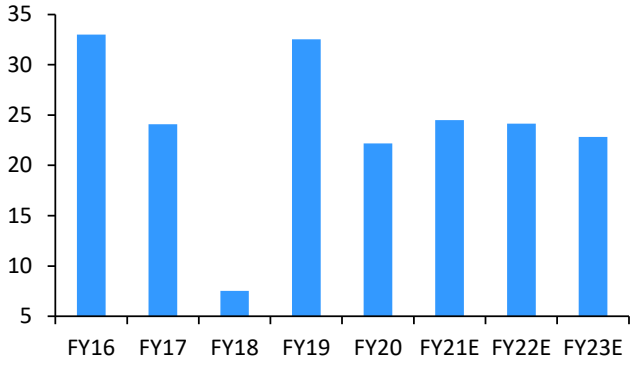
Source: Company, DART

Exhibit 21: Healthy CFO/EBITDA conversion



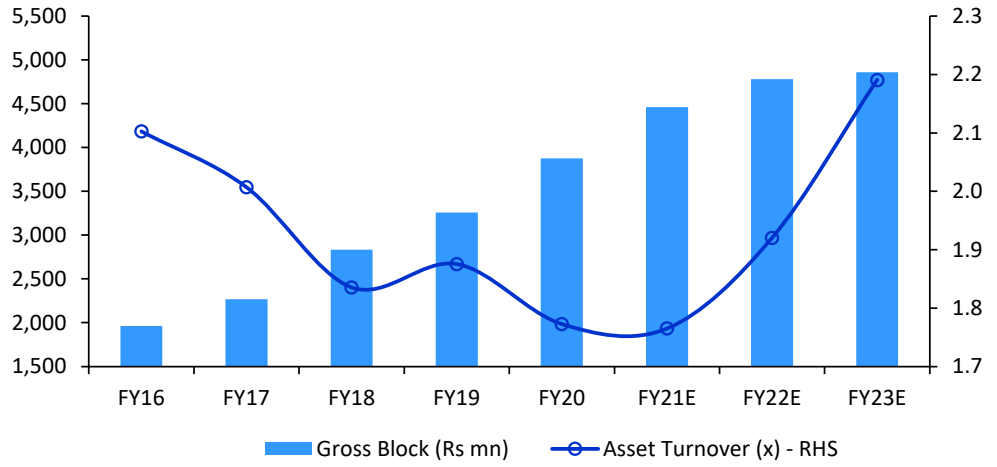
Source: Company, DART

Exhibit 22: Dividend payout has been average at 25%



Source: Company, DART

Exhibit 23: Expect A/O to improve as capacity utilization ramps up



Source: Company, DART

Risk

Competition from unorganized players

Though Polymed is growing faster, we cannot ignore the presence of unorganized players, as this industry is not capital intensive.

Global slowdown could hurt exports

As the company receives majority of its revenues from exports fluctuations in international economies have a direct impact. Europe and Latam account for more than 50% of the total company's exports, so any slowdown in these economies could lead to lower top line as compared our estimates.

Currency risk

The company procures over 70% of its raw material from international markets and hence if rupee depreciates further, could increase the cost of raw material leading to lower margins although the Company has a natural hedge due to its exports but it's a partial one.

Annexures

List of new products launched in FY20

Ventilator Circuit Combo Kits

Bain Circuits

High Pressure Vaccum Bottle-Triplet

Safety Introducer Needles

Blood Control Safety IV Cannula - 3rd Generation

Source: Company, DART

List of new products to be launched in FY21

Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**6,872**	**7,873**	**9,182**	**10,645**
Total Expense	**5,233**	**5,782**	**6,798**	**7,798**
COGS	2,170	2,479	2,929	3,334
Employees Cost	1,388	1,481	1,727	2,002
Other expenses	1,675	1,822	2,143	2,463
EBIDTA	**1,640**	**2,091**	**2,383**	**2,847**
Depreciation	405	475	544	612
EBIT	**1,234**	**1,616**	**1,840**	**2,235**
Interest	183	141	89	67
Other Income	185	194	204	214
Exc. / E.O. items	0	0	0	0
EBT	**1,236**	**1,669**	**1,954**	**2,381**
Tax	298	403	472	575
RPAT	959	1,290	1,508	1,835
Minority Interest	0	0	0	0
Profit/Loss share of associates	**21**	**24**	**26**	**28**
APAT	**959**	**1,290**	**1,508**	**1,835**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	441	441	441	441
Minority Interest	0	0	0	0
Reserves & Surplus	3,907	4,635	5,534	6,704
Net Worth	**4,348**	**5,076**	**5,975**	**7,146**
Total Debt	1,686	1,566	1,116	956
Net Deferred Tax Liability	252	263	275	288
Total Capital Employed	**6,287**	**6,905**	**7,366**	**8,389**
Applications of Funds				
Net Block	**3,278**	**3,860**	**4,131**	**4,149**
CWIP	598	589	627	684
Investments	619	549	507	507
Current Assets, Loans & Advances	**3,178**	**3,037**	**3,405**	**4,529**
Inventories	1,121	1,122	1,241	1,379
Receivables	1,271	1,286	1,401	1,596
Cash and Bank Balances	254	89	208	965
Loans and Advances	1	2	2	2
Other Current Assets	372	380	393	428
Less: Current Liabilities & Provisions	**1,386**	**1,130**	**1,304**	**1,480**
Payables	664	698	803	900
Other Current Liabilities	723	432	501	579
sub total				
Net Current Assets	1,791	1,907	2,101	3,049
Total Assets	**6,287**	**6,905**	**7,366**	**8,389**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	68.4	68.5	68.1	68.7
EBIDTA Margin	23.9	26.6	26.0	26.7
EBIT Margin	18.0	20.5	20.0	21.0
Tax rate	24.2	24.2	24.2	24.2
Net Profit Margin	14.0	16.4	16.4	17.2
(B) As Percentage of Net Sales (%)				
COGS	31.6	31.5	31.9	31.3
Employee	20.2	18.8	18.8	18.8
Other	24.4	23.1	23.3	23.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.2	0.1
Interest Coverage	6.7	11.5	20.6	33.4
Inventory days	60	52	49	47
Debtors days	68	60	56	55
Average Cost of Debt	12.0	8.7	6.7	6.5
Payable days	35	32	32	31
Working Capital days	95	88	84	105
FA T/O	2.1	2.0	2.2	2.6
(D) Measures of Investment				
AEPS (Rs)	10.9	14.6	17.1	20.8
CEPS (Rs)	15.5	20.0	23.2	27.7
DPS (Rs)	2.4	3.6	4.1	4.8
Dividend Payout (%)	22.2	24.6	24.2	22.9
BVPS (Rs)	49.3	57.5	67.7	81.0
RoANW (%)	23.5	27.4	27.3	28.0
RoACE (%)	19.1	21.3	22.0	23.8
RoAIC (%)	22.5	25.2	26.3	30.6
(E) Valuation Ratios				
CMP (Rs)	503	503	503	503
P/E	46.3	34.4	29.4	24.2
Mcap (Rs Mn)	44,401	44,401	44,401	44,401
MCap/ Sales	6.5	5.6	4.8	4.2
EV	45,675	45,719	45,150	44,233
EV/Sales	6.6	5.8	4.9	4.2
EV/EBITDA	27.9	21.9	18.9	15.5
P/BV	10.2	8.7	7.4	6.2
Dividend Yield (%)	0.5	0.7	0.8	0.9
(F) Growth Rate (%)				
Revenue	12.5	14.6	16.6	15.9
EBITDA	26.7	27.5	14.0	19.4
EBIT	33.9	30.9	13.8	21.5
PBT	25.2	35.1	17.1	21.9
APAT	46.6	34.5	16.9	21.7
EPS	46.6	34.5	16.9	21.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,342	1,897	1,987	2,238
CFI	(156)	1	1	1
CFF	(153)	(1,140)	(1,115)	(855)
FCFF	(140)	975	1,235	1,612
Opening Cash	546	254	89	208
Closing Cash	254	89	208	965

E – Estimates

Private Comparable

B Braun Medical Pvt. Ltd.

Company profile

B. Braun is one of the world's leading providers and manufacturers of healthcare solutions today and is one of the oldest companies (175 years) in this field. In total, the B. Braun product range comprises 5,000 different products, 95% of which are manufactured by the company. By offering supplementary services and consulting, B. Braun is a system supplier. In Asia Pacific, B. Braun is one of the leading providers of healthcare products throughout the region.

Product Profile

1. Anesthesia
2. Intensive Care products
3. Cardiology
4. Extracorporeal
5. Blood Treatment
6. Surgery Products

Key Investors

1. Becton B. Braun Medical Industries Sdn. Bhd.
2. B Braun Medical International

Financials

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Sales	**4,908**	**4,507**	**5,250**	**4,925**	**5,438**
EBITDA	328	445	441	(4)	56
PAT	12	118	94	(708)	(209)
D/E (x)	-	-	-	0.1	0.1
ROE (%)	1.1	10.3	7.3	(119.8)	(35.3)
RoCE (%)	19.2	27.9	24.8	(6.0)	(3.0)
W C Cycle (days)	99	123	113	120	105

Becton Dickinson (BD India Pvt. Ltd.)

Company Profile

Becton Dickinson (BD) is a global medical technology company. The company provides solutions that help advance medical research and genomics, enhance the diagnosis of infectious disease and cancer, improve medication management, promote infection prevention, equip surgical and interventional procedures and support the management of diabetes.

Becton Dickinson operates in India through a wholly-owned subsidiary, Becton Dickinson India Private Limited. It has a manufacturing plant at Bawal, Haryana that has a capacity to manufacture over a billion medical devices of Class II and IIa disposable needles and syringes using a highly automated process. The plant has also been recognized by the Haryana State Industrial Corporation.

Product Profile

1. Anesthesia System
2. Blood and Urine Specimen Collection
3. Diabetes Care
4. Infusion
5. Integrated Analytics Solution
6. Interventional Procedures
7. Medication Management
8. Supply Management
9. Surgical
10. Syringes and Needles

Key Investors

1. Becton Dickinson Holdings Pvt Limited and
2. Becton Dickinson Insulin Syringe Limited.

Financials

(Rs Mn)	FY16	FY17	FY18	FY19
Sales	7,989	8,367	9,147	10,138
EBITDA	862	941	1,050	1,192
PAT	346	227	436	474
D/E (x)	-	0.0	0.0	0.1
ROE (%)	-	5.8	11.1	10.8
RoCE (%)	-	13.2	15.3	18.1
W C Cycle (days)	-	58	44	46

Healthium Medtech Pvt. Ltd.

Company Profile

Healthium MedTech Pvt. Ltd. (Formerly known as Sutures India) is India's largest Indian surgical sutures manufacturer. Healthium has a significant global presence with exports to over 50 countries, including the US, France, Germany, Italy, Switzerland, Brazil, Mexico, GCC countries, Egypt, Turkey and several Asian countries.

Product Profile

1. Wound closure products
2. Medical consumables
3. Sironix
4. Clinical supplies

Key Investors

1. Apax Partners
2. Mahadevan Narayanamoni
3. S V Nene

Financials

(Rs mn)	FY16	FY17	FY18	FY19	FY20
Sales	3,711	5,112	5,683	5,889	6,517
EBITDA	833	1,276	1,380	949	1,148
PAT	332	705	746	139	368
D/E(x)	0.4	0.2	0.0	0.1	0.1
ROE (%)	10.8	19.3	16.0	2.8	7.6
RoCE (%)	19.0	23.8	23.3	13.4	15.54
W C Cycle (days)	148	187	244	223	187

Hindustan Syringes & Medical Devices Ltd (HMD)

Company Profile

HMD manufactures and markets medical disposables. The company offers single use syringes and needles, I.V. cannulas, surgical blades, scalpels, scalp vein sets, and non-reusable (AD) syringes. It offers insulin and auto disable syringes; and single use needles, infusion sets, safety boxes, surgical blades, and glass syringes. The company's primary markets are India, USA, Europe, Middle East and secondary markets such as Africa and SE Asia.

HMD has 7 plants in different locations in SE Asia and has over 3500 employees. All the products are marketed through an established national distribution network of more than 4500 dealers catered by 65 stock points all over India.

Product Profile

1. Single Use Syringes
2. Single Use Needles
3. I.V Cannulas
4. Surgical Blades
5. Scalpels
6. Scalp Vein Sets
7. Non Reusable Syringes
8. Blood Collection Tubes
9. Blood Collection Needles
10. Blood Collection Sets
11. Pen Needle
12. Safety Box
13. Alcohol Swabs

Key Investors

1. Indira Rani
2. Rajiv Nath
3. HMD Healthcare India Private Limited
4. Niraj Industries Private Limited

Financials

(Rs mn)	FY16	FY17	FY18	FY19	FY20
Sales	5,372	6,055	6,216	6,287	6,846
EBITDA	897	1,036	1,128	1,143	1,510
PAT	406	456	546	556	933
D/E (x)	-	0.0	0.0	0.0	-
ROE (%)	8.8	9.0	9.9	9.3	14.3
RoCE (%)	11.0	13.0	13.9	13.1	17.2
W C Cycle (days)	255	252	192	203	201

Romson Scientific & Surgicals Pvt. Ltd.

Company Profile

Romsons Scientific and Surgical Industries Pvt. Ltd. is a part of the Romsons Group of Industries, one of the leading manufacturer of disposable medical devices. With >100 products in the company caters to almost the entire spectrum of patient need. The Company's line of business includes the manufacturing of medical, surgical, ophthalmic, and veterinary instruments and apparatus.

It is professionally-managed enterprise with presence in 65 countries. The company has a worldwide retail footprint – with 1500+ distributor network.

Product Profile

1. Adult Diapers
2. Under pads
3. Wet Wipes
4. Incontinence pads
5. Catheters & Urine Bags
6. Women Hygiene
7. Baby Care
8. Health Care Products
9. COVID Care products

Key Investors

1. Lalit Narain Khanna
2. Rakesh Narain Khanna
3. Kishore Narain Khanna
4. Shivam Khanna
5. K N Khanna HUF

Financials

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Sales	1,738	1,829	1,973	2,294	2,498
EBITDA	458	496	519	654	665
PAT	270	295	299	382	428
D/E (x)	-	-	-	-	-
ROE (%)	27.2	24.8	21.2	22.1	20.3
RoCE (%)	40.2	36.0	31.7	32.6	26.6
W C Cycle (days)	231	252	253	227	221

Smith & Nephew Healthcare Pvt. Ltd.

Company Profile

~150 years old, Smith & Nephew specialize in knee replacement procedures most commonly caused by arthritis and wound care management.

Product Profile

1. Anesthesia
2. Orthopedic Reconstruction
3. Advanced Wound Management
4. Sports Medicine
5. ENT
6. Trauma

Key Investors

1. WCM Investment Management LLC
2. Fiduciary Management, Inc.
3. Nuance Investments LLC

Financials

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Sales	2,008	2,540	3,122	3,471	4,307
EBITDA	(13)	(37)	383	426	377
PAT	(184)	(189)	223	255	94
D/E (x)	-	-	-	-	-
ROE (%)	-	-	35.7	29.4	9.0
RoCE (%)	-	-	35.6	28.9	16.8
W C Cycle (days)	57	34	15	30	48

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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