

Retail Research	IPO Note
Sector: Pharmaceutical	Price Band (Rs): 646 - 679
30th July 2024	Recommendation: Subscribe for Long Term Investment Horizon

Akums Drugs and Pharmaceuticals Ltd.

Company Overview:

Akums Drugs and Pharmaceuticals Limited is the largest India-focused CDMO (Contract Development Manufacturing Company) in terms of revenue, production capacity and clients served during the Financial Year 2023. As a CDMO, the company produces an extensive range of dosage forms including tablets, capsules, liquid orals, vials, ampoules, blow-filled seals, topical preparations, eye drops, dry powder injections, and gummies among others. During the FY24, the company had a market share of 30.2% of the Indian domestic CDMO market by value, which increased from 26.7% during the FY21.

Key Highlights:

1. Diverse client base with long-standing CDMO relationships: As of March 2024, the CDMO business had 1,524 clients, up from 1,386 in March 2022. The client base includes various pharmaceutical, wellness, e-commerce companies, and government entities. The company manufactured formulations for 26 of the top 30 pharmaceutical companies in India during FY24. Additionally, the company received repeat orders from 38 of the 50 largest clients.

2. Large and rapidly growing R&D capabilities across product portfolio: CDMO offers unique products and services created by an in-house team focusing on new formulations based on global trends in pharmaceuticals, wellness, and nutraceuticals. In the product conceptualization process, each potential product undergoes rigorous clinical and stability studies, scale-up procedures, and regulatory clearance before launch. The company's commitment to innovation has kept it at the forefront of pharmaceutical advancement in the CDMO sector in India and globally. Their R&D covers a diverse range of dosage types and product categories, both within and outside India. As of March 2024, the company operates four R&D units with 406 scientists. Two units are approved by the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India. The company has obtained 1,448 trademarks, 927 DCGI approvals, and five patents.

3. Strategic presence across the pharmaceutical value chain: The company operates in the pharmaceutical industry by providing contract development and manufacturing services (CDMO), marketing formulations, and manufacturing active pharmaceutical ingredients (APIs). This approach allows the company to pursue various growth opportunities and minimize industry-related risks. The company has a strong CDMO presence in the Indian pharmaceutical sector and also exports its products globally, giving it a competitive advantage and expanding its market reach. The company is engaged in manufacturing and sale of branded pharmaceutical formulations in India and overseas markets. It offers comprehensive healthcare solutions domestically and exports branded formulations to 65 countries. The company focuses on diverse therapeutic areas and employs a combination of distributors and its own sales force for marketing and sales.

Valuation: The company is valued at the FY24 EV/Sales and P/BV multiple of 2.3x/2.4x and 7.3x/7.7x based on post issue capital at lower and upper price band respectively. The company is raising funds through fresh issue to prepay certain borrowings and fund the working capital requirements. While comparing with peers, the stock is appearing to be valued slightly at premium given low profit base however the outlook for pharmaceutical sector is strong. We recommend subscribing to the issue for a long-term investment horizon.

Issue Details	
Date of Opening	30 th July 2024
Date of Closing	1 st August 2024
Price Band (Rs)	646 - 679
Offer for sale (Equity shares)	1,73,30,435
Fresh Issue (Rs cr)	680
Issue Size (Rs cr)	1800 - 1,857
No. of shares	2,78,56,751 - 2,73,45,163
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	10,199 – 10,686
BRLMs	ICICI Securities, Axis Bank, Citigroup Global Markets India Private Limited, Ambit Private Limited
Registrar	Link Intime India Private Limited
Bid Lot	22 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Repayment/prepayment of all or certain borrowings of the Company	159.9
Repayment/prepayment of all or certain borrowings of Subsidiaries namely, Maxcure Nutravedics Limited and Pure and Cure Healthcare Private Limited	227.1
Funding incremental working capital requirements of the Company	55.0
Pursuing inorganic growth initiatives through acquisitions [^]	-
General corporate purposes [^]	-
Total proceeds from fresh issue	680.0

[^] To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount to be utilised for general corporate purposes and achieving inorganic growth through acquisitions shall not exceed 35% of the Gross Proceeds. The amount to be utilised for general corporate purposes alone shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	12,14,79,380	82.4
Public & Others	2,58,76,900	17.6
Total	14,73,56,280	100.0

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	11,84,55,380	75.3
Public & Others	3,89,15,628	24.7
Total	15,73,71,008	100.0

Source: RHP, SSL Research

Key Financials

	FY22	FY23	FY24
Revenue from operation (Rs cr)	3,672	3,655	4,178
EBITDA (Rs cr)	-92	338	123
Adj. PAT (Rs cr)	-251	98	1
EBITDA Margin (%)	-	9.2	2.9
Adj. PAT Margin (%)	-	2.7	0.0
ROE (%)	-	13.6	0.1
ROCE (%)	-	21.6	2.6
*EV/Sales (x)	2.7	2.8	2.4
*P/BV (x)	15.6	13.5	13.7

**Based on pre-issue share capital as of Mar'24*

Source: RHP, SSL Research,

Risk Factors

- **Supply Risk:** The company relies on domestic & international third-party suppliers for the supply of raw materials. Any delay, interruption or reduction in the supply of such raw materials could adversely affect the business, cash flows, financial condition and operations of the company.
- **Operational inefficiency:** The company's ability to successfully develop and commercialize new products in a timely manner is the backbone of its business model. Any failure to do so, may lead to inefficiency in the business and its operations.
- **Regulatory Risk:** The company operates in a highly regulated industry which is subject to periodic inspections and audits. Failure to comply with the existing and future regulatory requirements of the industry could impact the business of the company adversely.
- **Non-Compliance Risk:** The company and its promoters have been flagged for non-compliance in the past and have outstanding legal proceedings. Any unfavorable decision in connection with such proceedings, individually or in the aggregate, could adversely affect its reputation, business, financial condition and results of operations.

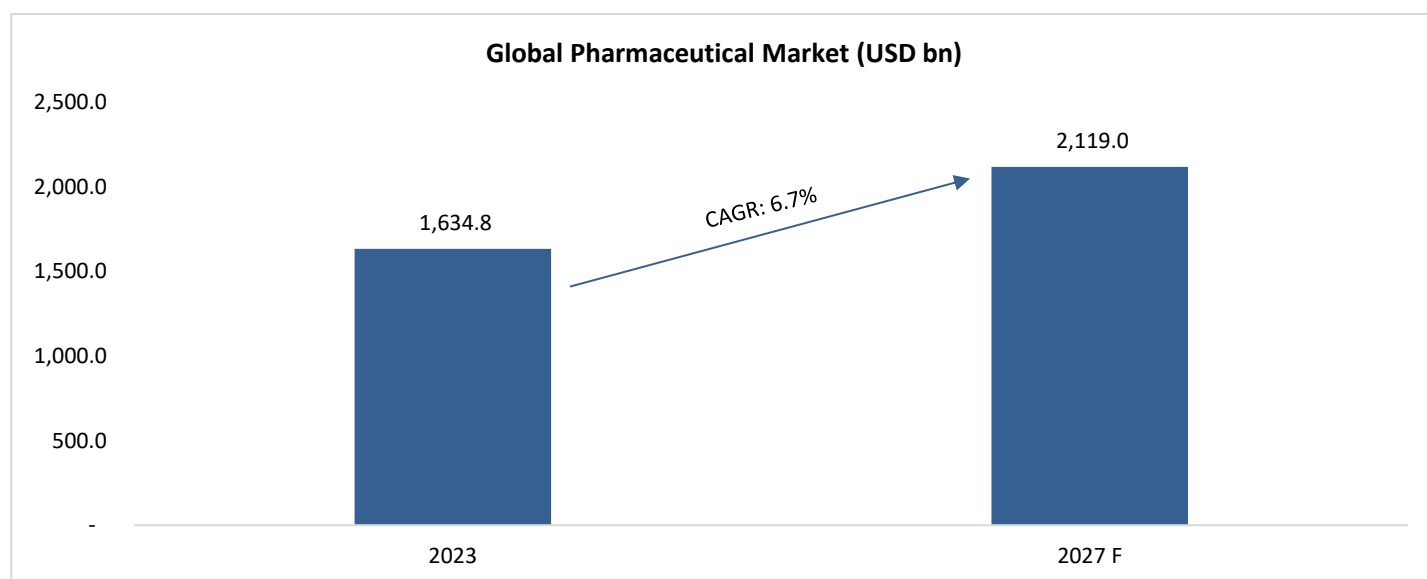
Growth Strategy

- Expanding global presence through entering new markets and further diversifying operations.
- Prioritizing R&D across diverse therapeutic areas and dosage forms.
- Scaling API business through established client relationships.
- Growing domestic formulations business through expanding brand presence, augmenting marketing efforts and foraying into newer therapeutic areas.
- Leveraging leadership position to continue increasing market share and consolidate position in the CDMO market.

Industry Overview

Global Pharmaceutical Industry: The Global Pharmaceutical industry was valued at USD 1,634.8 Bn in 2023 and is anticipated to reach USD 2,119.0 Bn by 2027; experiencing a CAGR of 6.7% during the forecast period 2023-27. The entire pharmaceutical market is pivotal in advancing global healthcare, encompassing critical aspects such as research, development, manufacturing, and distribution of pharmaceutical products, including drugs, vaccines, and biotechnology-based therapies.

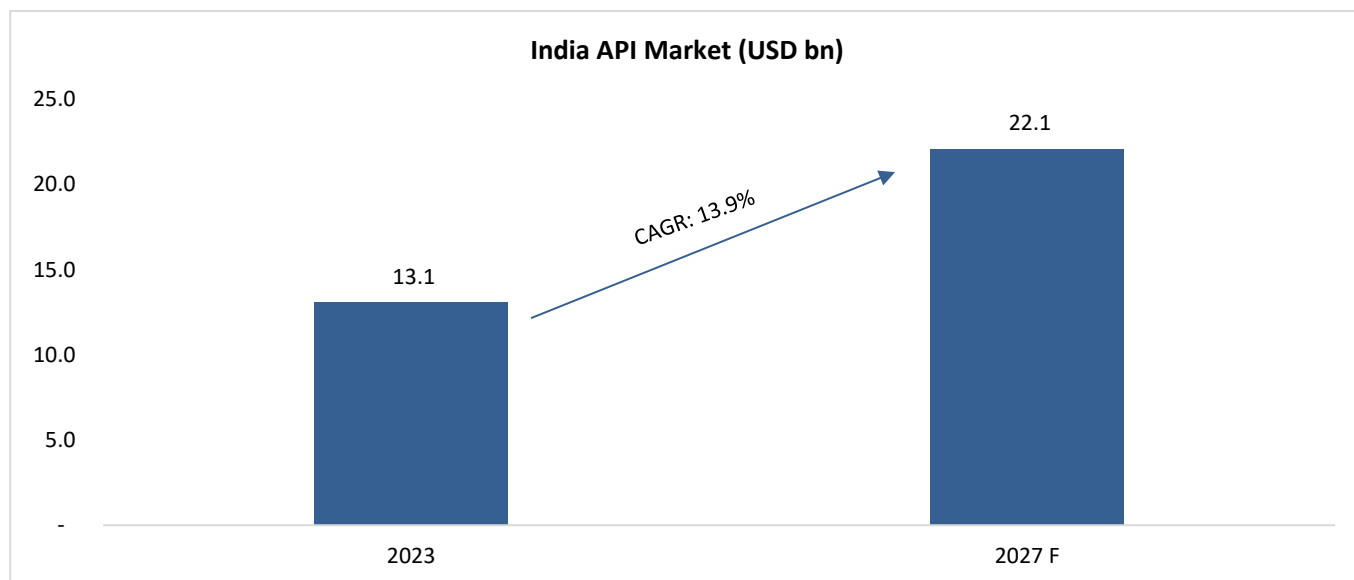
On the regional front, North America is poised to dominate with its ~43% market share in 2023. Emerging markets of India, Africa, Middle East and Latin America are expected to grow with 7-10% CAGR between 2023 to 2027 vs a global average of 6-7%; on the back of strong price erosion and increasing cost of compliance in traditional high-growth markets like the US which has encouraged companies to seek growth in under-tapped and relatively less competitive markets by launching new customized products and forming local partnerships.



Source: RHP, SSL Research

Indian API Industry: The Active Pharmaceutical Ingredient (API) market in India is forecasted to grow at a CAGR of 13.9% in the estimate period of 2023-27. API serves as the biologically active core of a drug, inducing specific therapeutic effects, from pharmacological actions to disease diagnosis and prevention.

The demand for pharmaceutical products is directly linked to API sales and thus, as the demand for such products grows so does the need for APIs. Moreover, with the increasing adoption of novel drugs, including biologics, coupled with the volume growth of the generics industry, the segment is expected to grow steadily. There is also a rising preference for complex APIs like Highly Potent Active Pharmaceutical Ingredients (HPAPIs) or those derived from fermentation. Following the demand for such APIs in the global market, expanding high-value APIs will result in an API market growing faster than the pharmaceutical market by value.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	3,672	3,655	4,178
YoY growth (%)	-	-0.5	14.3
Cost Of Revenues (incl Stock Adj)	2,345	2,274	2,550
Gross Profit	1,327	1,381	1,628
Gross margins (%)	36.1	37.8	39.0
Employee Cost	508	590	647
Other Operating Expenses	911	453	858
EBITDA	-92	338	123
EBITDA margins (%)	-	9.2	2.9
Other Income	23	46	34
Net Interest Exp.	17	46	51
Depreciation	95	113	126
PBT	-180	225	-19
Exceptional item/Extraordinary item	13	75	26
Tax	58	52	-46
Adj PAT	-251	98	1
Adj. PAT margin (%)	-	2.7	0.0
Adj. EPS	-17.5	6.8	0.1

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
Assets			
Net Block	932	963	1,065
Capital WIP	31	103	195
Intangible Assets	5	6	7
Right of use assets	81	126	117
Other Non-current Assets	128	144	191
Current Assets			
Inventories	722	730	630
Trade receivables	884	845	834
Cash and Bank Balances	103	150	277
Short-term loans and advances	0	7	0
Other Current Assets	154	147	199
Total Current Assets	1,864	1,879	1,941
Current Liabilities & Provisions			
Trade payables	590	567	532
Other current liabilities	273	224	203
Short-term provisions	59	46	57
Total Current Liabilities	921	837	792
Net Current Assets	943	1,042	1,149
Assets Classified as held for sale	28	45	0
Total Assets	2,148	2,430	2,725
Liabilities			
Share Capital	14	29	29
Reserves and Surplus	608	689	681
Total Shareholders Funds	622	717	709
Minority Interest	3	6	11
Total Debt	358	537	492
Long Term Provisions	24	26	31
Lease Liabilities	37	82	74
Other Long-Term Liabilities	1,064	1,036	1,396
Net Deferred Tax Liability	39	25	12
Total Liabilities	2,148	2,430	2,725

Cash Flow (Rs)	FY22	FY23	FY24
Cash flow from Operating Activities	32	177	498
Cash flow from Investing Activities	-235	-305	-330
Cash flow from Financing Activities	236	125	-108
Free Cash Flow	-226	-152	187

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets (%)	-	3.0%	0.0%
Return on Capital Employed (%)	-	21.6%	2.6%
Return on Equity (%)	-	13.6%	0.1%
Margin Analysis			
Gross Margin (%)	36.1%	37.8%	39.0%
EBITDA Margin (%)	-	9.2%	2.9%
Net Income Margin (%)	-	2.7%	0.0%
Short-Term Liquidity			
Current Ratio (x)	1.5	1.5	1.6
Quick Ratio (x)	0.9	0.9	1.1
Avg. Days Sales Outstanding	87.9	84.4	72.8
Avg. Days Inventory Outstanding	71.8	72.9	55.1
Avg. Days Payables	58.6	56.6	46.5
Fixed asset turnover (x)	3.9	3.8	3.9
Debt-service coverage (x)	-	0.6	0.2
Long-Term Solvency			
Total Debt / Equity (x)	0.6	0.7	0.7
Interest Coverage Ratio (x)	-	5.9	0.6
Valuation Ratios			
EV/EBITDA (x)	-	29.9	80.7
P/E (x)	-	99.3	12,296.3
P/B (x)	15.6	13.5	13.7
EV/Sales (x)	2.7	2.8	2.4

Source: RHP, SSL Research

Peer Comparison

	Akums Drugs & Pharmaceuticals	Torrent Pharma	Alkem Laboratories	Eris Lifesciences
CMP	679	3,182	5,202	1,101
Sales (Rs cr)	4,178	10,728	12,668	2,009
EBITDA (Rs cr)	123	3,368	2,245	675
Net Profit (Rs cr)	1	1,656	1,811	397
M.Cap (Rs cr)	10,686	1,07,822	62,133	14,987
Enterprise Value (Rs cr)	10,220	1,11,005	62,094	16,368
EBITDA Margin (%)	2.9	31.4	17.7	33.6
Net Margin (%)	0.0	15.4	14.3	19.8
EV/Sales (x)	2.4	10.3	4.9	8.1
PE (x)	13,525.9*	64.4	32.8	38.2
EV/EBITDA (x)	83.1*	31.5	24.3	23.4
RoE (%)	0.1*	24.0	20.0	16.0
RoCE (%)	2.6*	23.0	20.0	11.0

The data is based on FY24 financial data.

For Akums Drugs and Pharmaceuticals Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

*CMP as on 29th July, 2024. * Due to low profit base.*

Source: RHP, SSL Research

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