

# IPO Report

Choice

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## Innova Captab Ltd.

Fully priced but has levers for a sustainable growth in the medium term



**Salient features of the IPO:**

- **Innova Captab Ltd.** (ICL), a Himachal Pradesh-based pharmaceutical company is coming up with an IPO to raise around Rs. 570cr, which opens on 21<sup>st</sup> Dec. and closes on 26<sup>th</sup> Dec. 2023. The price band is Rs. 426 - 448 per share.
- The IPO is a combination of fresh and OFS portion. From the OFS issue, the company will not receive any funds. From the fresh issue net proceeds, ICL will be utilizing Rs. 168cr for pre-paying/re-payment of debt and Rs. 72cr will be used funding the working capital requirement. Rest of the net proceeds will be used for general corporate purposes.
- On 1<sup>st</sup> Dec. and 3<sup>rd</sup> Dec. 2023, the company in consultation with the BRLMs has undertaken a pre-IPO placement of 0.141cr shares and 0.067cr shares at Rs. 354 and Rs. 448 per share, respectively. Total amount realized from the pre-IPO placement was Rs. 80cr. Consequently, the fresh issue portion was reduced by similar amount (as against Rs. 400cr proposed in the DRHP).
- Couple of promoter & promoter group (P&PG) entities are participating in the OFS and offloading around 0.391cr shares (considering the higher price band). Post-IPO, P&PG will have 51.68% stake in the company, compared to 66.85% earlier. Consequently, public shareholding will increase from 33.15% to 48.32%.

**Key competitive strengths:**

- Leading presence and one of the fastest growing CDMOs in the Indian pharmaceutical formulations market
- Well established relationships with marquee CDMO customer base
- Highly efficient operations, including world class manufacturing facilities and supply chain
- Rapidly growing domestic and international export branded generics businesses
- Strong R&D focus to build an increasingly complex product portfolio and attract and retain customers
- Consistent financial performance
- Experienced promoters and management team

**Risk and concerns:**

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Difficulty in integrating the Sharon business
- Delay in the commissioning of new Jammu facility
- Unfavorable product-mix and forex rates
- Difficulty in maintaining the profitability
- Competition

**Below are the key highlights of the company:**

- The Indian contract development & manufacturing organization (CDMO) market has grown at 14% CAGR in the last five years (i.e. FY18-23) to Rs. 1.31tn. According to the RHP, this trend is expected to continue over the next five years (i.e. FY23-28E) to a size of Rs. 2.4-2.5tn in FY28. This growth is likely to be driven by strong demand from outsourcing of development & manufacturing of new products by big pharmaceutical companies including both Indian & multinational and global companies.
- ICL is an integrated pharmaceutical company in India with a presence across the pharmaceuticals value chain including R&D, manufacturing, drug distribution & marketing and exports. Its business includes verticals like CDMO, Domestic trade generics business and an International branded generics business.

**Issue details**

Price band Rs. 426 - 448 per share

Face value Rs. 10

Shares for fresh issue 0.714 - 0.751cr shares

Shares for OFS 0.558cr shares

Fresh issue size Rs. 320cr

OFS issue size Rs. 237.7 - 250cr

Total issue size 1.272 - 1.309cr shares  
(Rs. 557.7 - 570cr)Bidding date 21<sup>st</sup> Dec. - 26<sup>th</sup> Dec. 2023

Implied MCAP at higher price band Rs. 2,564cr

Implied enterprise value at higher price band Rs. 2,592cr

Book running lead manager ICICI Securities Ltd. and JM Financial Ltd.

Registrar KFin Technologies Ltd.

Sector Pharmaceuticals

Promoters Mr. Manoj Kumar Lohariwala and Mr. Vinay Kumar Lohariwala

**Issue break-up**

Category	Percent of issue (%)	Number of shares
QIB portion	50%	0.636 - 0.655cr shares
Non institutional portion (Big)	10%	0.127 - 0.131cr shares
Non institutional portion (Small)	5%	0.064 - 0.065cr shares
Retail portion	35%	0.445 - 0.458cr shares

**Indicative IPO process time line**

Finalization of basis of allotment	27 <sup>th</sup> Dec. 2023
Unblocking of ASBA account	28 <sup>th</sup> Dec. 2023
Credit to demat accounts	28 <sup>th</sup> Dec. 2023
Commencement of trading	29 <sup>th</sup> Dec. 2023

**Pre and post - issue shareholding pattern**

	Pre-issue	Post-issue
Promoter & promoter group	66.85%	51.68%
Public	33.15%	48.32%
Non-promoter & Non-public	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Retail application money at higher cut-off price per lot**

Number of shares per lot	33
Application money	Rs. 14,784 per lot

## Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return				Total operating revenue (Rs. cr)	EBITDA (Rs. cr)	PAT (Rs. cr)	Gross margin	EBITDA margin	PAT margin
					1 M	3 M	6 M	1 Y						
Innova Captab Ltd.	10	448	2,564	2,592					1,119	129	101	29.7%	11.6%	9.0%
Windlas Biotech Ltd.	5	411	855	723	-2.2%	14.8%	33.1%	61.7%	513	60	43	41.7%	11.7%	8.3%
Zim Laboratories Ltd.	10	119	580	620	1.3%	-1.9%	4.0%	5.0%	399	52	24	50.1%	13.0%	6.1%
<b>Average</b>												<b>45.9%</b>	<b>12.4%</b>	<b>7.2%</b>

Company name	5Y revenue growth (CAGR)	5Y EBITDA growth (CAGR)	5Y PAT growth (CAGR)	5Y average EBITDA margin	5Y average PAT margin	5Y capital employed growth (CAGR)	5Y CFO growth (CAGR)	5Y average working capital cycle (Days)	5Y average CFO / EBITDA	5Y average CFO / Capital employed	5Y average fixed asset turnover	5Y average total asset turnover (x)	5Y average RoE	5Y average RoIC
Innova Captab Ltd.	22.7%	18.6%	30.4%	13.3%	8.5%	78.1%	37.3%	80.5	45.2%	26.8%	4.6	1.3	53.4%	43.5%
Windlas Biotech Ltd.	13.7%	11.8%	-9.6%	12.2%	9.2%	13.1%	34.4%	49.7	49.7%	12.0%	4.5	1.1	13.8%	16.0%
Zim Laboratories Ltd.	4.4%	5.5%	12.4%	11.8%	3.7%	8.1%	1.8%	80.2	90.5%	18.8%	2.7	1.0	7.5%	11.1%
<b>Average</b>	<b>9.0%</b>	<b>8.7%</b>	<b>1.4%</b>	<b>12.0%</b>	<b>6.4%</b>	<b>10.6%</b>	<b>18.1%</b>	<b>65.0</b>	<b>70.1%</b>	<b>15.4%</b>	<b>3.6</b>	<b>1.0</b>	<b>10.6%</b>	<b>13.5%</b>

Company name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio (x)	Fixed asset turnover ratio (x)	Total asset turnover ratio (x)	RoE	RoCE	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning yield
Innova Captab Ltd.	17.7	126.8	0.0	0.7	3.0	0.8	13.9%	19.1%	25.4	3.5	2.3	20.0	2.3	3.9%
Windlas Biotech Ltd.	20.5	193.4	3.7	0.0	4.1	1.0	10.6%	17.5%	20.1	2.1	1.4	12.0	1.7	5.0%
Zim Laboratories Ltd.	5.0	41.1	0.0	0.2	2.9	1.1	12.2%	15.0%	23.8	2.9	1.6	11.9	1.5	4.2%
<b>Average</b>				<b>1.8</b>	<b>0.1</b>	<b>3.5</b>	<b>11.4%</b>	<b>16.2%</b>	<b>21.9</b>	<b>2.5</b>	<b>1.5</b>	<b>12.0</b>	<b>1.6</b>	<b>4.6%</b>

Note: Proforma financials during the period FY19-23 and stock return data as of 11<sup>th</sup> Dec. 2023; Source: Choice Broking Research

- Under the CDMO segment, ICL provides commercial large-scale manufacturing of generic products. After manufacturing, it provides services like packaging and then distribution & marketing. According to the RHP, ICL was the third largest player among Indian formulation CDMO players with second highest operating profit margin and third highest net profit margin in FY22. It also had the second highest RoCE. As per the proforma consolidated financial performance during FY23, this segment generated 60.8% of total operating revenue.
- Under the Domestic trade generics business, ICL develops and manufactures generic products, which are marketed, distributed and promoted in India under its brand names. The company markets its trade generic products through a developed network of around 5,000 distributors & stockists and over 0.15mn retail pharmacies across India. Its pan-Indian reach, gives it a competitive advantage over smaller players. During FY23, this business generated 14.9% of the proforma consolidated operating revenue.
- Under both CDMO and Domestic trade generics business, the company offers its customers multiple dosage forms, including oral solids, oral liquids, dry syrups and injectables. It also has capabilities in other complex delivery forms such as modified & sustained release forms and tablets in capsules. It has also added products using new technologies like nano technology. ICL's CDMO product portfolio spanned across both acute and chronic therapeutic areas. It manufactures products across some of the key therapeutic areas like cephalosporins, proton pump inhibitors, anticholinergic & heparin NSAIDs, analgesics & antipyretic, anticold & antiallergic, antiemetic, antidiabetic, antispasmodic, antifibrinolytic, cardiovascular, antioxidant & vitamins, antihyperuricemia & antigout, fluoroquinolone & macrolide, nootropics & neurotrophic/neurotrophic, antiulcerative, antimalarial anxiolytic, anticonvulsant & antipsychotic, bladder & prostate disorders, antifungal, anthelmintic & antiviral anticholinergic, anti-asthmatic & bronchodilator and erectile dysfunction. Over FY21-23, its number of CDMO product has increased by 131.4% CAGR to 2,467 in FY23.
- Under the International branded generics business, ICL exported branded generic products to 20 countries across emerging & semi-regulated international markets. It intends to expand this business to regulated markets like the United Kingdom and Canada. As of 31<sup>st</sup> Oct. 2023, ICL had 200 active product registrations (20 registrations subject to renewal) and 218 fresh registration applications in-process with international authorities. During FY23, this segment generated 7.2% of the total proforma operating revenue.
- During FY23, the company had 182 CDMO customers, including Cipla Ltd., Wockhardt Ltd., Glenmark Pharmaceuticals Ltd., Corona Remedies Pvt. Ltd., Emcure Pharmaceuticals Ltd., Lupin Ltd., Intas Pharmaceuticals Ltd., Leeford Healthcare Ltd., Medley Pharmaceuticals Ltd., Cachet Pharmaceuticals Ltd., Eris Healthcare Pvt. Ltd., Indoco Remedies Ltd., J. B. Chemicals and Pharmaceuticals Ltd., Oaknet Healthcare Pvt. Ltd., Zuventus Healthcare Ltd., Ajanta Pharma Ltd., Mankind Pharma Ltd. and Smart Laboratories Pvt. Ltd.
- As of FY23, ICL had two manufacturing facilities in Baddi (Himachal Pradesh) with cumulative installed capacity to manufacture 5,557mn tablets and 2,472mn capsules. Further, with a total capex of Rs. 355cr, it is in the process of establishing a new facility at Jammu for manufacturing tablets, capsules, dry syrups and injections. As of 15<sup>th</sup> Nov. 2023, the company has already incurred Rs. 250cr and the facility is anticipated to be commissioned in 2024.
- With the Jammu investment, the company is anticipating benefits from the Government of India's scheme for Industrial Development of Jammu & Kashmir. It is likely to get a capital investment incentive, capital interest incentive, working capital interest incentive and GST incentive spanned over 10 years.

## Key highlights of the company (Contd...):

- On 26<sup>th</sup> Jun. 2023, ICL acquired Sharon Bio-Medicine Ltd. (Sharon) pursuant to CIRP under the IBC. As per the approved resolution plans, it will infuse Rs. 195.4cr in Sharon, thereby making it the step-down wholly owned subsidiary of ICL. As of FY23, Sharon has generated a top-line of Rs. 192.2cr (implying an acquisition P/S and P/E multiple of 1x and 12x, respectively, for ICL), with an EBITDA and PAT margin of 11.8% and 8.4%, respectively. Over FY19-23, Sharon has reported a 7.4% CAGR growth in the top-line, while EBITDA margin contracted by 288bps. Sharon's operations is export oriented, generating around 75% of the revenue in FY23. Overseas sales of formulations and API represented around 50% and 20% of the top-line, respectively. On proforma basis, Sharon represented 17.2% of the consolidated revenue of ICL in FY23.
- Sharon is engaged in the business of manufacturing of intermediates and active pharmaceutical ingredients (API) as well as finished dosages. It also offers contract manufacturing services for pharmaceutical products. Sharon caters to both domestic as well as international markets including Canada, the United Kingdom, Europe, Australia and Central and South America. Under formulation business, Sharon offers solid oral dosage forms and some of its major formulation products include paracetamol tablets, famciclovir tablets, trazodone IR & MR tablets, Celecoxib capsules, Loperamide capsules, Ezetimibe tablets and Azithromycin tablets. It also manufactures APIs and intermediates in key therapeutic areas like cardio-vascular, anti-fungal, anti-diabetic, muscle relaxant and antipsychotic. Sharon has manufacturing plants located in Dehradun (Uttarakhand) and Taloja (Maharashtra) with cumulative installed tablet & capsule capacity of 2,012mn and API installed capacity of 313mn tonnes.
- Through the acquisition of Sharon, ICL intends to expand its international business and overseas client base. ICL will also get access to regulated market through various existing accreditations of Sharon. Besides this, ICL also aims to backward integrate Sharon's API business.
- ICL reported financial performance is not comparable, as it has made series of acquisitions in the last 3-4 fiscals. So to get an approximate correct picture of its performance, we have considered the proforma consolidated financial statement over FY19-23. Mainly on the back of improved traction towards its mainstay CDMO business, relatively higher business from the domestic trade generic and international branded generic segments, and inclusion of Sharon's business in FY23, ICL has reported a 22.7% CAGR growth in the proforma consolidated revenue over FY19-23, which stood at Rs. 1,118.6cr in FY23. In terms of business-mix, CDMO segment contributed 60.8%, while domestic trade generic, international branded generic and Sharon represented 14.9%, 7.2% and 17.2%, respectively, of the consolidated revenue in FY23.
- Sharon operations has gross margin of 50%, compared to around 25% for other segments (CDMO, domestic trade generic and international branded generic). However, both Sharon and other segments operated at almost similar EBITDA margin of around 13-15%. With inclusion of Sharon business in FY23, ICL reported a 632bps expansion in the proforma consolidated gross margin. Consolidated EBITDA increased by 18.6% CAGR during the period to Rs. 129.3cr in FY23. EBITDA margin contracted from 13.3% in FY19 to 11.6% in FY23. With the expansion in the capacity and inclusion of Sharon's operations, depreciation charge increased by 14.7% CAGR, while higher financial liabilities led to 53.3% CAGR rise in finance costs. Reported PAT increased by 30.4% CAGR to Rs. 101.1cr in FY23. PAT margin expanded by 196bps during the period to 9% in FY23. ICL reported positive operating cash flows (excluding the Sharon's operations) during the period, which grew by 37.3% CAGR. Average operating cash flow stood at Rs. 43.5cr. Total proforma consolidated financial liabilities increased by 24.1% CAGR, however, better profitability resulted in a debt-to-equity ratio of 1.5x in FY23, compared to 6.7x in FY19. Pre-issue RoIC and RoE stood at 14.4% and 31.1%, respectively, in FY23.
- Based on quick conservative estimate, over FY23-25E, we are forecasting a top-line growth of 19% CAGR to Rs. 1,584.3cr in FY25E. Key drivers would be the around 15% CAGR higher business from CDMO operations, successful integration of Sharon business and commissioning & ramp-up of operations at new Jammu facility. EBITDA margin is likely to expand by 297bps, while factoring lower other income, PAT margin to contract by 15bps during the period. Post-issue RoIC and RoE are forecasted to expand by 617bps and 65bps, respectively, to 14.5% and 14.6% by FY25E.

**Peer comparison and valuation:** At higher price band, ICL is demanding a P/E multiple of 25.4x (to its FY23 proforma EPS of Rs. 17.7), which is at slight premium to the peer average of 21.9x. Thus the issue is fully priced.

ICL with its presence across the pharmaceuticals value chain is well positioned to benefit from the expansion in the domestic CDMO market. Acquisition of Sharon assets would assist ICL in expanding its exports operations, but successful integration would be key. Historically, ICL operated at higher fixed asset turns, compared to its peers. But acquisition of Sharon's asset dragged the asset turn in FY23. Jammu facility will start contributing to the top-line in H2 FY25E. The management has indicated an asset turn of around 4-5x, however ramp-up would be gradual. Considering the medium-term growth levers and favorable demanded valuation, we assign a **"SUBSCRIBE"** rating for the issue.

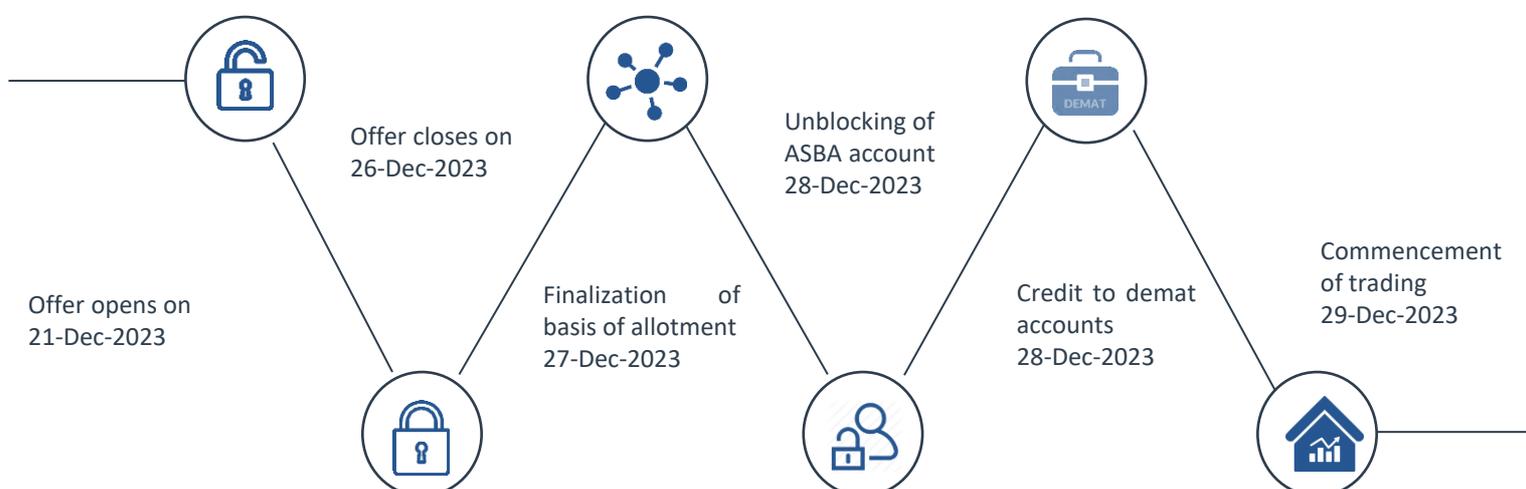
## About the issue:

- ICL is coming up with an IPO with 1.272 - 1.309cr shares (fresh issue: 0.714 - 0.751cr shares; OFS shares: 0.558cr shares) in offering. This offer represents 22.23 - 22.73% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 557.7 - 570cr.
- The issue is through book building process with a price band of Rs. 426 - 448 per share.
- Lot size comprises of 33 equity shares and in-multiple of 33 shares thereafter.
- The issue will open on 21<sup>st</sup> Dec. 2023 and close on 26<sup>th</sup> Dec. 2023.
- The IPO is a combination of fresh and OFS portion. From the OFS issue, the company will not receive any funds. From the fresh issue net proceeds, ICL will be utilizing Rs. 168cr for pre-paying/re-payment of debt and Rs. 72cr will be used funding the working capital requirement. Rest of the net proceeds will be used for general corporate purposes.
- On 1st Dec. and 3rd Dec. 2023, the company in consultation with the BRLMs has undertaken a pre-IPO placement of 0.141cr shares and 0.067cr shares at Rs. 354 and Rs. 448 per share, respectively. Total amount realized from the pre-IPO placement was Rs. 80cr. Consequently, the fresh issue portion was reduced by similar amount (as against Rs. 400cr proposed in the DRHP).
- Couple of promoter & promoter group (P&PG) entities are participating in the OFS and offloading around 0.391cr shares (considering the higher price band). Post-IPO, P&PG will have 51.68% stake in the company, compared to 66.85% earlier. Consequently, public shareholding will increase from 33.15% to 48.32%.
- 50% of the net issue is reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	66.85%	51.68%
Public	33.15%	48.32%
Non-promoter & Non-public	0.00%	0.00%

Source: Choice Equity Broking

## Indicative IPO process time line:



## Pre-issue financial performance:

**Performance over FY19-23:** ICL reported financial performance is not comparable, as it has made series of acquisitions in the last 3-4 fiscals. So to get an approximate correct picture of its performance, we have considered the proforma consolidated financial statement over FY19-23.

Mainly on the back of improved traction towards its mainstay CDMO business, relatively higher business from the domestic trade generic and international branded generic segments, and inclusion of Sharon's business in FY23, ICL has reported a 22.7% CAGR growth in the proforma consolidated revenue over FY19-23, which stood at Rs. 1,118.6cr in FY23. In terms of business-mix, CDMO segment contributed 60.8%, while domestic trade generic, international branded generic and Sharon represented 14.9%, 7.2% and 17.2%, respectively, of the consolidated revenue in FY23.

Sharon operations has gross margin of 50%, compared to around 25% for other segments (CDMO, domestic trade generic and international branded generic). However, both Sharon and other segments operated at almost similar EBITDA margin of around 13-15%. With inclusion of Sharon business in FY23, ICL reported a 632bps expansion in the proforma consolidated gross margin. Consolidated EBITDA increased by 18.6% CAGR during the period to Rs. 129.3cr in FY23. EBITDA margin contracted from 13.3% in FY19 to 11.6% in FY23.

With the expansion in the capacity and inclusion of Sharon's operations, depreciation charge increased by 14.7% CAGR, while higher financial liabilities led to 53.3% CAGR rise in finance costs. Reported PAT increased by 30.4% CAGR to Rs. 101.1cr in FY23. PAT margin expanded by 196bps during the period to 9% in FY23.

ICL reported positive operating cash flows (excluding the Sharon's operations) during the period, which grew by 37.3% CAGR. Average operating cash flow stood at Rs. 43.5cr. Total proforma consolidated financial liabilities increased by 24.1% CAGR, however, better profitability resulted in a debt-to-equity ratio of 1.5x in FY23, compared to 6.7x in FY19. Pre-issue RoIC and RoE stood at 14.4% and 31.1%, respectively, in FY23.

Pre-issue consolidated financial snapshot (Rs. cr)	FY19 P	FY20 P	FY21 P	FY22 P	FY23 P	Q1 FY24 A	CAGR over FY19-23	Y-o-Y (FY23 annual)
Revenue from operations	493.6	541.3	613.8	800.5	1,118.6	233.2	22.7%	39.7%
Gross profit	115.1	146.7	169.4	182.6	331.7	66.7	30.3%	81.6%
EBITDA	65.4	82.7	89.4	96.0	129.3	31.3	18.6%	34.7%
Reported PAT	35.0	48.6	58.0	64.0	101.1	17.6	30.4%	58.1%
Restated reported EPS	6.1	8.5	10.1	11.2	17.7	3.1	30.4%	58.1%
Cash flow from operating activities	18.9	30.8	41.6	58.9	67.1	47.4	37.3%	14.0%
NOPLAT	39.3	51.1	60.0	66.0	78.6	20.4	18.9%	19.0%
FCF		27.3	12.2	(185.0)	(66.3)			-64.2%
RoIC (%)	77.5%	60.1%	46.9%	24.7%	14.4%	3.5%	(6,307) bps	(1,027) bps
Revenue growth rate		9.7%	13.4%	30.4%	39.7%			
Gross profit growth rate		27.4%	15.5%	7.8%	81.6%			
Gross profit margin	23.3%	27.1%	27.6%	22.8%	29.7%	28.6%	632 bps	684 bps
EBITDA growth rate		26.4%	8.1%	7.4%	34.7%			
EBITDA margin	13.3%	15.3%	14.6%	12.0%	11.6%	13.4%	(169) bps	(43) bps
EBIT growth rate		32.0%	15.6%	7.4%	23.8%			
EBIT margin	10.9%	13.2%	13.4%	11.1%	9.8%	12.2%	(114) bps	(126) bps
Restated reported PAT growth rate		38.9%	19.3%	10.4%	58.1%			
Restated reported PAT margin	7.1%	9.0%	9.4%	8.0%	9.0%	7.5%	196 bps	105 bps
Inventory days	47.4	56.8	64.0	54.6	46.5	56.0	-0.5%	-14.9%
Trade receivables days	97.5	90.8	85.1	82.4	82.2	117.0	-4.2%	-0.2%
Trade payables days	(63.4)	(64.9)	(65.8)	(59.1)	(51.8)	(75.8)	-4.9%	-12.3%
Cash conversion cycle	81.6	82.8	83.3	77.8	76.8	97.3	-1.5%	-1.3%
Fixed asset turnover ratio	4.6	5.4	5.7	4.4	3.0	0.6	-10.5%	-31.9%
Total asset turnover ratio	1.5	1.4	1.4	1.4	1.1	0.2	-7.5%	-21.1%
Current ratio	0.8	0.9	1.1	1.3	1.4	1.5	16.0%	11.5%
Quick ratio	0.6	0.6	0.7	0.9	1.0	1.1	16.9%	21.6%
Total debt	205.9	187.8	170.6	208.5	488.4	484.9	24.1%	134.2%
Net debt	203.3	181.6	158.2	206.1	435.7	401.5	21.0%	111.5%
Debt to equity	6.7	2.5	1.3	1.0	1.5	1.3	-31.3%	50.1%
Net debt to EBITDA	3.1	2.2	1.8	2.1	3.4	12.8	2.0%	57.0%
RoE (%)	114.6%	63.7%	44.1%	30.7%	31.1%	4.8%	(8,355) bps	40 bps
RoA (%)	10.6%	12.8%	13.6%	11.1%	9.9%	1.6%	(72) bps	(119) bps
RoCE (%)	94.5%	83.5%	63.8%	31.8%	19.1%	4.7%	(7,543) bps	(1,270) bps

Note: Pre-IPO financials; "P" denotes proforma & "A" denotes actual; Source: Choice Equity Broking

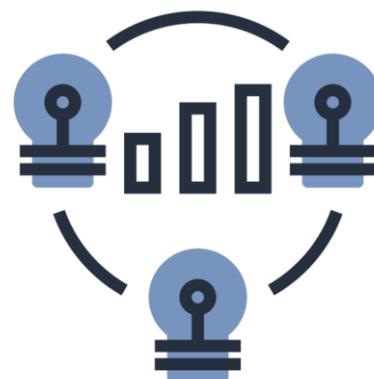


### Competitive strengths:

- Leading presence and one of the fastest growing CDMOs in the Indian pharmaceutical formulations market
- Well established relationships with marquee CDMO customer base
- Highly efficient operations, including world class manufacturing facilities and supply chain
- Rapidly growing domestic and international export branded generics businesses
- Strong R&D focus to build an increasingly complex product portfolio and attract and retain customers
- Consistent financial performance
- Experienced promoters and management team

### Business strategy:

- Expansion of manufacturing capacities
- Integration of the acquired Sharon business
- Expand the wallet share of existing customers and develop new customers
- Continued focus on R&D operations
- Growing international export business
- Expanding domestic branded generics business
- Growth through strategic acquisitions



### Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Difficulty in integrating the Sharon business
- Delay in the commissioning of new Jammu facility
- Unfavorable product-mix and forex rates
- Difficulty in maintaining the profitability
- Competition

## Financial statements:

Proforma consolidated profit and loss statement (Rs. cr)									
	FY19 P	FY20 P	FY21 P	FY22 P	FY23 P	Q1 FY24 A	CAGR over FY19-23	Annual growth over FY22	
<b>Revenue from operations</b>	<b>493.6</b>	<b>541.3</b>	<b>613.8</b>	<b>800.5</b>	<b>1,118.6</b>	<b>233.2</b>	<b>22.7%</b>	<b>39.7%</b>	
Cost of materials consumed	(368.7)	(391.1)	(411.8)	(573.6)	(737.8)	(166.4)	18.9%	28.6%	
Purchase of stock-in-trade	(16.1)	(17.0)	(36.8)	(38.8)	(44.8)	(8.1)	29.1%	15.5%	
Changes in inventories of finished goods, work-in-progress and stock-in-trade	6.4	13.4	4.2	(5.5)	(4.4)	8.0		-20.5%	
<b>Gross profit</b>	<b>115.1</b>	<b>146.7</b>	<b>169.4</b>	<b>182.6</b>	<b>331.7</b>	<b>66.7</b>	<b>30.3%</b>	<b>81.6%</b>	
Employee benefits expense	(24.6)	(31.7)	(32.9)	(40.5)	(88.1)	(14.9)	37.6%	117.7%	
Other expenses	(25.1)	(32.2)	(47.1)	(46.1)	(114.3)	(20.5)	46.0%	147.6%	
<b>EBITDA</b>	<b>65.4</b>	<b>82.7</b>	<b>89.4</b>	<b>96.0</b>	<b>129.3</b>	<b>31.3</b>	<b>18.6%</b>	<b>34.7%</b>	
Depreciation and amortization expense	(11.4)	(11.4)	(7.0)	(7.5)	(19.7)	(2.8)	14.7%	162.7%	
<b>EBIT</b>	<b>54.0</b>	<b>71.3</b>	<b>82.4</b>	<b>88.5</b>	<b>109.6</b>	<b>28.5</b>	<b>19.4%</b>	<b>23.8%</b>	
Finance costs	(6.6)	(6.3)	(5.2)	(5.7)	(36.6)	(5.0)	53.3%	543.6%	
Other income	0.6	2.8	2.4	2.9	67.9	1.1	222.6%	2256.9%	
<b>PBT</b>	<b>48.0</b>	<b>67.8</b>	<b>79.7</b>	<b>85.7</b>	<b>141.0</b>	<b>24.6</b>	<b>30.9%</b>	<b>64.5%</b>	
Tax expenses	(13.0)	(19.2)	(21.7)	(21.8)	(39.9)	(7.0)	32.2%	83.2%	
<b>Reported PAT</b>	<b>35.0</b>	<b>48.6</b>	<b>58.0</b>	<b>64.0</b>	<b>101.1</b>	<b>17.6</b>	<b>30.4%</b>	<b>58.1%</b>	

Proforma consolidated balance sheet statement (Rs. cr)									
	FY19 P	FY20 P	FY21 P	FY22 P	FY23 P	Q1 FY24 A	CAGR over FY19-23	Annual growth over FY22	
Equity share capital	12.0	12.0	12.0	12.0	48.0	48.0	41.4%	300.0%	
Other equity	18.5	64.3	119.5	196.6	277.6	317.5	96.8%	41.2%	
Non-current borrowings	26.4	11.6	6.0	67.4	279.2	295.7	80.4%	314.5%	
Non-current lease liabilities	0.7	1.1	0.7	0.6	1.4	1.2	17.5%	134.6%	
Other non-current financial liabilities					7.9	9.6			
Non-current provisions	0.8	1.0	1.4	2.3	9.2	10.5	85.7%	305.5%	
Net deferred tax liabilities	1.2	1.6	1.9	2.1	3.9	4.7	34.0%	90.6%	
Other non-current liabilities	0.2	0.2	0.1	0.1	0.1		-20.6%	0.0%	
Trade payables	85.7	106.7	114.5	144.8	172.9	196.3	19.2%	19.4%	
Current borrowings	58.6	53.6	42.9	130.8	151.4	146.2	26.8%	15.7%	
Current lease liabilities	0.1	0.2	0.4	0.4	0.8	0.7	62.5%	100.5%	
Other current financial liabilities	120.1	121.3	120.7	9.3	47.7	31.5	-20.6%	411.6%	
Current provisions	0.3	0.3	0.6	0.4	3.1	2.7	85.7%	797.7%	
Net current tax liabilities	1.9	0.7		1.0		3.5			
Other current liabilities	2.1	5.3	6.9	7.8	15.5	18.1	65.6%	97.7%	
<b>Total liabilities</b>	<b>328.6</b>	<b>379.9</b>	<b>427.6</b>	<b>575.5</b>	<b>1,018.7</b>	<b>1,086.2</b>	<b>32.7%</b>	<b>77.0%</b>	
Property, plant & equipments	85.2	79.9	80.8	156.6	291.6	290.1	36.0%	86.3%	
Intangible assets	0.6	0.4	0.5	0.5	1.0	0.9	12.1%	111.0%	
Capital work-in-progress			7.3	0.0	21.7	34.8			
Right-of-use assets	3.8	4.1	2.8	9.3	44.5	44.2	85.6%	377.4%	
Goodwill	16.7	16.7	16.7	16.7	16.7	16.7	0.0%	0.0%	
Non-current loans				0.2	0.5	0.5		118.3%	
Other non-current financial assets	3.9	5.7	3.5	0.8	2.3	2.6	-12.9%	192.9%	
Net deferred tax assets	0.1	0.1	0.0	0.2	21.9	25.5	283.9%	9872.3%	
Net income tax assets	4.7	0.2	2.2	4.0	0.7	0.7	-37.2%	-81.9%	
Other non-current assets	0.3	0.6	7.9	8.1	56.2	72.0	269.0%	591.9%	
Inventories	64.1	104.5	110.9	128.4	156.3	145.2	25.0%	21.8%	
Trade receivables	131.9	137.4	148.7	212.7	291.3	303.3	21.9%	37.0%	
Cash & cash equivalents	2.6	6.3	12.4	2.4	52.7	83.4	111.2%	2059.0%	
Current loans	0.2	0.1	0.5	0.3	1.0	0.6	43.7%	240.4%	
Other current financial assets	1.3	1.2	3.8	4.3	10.9	10.2	70.4%	154.3%	
Other current assets	13.1	22.6	29.6	30.9	49.4	55.3	39.3%	59.5%	
<b>Total assets</b>	<b>328.6</b>	<b>379.9</b>	<b>427.6</b>	<b>575.5</b>	<b>1,018.7</b>	<b>1,086.2</b>	<b>32.7%</b>	<b>77.0%</b>	

Note: Pre-IPO financials; "P" denotes proforma & "A" denotes actual; Source: Choice Equity Broking

## Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)								
	FY19 A	FY20 A	FY21 A	FY22 A	FY23 A	Q1 FY24 A	CAGR over FY19 - 23	Annual growth over FY22
Cash flow before working capital changes	40.9	52.0	55.9	101.0	117.7	33.9	30.3%	16.5%
Working capital changes	(13.3)	(12.0)	(1.1)	(21.3)	(31.1)	17.0	23.7%	46.0%
<b>Cash flow from operating activities</b>	<b>18.9</b>	<b>30.8</b>	<b>41.6</b>	<b>58.9</b>	<b>67.1</b>	<b>47.4</b>	<b>37.3%</b>	<b>14.0%</b>
Purchase of fixed assets and CWIP	(8.1)	4.2	(18.7)	(193.9)	(79.0)	(194.6)	76.7%	-59.3%
<b>Cash flow from investing activities</b>	<b>(9.1)</b>	<b>(6.0)</b>	<b>(19.7)</b>	<b>(188.1)</b>	<b>(90.8)</b>	<b>(219.8)</b>	<b>77.6%</b>	<b>-51.7%</b>
<b>Cash flow from financing activities</b>	<b>(9.2)</b>	<b>(23.3)</b>	<b>(19.3)</b>	<b>124.6</b>	<b>27.1</b>	<b>201.2</b>		<b>-78.3%</b>
<b>Net cash flow</b>	<b>0.5</b>	<b>1.5</b>	<b>2.6</b>	<b>(4.6)</b>	<b>3.4</b>	<b>28.9</b>	<b>57.8%</b>	
Opening balance of cash	0.2	0.8	2.2	4.8	0.2	3.5	-7.3%	-96.8%
<b>Closing balance of cash</b>	<b>0.8</b>	<b>2.2</b>	<b>4.8</b>	<b>0.2</b>	<b>3.5</b>	<b>32.4</b>	<b>47.2%</b>	<b>2219.1%</b>

Consolidated financial ratios						
Particulars	FY19 P	FY20 P	FY21 P	FY22 P	FY23 P	Q1 FY24 A
<b>Profitability ratios</b>						
Revenue growth rate		9.7%	13.4%	30.4%	39.7%	
Gross profit growth rate		27.4%	15.5%	7.8%	81.6%	
Gross profit margin	23.3%	27.1%	27.6%	22.8%	29.7%	28.6%
EBITDA growth rate		26.4%	8.1%	7.4%	34.7%	
EBITDA margin	13.3%	15.3%	14.6%	12.0%	11.6%	13.4%
EBIT growth rate		32.0%	15.6%	7.4%	23.8%	
EBIT margin	10.9%	13.2%	13.4%	11.1%	9.8%	12.2%
Restated reported PAT growth rate		38.9%	19.3%	10.4%	58.1%	
Restated reported PAT margin	7.1%	9.0%	9.4%	8.0%	9.0%	7.5%
<b>Turnover ratios</b>						
Inventory receivable turnover ratio	7.7	6.4	5.7	6.7	7.9	1.6
Trade receivable turnover ratio	3.7	4.0	4.3	4.4	4.4	0.8
Accounts payable turnover ratio	5.8	5.6	5.5	6.2	7.0	1.2
Fixed asset turnover ratio	4.6	5.4	5.7	4.4	3.0	0.6
Total asset turnover ratio	1.5	1.4	1.4	1.4	1.1	0.2
<b>Return ratios</b>						
RoIC (%)	77.5%	60.1%	46.9%	24.7%	14.4%	3.5%
RoE (%)	114.6%	63.7%	44.1%	30.7%	31.1%	4.8%
RoA (%)	10.6%	12.8%	13.6%	11.1%	9.9%	1.6%
RoCE (%)	94.5%	83.5%	63.8%	31.8%	19.1%	4.7%
<b>Per share data</b>						
Restated adjusted EPS (Rs.)	6.1	8.5	10.1	11.2	17.7	3.1
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0	0.0
BVPS (Rs.)	5.3	13.3	23.0	36.5	56.9	63.9
Operating cash flow per share (Rs.)	3.3	5.4	7.3	10.3	11.7	8.3
Free cash flow per share (Rs.)		4.8	2.1	(32.3)	(11.6)	
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Note: Pre-IPO financials; "P" denotes proforma & "A" denotes actual; Source: Choice Equity Broking

## IPO rating rationale

**Subscribe:** An IPO with strong growth prospects and valuation comfort.

**Subscribe with Caution:** Relatively better growth prospects but with valuation discomfort.

**Avoid:** Concerns on both fundamentals and demanded valuation.

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