

The Issue	
<b>Type of Issue</b>	<b>Issue size Rs. Mn</b>
Fresh Issue	6,800
Offer for Sale	11,767
<b>Total</b>	<b>18,567</b>
<b>Post issue mkt cap (Rs. mn)*</b>	<b>10,685</b>
<b>Lot size</b>	<b>22 shares</b>

\*At Upper Price Band

Issue Break-Up	
<b>Reservation for</b>	<b>% of Issue</b>
QIB	75%
NIB	15%
Retail	35%
<b>Total</b>	<b>100%</b>

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	July 30, 2024
Bid/Offer Closing Date	Aug 1, 2024
Finalization of the Basis of Allotment	Aug 2, 2024
Credit of shares	Aug 5, 2024
Initiation of refunds	Aug 5, 2024
Listing Date	Aug 6, 2024

Use of Proceeds	
Repayment/Pre-payment of borrowings	- Rs 3,870 mn
Funding of working capital	- Rs 550 mn

**Manager** ICICI, Axis Capital, Citigroup, Ambit

**Registrar** Link Intime India Pvt. Ltd.

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### Leadership position in domestic CDMO market

- Established in 2004, Akums Drugs and Pharmaceuticals (Akums) is India-focused CDMO player and is the largest by revenue. The company owns the intellectual property for the manufacturing processes of several of its formulations, and its core business is focused on providing end-to-end product development and manufacturing solutions to its clients.
- Some of its other services include formulation R&D, preparation and filing of regulatory dossiers in the Indian and global markets, and other testing services. In addition to its core CDMO business, it is also engaged in the manufacturing and sale of branded pharmaceutical formulations and APIs. Since inception, the company has manufactured 4,146 commercialised formulations across over 60 dosage forms.
- Its product basket includes extensive range of dosage forms including tablets, capsules, liquid orals, vials, ampoules, blow-filled seals, topical preparations, eye drops, dry powder injections, and gummies etc. Its market share in India's domestic CDMO improved from 26.7% in FY21 to 30.2% in FY24. The company has an SKU of 18,874 CDMO products. Further, Akums expects its new injectable facility to be operational in FY25.
- Its top 5 clients contribute 25.7% to its overall sales while top 10 clients contribute 39.3% to its overall sales.
- Segment wise revenue mix is as follows: **CDMO** - 78% of sales; **Branded generics & formulations** - 16.7% of sales; **API** - 5% to its sales. The company also undertakes marketing of trade generic and products under its own brand through distributors and alternative channels across India.
- The company has 12 units of manufacturing facilities in Haridwar catering to CDMO and Branded generics and has 3 API facilities manufacturing facilities in Punjab & Haryana.

**Valuation and Outlook:** At the upper price band of Rs 679, the IPO is priced at P/S of 2.9x/2.9x/2.6x FY22/FY23/FY24 revenue. Akums is the largest CDMO player in domestic market with 30% market share. The company caters to diversified clientele and has a solid SKU profile for its CDMO business. Apart from the base business of CDMO and Branded generics, the company is poised to make inroads into the faster growing injectables business which is expected to ramped up by 2HFY25. Its near debt-free status post pre-payment of short term borrowings from IPO proceeds should also aid profitability in the medium term. We believe, the CDMO industry is poised to grow at 14.5% CAGR to \$2.8bn by FY28 which provides ample scope for sustainable growth ahead. The Company has a robust network of R&D driven product SKUs which provides as a fairly high entry barrier in the lesser competitive CDMO market. We believe with most of the one-off expenses written off, the company's EBITDA margins should clock ~10%-12% by FY25E. We thus assign a SUBSCRIBE rating to the IPO.

## Akums Drugs and Pharmaceuticals Ltd.

### Key financial summary

Financial summary (Rs. mn)	FY22	FY23	FY24
Revenue	36,718	36,548	41,782
Reported EBITDA	-1795	3,620	1,353
Reported EBITDA margin (%)	-4.9%	9.9%	3.2%
PAT	-2,509	978	8
P/E (x) (at upper band)	-	109x	-

\*annualised PE

\*\*Adjusted for one-offs; EBITDA margin for FY22/FY23/FY24 would have been at 11.9%/9.9%/12.5% respectively.

### Pre-issue and post-issue holding structure

	No. of Shares	% of total equity capital	No. of shares	% of total equity capital
	Pre-IPO		Post-IPO	
Promoter	121,528,880	82.47%	118,504,880	75.30%
Others	25,827,400	17.53%	38,866,128	24.70%
<b>Total</b>	<b>147,356,280</b>	<b>100.0%</b>	<b>157,371,008</b>	<b>100.0%</b>

\* At upper price band

Selling shareholders	Promoter & Promoter group / Others	No. of shares
Sanjeev Jain	Promoter	1,512,000
Sandeep Jain	Promoter	1,512,000
Ruby QC Investment Holdings Pte. Ltd.	Investor	14,306,435

### Key risk:

- **Disaster risk:** The company has 12 manufacturing facilities in Haridwar which is prone to natural disasters and cloud bursts. Any disruption due to natural disasters may impact company's revenue.
- **Client concentration:** Its five largest clients contribute 25.7% to its overall sales while ten largest clients contribute 39.3% to its overall sales. The company is continuing to gain wallet share with new clients which should alleviate dependency on old clients.
- **Imports from China:** Company imports 11% of its raw materials from China. While 88% of its raw materials are sourced locally. Any supply chain disruption in China could affect the company's production and revenue.

## Akums Drugs and Pharmaceuticals Ltd.

### Strategies

- Leverage position and increase market share in CDMO market:** Since commencement, Akums has broadened its CDMO offerings to provide a diverse range of products and services across therapeutic areas and dosage forms. To further strengthen its leadership position in the domestic market, it is focused on the expansion of both existing and new dosage forms and formulations. Its overarching strategy revolves around a synergistic approach to product categories, clients, and manufacturing capabilities. This includes a targeted approach to increase market share through the expansion of its existing product portfolio and its client base, and introduction of new products. These can be achieved through (a) increasing the product categories, (b) increasing client diversity, (c) Diversifying dosage capabilities.
- Improving R&D in dosage forms:** The company aims to grow its dosage forms through (a) expansion of its brand presence; (b) Augmenting Marketing Efforts; (c) Foray into newer therapeutic areas like neurology, psychiatry and orphan diseases.
- Scale API business:** The company aims to develop a comprehensive portfolio of complex APIs for both captive consumption and sales to other formulation manufacturers within and outside India. By identifying significantly unmet needs in the industry, it aims to offer APIs and improve its product margins by focusing on process efficiency and leveraging its R&D capabilities to solidify its presence in the domestic market. Lastly, it plans to offer APIs into semi-regulated and regulated markets and explore contract manufacturing of APIs for overseas markets like Philippines, South Korea, Vietnam, Europe, and South America, among others, followed by other regulated markets. This initiative positions the company as a reliable manufacturer for pharmaceutical companies seeking high-quality API manufacturing services.

#### Existing clientele:



#### New clientele



## Akums Drugs and Pharmaceuticals Ltd.

### Client base and Revenue mix from top clients

Particulars	FY24	FY23	FY22
Client base in CDMO business	1524	1543	1386
Revenue from Top 5 clients	25.7%	26.4%	29.1%
Revenue from Top 10 clients	39.3%	38.9%	41.3%

### Plant and segment wise utilization

CDMO and Branded and Generics	FY24	FY23	FY22
Unit 1	33.16%	24.36%	39.84%
Unit 2	62.41%	55.96%	67.06%
Unit 3	55.61%	54.33%	62.01%
Unit 4	18.06%	11.95%	14.04%
Unit 5	44.94%	35.35%	33.15%
Unit 6	24.29%	24.09%	28.58%
Unit 7	50.30%	44.41%	49.31%
Unit 8	28.18%	21.54%	28.30%
Unit 9	1.86%	0.94%	N.a.
Unit 10	2.38%	N.a.	N.a.
API	FY24	FY23	FY22
Dera Bassi, Punjab	39.00%	28.14%	29.47%
Lalru, Punjab	14.87%	37.11%	1.56%
Barwala, Punjab	-	-	-
Segment wise	FY24	FY23	FY22
Oral solids	38.12%	32.16%	41.47%
Sterile	48.29%	46.95%	52.54%
Liquids	26.63%	31.05%	52.51%
External	31.06%	25.21%	23.25%

### Segment wise revenue mix

Particulars	FY24	FY23	FY22
CDMO	78.2%	74.5%	72.5%
Branded and generic	16.7%	20.7%	24.4%
API	5.1%	4.9%	2.9%

### Raw material sourcing

Particulars	FY24	FY23	FY22
<b>CDMO business</b>			
Domestic sourcing	86.9	86.9	89.9
Direct imports from China	11.5	10.1	5.8
Direct imports from other countries	1.6	2.9	4.3
<b>Branded and generic formulations</b>			
Domestic sourcing	100.0	98.9	96.6
Direct imports from China	-	-	-
Direct imports from other countries	-	1.1	3.4
<b>API business</b>			
Domestic sourcing	65.0	96.12	44.4
Direct imports from China	34.9	3.5	55.4
Direct imports from other countries	-	0.36	0.2
<b>Overall</b>			
Domestic sourcing	88.1	89.8	88.9
Direct imports from China	10.7	7.8	7.2
Direct imports from other countries	1.2	2.5	3.8

## Akums Drugs and Pharmaceuticals Ltd.

### Valuation matrix

Company	FY24 sales	P/E (x)	RoE (%)
<b>Akums Drugs and Pharmaceuticals</b>	41,782	N.A.	-0.57%
Divi's Laboratories	78,450	74.99	11.79%
Suven Pharma	10,514	69.54	14.64%
Gland Pharma	56,647	42.45	8.85%
Torrent Pharma	107,280	60.2	24.15%
Alkem Laboratories	126,676	34.18	17.41%
Eris Lifesciences	20,091	34.95	15.16%
JB Chemicals	34,842	51.38	18.90%
Mankind Pharma	103,348	44.65	20.43%
Innova Captab	10,813	29.91	11.35%

Akums ROE is impacted by one-time write-off

## INDSEC Rating Distribution

**BUY** : Expected total return of over 15% within the next 12-18 months.

**HOLD** : Expected total return between 0% to 15% within the next 12-18 months.

**SELL** : Expected total return is negative within the next 12-18 months.

**NEUTRAL**: No investment opinion, stock under review.

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