



SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

| Industry | Pharmaceuticals |
|--------------------------------|-------------------|
| Offer for sale (Shares) | 5,580,357 |
| Fresh Issue (Shares) | 7,142,857 |
| Net Offer to the Public | 12,723,214 |
| Issue Size (Rs. Cr.) | 542-570 |
| Price Band (Rs.) | 426-448 |
| Offer Date | 21-Dec-23 |
| Close Date | 26-Dec-23 |
| Face Value | 10 |
| Lot Size | 33 |

Issue Composition

| | In shares |
|----------------------|------------|
| Total Issue for Sale | 12,723,214 |
| QIB | 6,361,607 |
| NIB | 1,908,482 |
| Retail | 4,453,125 |

Shareholding Pattern (%)

| Particulars | Pre-issue | Post-issue |
|-----------------------------|----------------|----------------|
| Promoters & promoters group | 66.85% | 51.68% |
| QIB | 0.00% | 11.12% |
| NIB | 33.15% | 29.42% |
| Retail | 0.00% | 7.78% |
| Total | 100.00% | 100.00% |

*calculated on the upper price band

Objects of the Issue

The objectives of the Offer are to

1. Repayment and / prepayment in part or in full, of certain outstanding loans of company;
2. Investment in Subsidiary, UML, for repayment and / or prepayment in part or full of outstanding loans availed by UML;
3. Funding working capital requirements; and
4. General corporate purposes

Book Running Lead Manager

- ICICI Securities Limited
- JM Financial Limited

Name of the registrar

- KFin Technologies Limited

About the company

Incorporated in January 2005, Innova Captab Limited is a pharmaceutical company operating in three business segments. Firstly, it provides contract development and manufacturing services to Indian pharmaceutical companies. Secondly, the company has a domestic business dealing in branded generics. And thirdly, the company has an international business that deals in branded generics. The company's product portfolio includes tablets, capsules, dry syrups, dry powder injections, ointments and liquid medicines. Innova Captab exported its branded generic products to 20 and 16 countries in FY2023 and the three months ended June 30, 2023, respectively. The company's customer base includes Cipla, Glenmark Pharmaceuticals, Wockhardt, Corona Remedies, Emcure Pharmaceuticals, Lupin, Medley Pharmaceuticals, Eris Healthcare, Zuventus Healthcare, Ajanta Pharma, Mankind Pharma, and others.

Strength

Leading presence and one of the fastest growing CDMOs in the Indian pharmaceutical formulations market: In Fiscal 2022, among Indian formulation CDMO players considered in the CRISIL Report, it recorded the third highest operating revenue, the second highest operating profit margin, the third highest net profit margin and the second highest return on capital employed. It has positioned its company to benefit from the growth in the CDMO market by developing strong R&D and manufacturing operations for its customers to support its domestic sales and exports to certain markets. Its CDMO product portfolio spans across both acute and chronic therapeutic areas. Its number of CDMO products sold has grown by 131.43% from 1,066 in Fiscal 2021 to 2,467 in Fiscal 2023, on a restated consolidated basis. Its number of CDMO products sold in the three months ended June 30, 2023 was 1,088 on a restated consolidated basis. In order to maintain its market position, it is continuously expanding its portfolio.

Well established relationships with marquee CDMO customer base: In its CDMO business, Innova Captab has developed strong relationships across the Indian pharmaceutical industry. In Fiscal 2023, we had 182 CDMO customers. Its customer engagements are dependent on it delivering quality products consistently. Its potential customers may require considerable amounts of time to approve it as suppliers to ensure that all their quality controls are met and that it meets all their regulatory requirements across a variety of jurisdictions and multiple regulators. As of October 31, 2023, Innova Captab had 3 sales and marketing personnel focused on its CDMO business. Its revenue from its CDMO services and products has historically been derived from a diverse customer base.

Highly efficient operations, including its world class manufacturing facilities and supply chain: It has two manufacturing facilities in Baddi, Himachal Pradesh. Its facilities produce tablets, capsules, dry syrups, dry powder injections, ointments and liquid orals. In Fiscal 2021, Fiscal 2022 and Fiscal 2023 and in the three months ended June 30, 2023, the total installed capacity of the Company and the Innova Partnership, on a combined basis (not including Sharon), was of 423.93 crore, 555.67 crore, 819.16 crore and 204.79 crore, respectively, and 159.12 crore, 204.82 crore, 247.25 crore and 61.81 crore capsules, respectively, during the same periods. It believes that maintaining a high standard of quality for its products is critical to its brand and continued growth.

Rapidly growing domestic and international export branded generics businesses: its branded generics business consists of the development, manufacture and distribution of generic formulation products, which are marketed and distributed in India. Its domestic and international export branded generics businesses have been growing rapidly. During Fiscal

2021, Fiscal 2022 and Fiscal 2023 and during the three months ended June 30, 2023, revenue from its domestic branded generic business on a restated consolidated basis was nil, Rs. 37.05 crore, Rs.166.16 crore and Rs. 42.25 crore, respectively. Revenue from its domestic branded generic business on a pro forma consolidated basis was Rs.166.16 crore in Fiscal 2023. In Fiscal 2023 and in the three months ended June 30, 2023, it exported branded generics to 20 and 16 countries, respectively. As on October 31, 2023, it has 200 active product registrations (and 20 registration subject to renewal) with international authorities and 218 fresh registration applications in process with international authorities. Innova Captab has a strong pipeline of over 36 in-process product dossiers for exports. Its focus has been on expanding its country approvals and product registrations but also expanding its customer base and volumes sold to existing customers. As of October 31, 2023, it had a total sales and marketing team of 6 personnel focused on its international business.

Strong R&D focus to build an increasingly complex product portfolio and attract and retain customers: Innova Captab is a R&D centric organization, and its R&D operations help it attract CDMO customers and grow its branded generic portfolio. It has a dedicated R&D laboratory and pilot equipment located at its manufacturing facility in Baddi, Himachal Pradesh. Its R&D laboratory is recognized by the DSIR for in-house R&D work. In addition, it is looking to establish a new R&D center in Panchkula, Haryana. Its R&D laboratory is equipped with a suite of equipment for the development of solid oral and liquid dosage forms which includes RMG/FBP/Compression machine and auto coater. In addition, its analytical laboratory is also equipped with HPLC, UV/dissolution apparatuses, Karl Fischer moisture analyzers, sonicators, disintegration testers, thermal stability units and fume hoods.

Consistent financial performance: It has demonstrated strong growth in terms of revenues and profitability. In Fiscal 2022, among Indian formulation CDMO players considered in the CRISIL Report, it recorded the third highest operating revenue, the second highest operating profit margin and the third highest net profit margin.

Strategy

Expansion of its manufacturing capacities: CDMOs are considered an important and growing part of the pharmaceutical value chain. By expanding its manufacturing capacity, the company will be able to expand its product offering in both its CDMO and its branded generic businesses. Accordingly, it is planning to construct a new 240,916 sq. ft facility in Jammu, which will include tablets, capsules, dry syrups and injections.

Expand the wallet share of existing customers and develop new customers: It aims to expand its business with existing customers and to develop new customers. It aims to increase the formulations manufactured for its existing customers through its by leveraging its inhouse R&D and large-scale manufacturing capabilities. Further, it aims to build additional business from its existing customers by the expansion of its portfolio into new products and more complex dosages as well as the expansion of its manufacturing capacities.

Continued focus on R&D operations: Its R&D operations are the growth engine for its business, and it will continue to focus on expanding its research activities for its CDMO and branded generic businesses. In Fiscal 2024, it has 72 new therapeutic generic products in the development stage and expects that 30 new generic products will be commercialized in Fiscal 2024. Accordingly, it endeavors to keep R&D expenditure at current levels and will continue to invest in R&D capital expenditure. In addition, it is looking to establish a new R&D center in Panchkula, Haryana. It has already acquired land for the same. The new R&D center will be equipped with advanced equipment and instruments and will focus on the development of generic and complex generic products.

Growing international export business: In Fiscal 2023 and in the three months ended June 30, 2023, it exported branded generic products to 20 and 16 countries, respectively. It has focused its international branded generic business on emerging and semiregulated international markets. It is expanding its international branded generics business to regulated markets like the United Kingdom and Canada. As on October 31, 2023, it has 200 active product registrations (and 20 registrations subject to renewal) with international authorities and 218 fresh registration applications in process with international authorities.

Expanding its domestic branded generics business: In Fiscal 2023 and in the three months ended June 30, 2023, the company has marketed its domestic branded generics business through a developed network of approximately 5,000 distributors and stockists and over 150,000 retail pharmacies across India. It aims to grow its pan-Indian network to include more retailers and expand its geographic reach. To that end, it is employing a sales and marketing field team to expand its distributor, stockist and retailer relationships and support its new generic product launches. As on date of October 31, 2023, it had 287 marketing representatives, and it looks to further expand its team during Fiscal 2024.

Growth through strategic acquisitions: It will look to capitalize on the growth in the pharmaceuticals market in India by pursuing strategic acquisitions with a focus on backward integration or expansion of capabilities in terms of capacity or products. In particular, it will look for targets with R&D and manufacturing assets that are in line with its existing or desired competencies as well as having the profitability metrics that fit in with its business philosophy.

Risk factor

- The company operates in a market that is highly competitive.
- The business is dependent and will continue to depend on its manufacturing facilities, and it is subject to certain risks in its manufacturing process.
- The company depends on a limited number of contract development and manufacturing organization (“CDMO”) customers.
- The company has incurred significant capital expenditure during the last three Fiscal Years and the three months ended June 30, 2023.

Peer comparison

| Co_Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | Price | Mcap |
|-------------------------|--------------|---------|-------|-------|-------|--------|-------|---------|----------|
| J B Chem & Pharm | 3332.97 | 486.64 | 31.39 | 46.89 | 8.40 | 175.22 | 1.00 | 1472.00 | 22822.50 |
| Torrent Pharma. | 10087.00 | 1343.00 | 39.68 | 54.03 | 10.82 | 198.18 | 5.00 | 2143.90 | 72559.32 |
| Natco Pharma | 3562.30 | 1127.40 | 62.94 | 12.35 | 2.63 | 295.55 | 2.00 | 777.40 | 13924.00 |
| Ajanta Pharma | 3903.09 | 660.18 | 52.43 | 36.05 | 6.84 | 276.51 | 2.00 | 1890.30 | 23802.03 |
| Laurus Labs | 5331.96 | 367.82 | 6.83 | 58.46 | 5.34 | 74.81 | 2.00 | 399.25 | 21505.64 |
| ERIS Lifescience | 1774.98 | 385.57 | 28.35 | 31.05 | 4.97 | 177.29 | 1.00 | 880.30 | 11974.13 |
| Innova Captab Limited** | 926.38 | 67.95 | 11.87 | 37.73 | 4.30 | 104.24 | 10.00 | 448.00 | 2563.68 |

*Peer comparisons are based on TTM

**Innova Captab Limited financials are based on FY23.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.448, the stock is priced at pre issue P/E of 33.02x on FY-2023 EPS of Rs. 13.57. Post issue, the stock is priced at a P/E of 37.73x on its EPS of Rs.11.87. Looking at the P/B ratio at Rs.448, pre issue, book value of Rs. 55.21 of P/Bvx 8.11x. Post issue, book value of Rs. 104.24 of P/Bvx 4.30x.

Considering the P/E valuation, on the lower end of the price band of Rs.426, the stock is priced at pre issue P/E of 31.40x on FY-2023 EPS of Rs. 13.57. Post issue, the stock is priced at a P/E of 35.87x on its EPS of Rs. 11.87. Looking at the P/B ratio at Rs.426, pre issue, book value of Rs. 55.21 of P/Bvx 7.72x. Post issue, book value of Rs. 104.24 of P/Bvx 4.09x.

Industry Outlook

The Indian CDMO market has grown at a rate of 14% in the last five years from Fiscal 2018 to Fiscal 2023, and CRISIL Research expects this trend to continue over the next five years from Fiscal 2023 to Fiscal 2028 with the Indian CDMO market projected to grow at approximately a 12-14% CAGR over the next five years from Rs.1,310 billion in Fiscal 2023 to Rs.2,400-2,500 billion in Fiscal 2028. (Source: CRISIL Report, October 2023). According to CRISIL Research, in dosage terms, oral solids dominate the Indian formulations industry with approximately 63% share in value terms and 62% in

volume terms in Fiscal 2023. (Source: CRISIL Report, October 2023). Similarly, the injectables segment constituted 14-15% (in value terms) and approximately 14% (in volume terms) of all dosage forms catered by domestic formulations industry in Fiscal 2023.

Outlook

The company is an integrated pharmaceutical company specializing in branded generic products for the domestic and international markets. The company has recently acquired Sharon Bio to mark synergic expansion. It is also gearing for new product portfolio with its upcoming new plant at Jammu. On the flip side, the company depends on a limited number of contract development and manufacturing organization (“CDMO”) customers. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

| EVENT | INDICATIVE DATE (On or about) |
|--|----------------------------------|
| BID/ISSUE OPENS ON | 21-December-23 |
| BID/ISSUE CLOSES ON | 26-December-23 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 27-December-23 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 28-December-23 |
| Credit of Equity Shares to demat accounts of Allottees | 28-December-23 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 29-December-23 |

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

| Particulars | Period ended 30-Jun-23 (3 Months) | Period ended 31-Mar-23 (12 Months) | Period ended 31-Mar-22 (12 Months) |
|--------------------------|--------------------------------------|---------------------------------------|---------------------------------------|
| Revenue from operations | 233.24 | 926.38 | 800.53 |
| Total expenditure | 201.94 | 812.73 | 704.51 |
| Operating Profit | 31.30 | 113.65 | 96.02 |
| OPM% | 1.34 | 1.23 | 1.20 |
| Other Income | 1.13 | 9.20 | 2.88 |
| PBDIT | 32.42 | 122.85 | 98.90 |
| Depreciation | 2.79 | 11.08 | 7.50 |
| PBIT | 29.63 | 111.77 | 91.40 |
| Interest | 5.03 | 19.97 | 5.68 |
| Profit before tax | 24.60 | 91.79 | 85.72 |
| Tax | 7.01 | 23.84 | 21.77 |
| PAT | 17.59 | 67.95 | 63.95 |

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

| Particulars | As on 30-Jun-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|---|-----------------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 290.08 | 150.11 | 156.56 |
| Right-of-use assets | 44.16 | 15.30 | 9.33 |
| Capital work-in-progress | 34.83 | 21.54 | 0.03 |
| Goodwill | 16.69 | 16.69 | 16.69 |
| Other intangible assets | 0.94 | 0.77 | 0.45 |
| Financial Assets | | | |
| Loans | 0.52 | 0.48 | 0.22 |
| Other Financial Assets | 2.62 | 0.56 | 0.78 |
| Deferred tax assets (net) | 25.54 | 0.12 | 0.22 |
| Income tax assets (net) | 0.74 | 0.73 | 4.03 |
| Other Non-Current Assets | 72.04 | 55.64 | 8.12 |
| Total non-current assets | 488.17 | 261.95 | 196.42 |
| Current assets | | | |
| Inventories | 145.23 | 117.32 | 128.39 |
| Financial Assets | | | |
| Invesments | | | |
| Trade Receivables | 303.28 | 265.22 | 212.69 |
| Cash and Cash Equivalents | 32.41 | 3.53 | 0.15 |
| Bank Balances other than cash and cash equivalents as above | 50.99 | 15.35 | 2.29 |
| Loans | 0.61 | 1.01 | 0.30 |
| Other financial assets | 10.20 | 7.19 | 4.30 |
| Other Current Assets | 55.28 | 32.85 | 30.94 |
| Total current assets | 597.99 | 442.47 | 379.05 |
| Assets held for sale | | | |
| Total Assets | 1,086.16 | 704.41 | 575.48 |
| Non-current liabilities | | | |
| Financial liabilities | | | |
| Borrowings | 295.68 | 134.18 | 67.35 |
| Lease liabilities | 1.21 | 1.38 | 0.59 |
| Provisions | 10.45 | 2.90 | 2.27 |
| Deferred tax liabilities (net) | 4.69 | 3.92 | 2.06 |
| Other financial liabilities | 9.58 | 7.89 | - |
| Other non-current liabilities | - | 0.09 | 0.09 |
| Total non-current liabilities | 321.62 | 150.36 | 72.35 |
| Current liabilities | | | |
| Financial Liabilities | | | |
| Borrowings | 146.22 | 101.02 | 130.83 |
| Lease liabilities | 0.67 | 0.40 | 0.40 |
| Trades Payable - MSME | 2.37 | 0.57 | 1.43 |
| Trade Payables - other than MSME | 193.98 | 157.91 | 143.37 |
| Other financial liabilities | 31.54 | 11.46 | 9.33 |
| Other current liabilities | 18.11 | 5.61 | 7.85 |
| Provision | 2.67 | 0.58 | 0.35 |
| Current tax liabilities (net) | 3.48 | - | 0.97 |
| Total current liabilities | 399.03 | 277.55 | 294.52 |
| Total | 720.65 | 427.91 | 366.87 |
| Net worth represented by: | | | |
| Equity Share Capital | 48.00 | 48.00 | 12.00 |
| Other equity | 317.51 | 228.51 | 196.61 |
| Net Worth | 365.51 | 276.51 | 208.61 |

RANKING METHODOLOGY

| | |
|------------------|-------|
| WEAK | ★ |
| NEUTRAL | ★★ |
| FAIR | ★★★ |
| GOOD | ★★★★★ |
| EXCELLENT | ★★★★★ |

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