



IPO NOTE

Emcure Pharmaceuticals Ltd.

02nd July 2024.

Company Overview

Emcure Pharma Ltd. is an Indian pharmaceutical company engaged in developing, manufacturing, and marketing a broad range of pharmaceutical products across several major therapeutic areas globally. The company is an R&D-driven company with a differentiated product portfolio that includes orals, injectables and biotherapeutics, enabling it to reach a range of target markets across 70 countries, with a strong presence in India, Europe and Canada. The company has experienced rapid growth in sales in India in recent years, contributing 48.2% of sales from the domestic market, and the rest came from overseas markets in FY24. The company's competitive advantage in the domestic market stems from a differentiated product portfolio, allowing it to establish a presence in most major therapeutic areas, including gynecology, cardiovascular, VMN, HIV antivirals, blood-related and oncology/anti-neoplastic. The company has strong capabilities and a proven brand-building track record, with six brands ranked among the 300 highest-selling brands in the IPM w.r.t. domestic sales for MAT FY24. The company has also established an international presence by either developing its front-end distribution capabilities or focusing on alliances with local companies and MNCs with an established presence in the therapeutic areas of focus. The company's core strength lies in its ability to research, develop and manufacture in-house specialty pharmaceutical products for high-growth therapeutic areas, for which there is limited competition and high barriers to entry. The company has 13 manufacturing facilities across India, which are capable of producing pharmaceutical and biopharmaceutical products across a wide range of dosage forms, including oral solids, oral liquids, injectables, including liposomal and lyophilized injectables, biotherapeutics and complex APIs, including chiral molecules, iron molecules and cytotoxic products.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- Repayment/Prepayment of certain outstanding borrowings;
- General corporate purposes.

Investment Rationale

Long-standing market presence helps to leverage position in the domestic market

The company has a strong foothold in the domestic market, focusing on Indian domestic branded generics since 1995. It has shown successful growth in several key therapeutic areas and has outperformed the IPM in domestic sales between MAT FY20 and MAT FY24. The company's relationships with global innovators have supported growth, allowing it to bring new technologies and products to the Indian market. The company has also established a strong position in therapeutic areas such as gynecology, cardiovascular, blood-related, pain and analgesics, and oncology/antineoplastics, driven by a unique product portfolio and early product launches. Separate management teams predominantly handle acute and chronic therapeutic area businesses, employing personalized strategies based on the differing needs of each area. The company's strong marketing and distribution capabilities further solidify its leading position in the Indian pharmaceutical market, enhancing long-term growth prospects for the domestic business.

Fast-growing product portfolio to enhance visibility in international markets

Emcure Pharma has established a presence in international markets, which is believed to be a strong complement to domestic business and provide growth opportunities. The company employs a calibrated and differentiated approach to entering and deepening its presence in each market to address its unique characteristics, such as its regulatory landscape, market size, competitive landscape, and product scope. This allows them to strategically select local partners, acquire local companies or rights of pharmaceutical products, and establish subsidiaries with their own on-the-ground sales force in these markets. The company sells a portfolio of products internationally in over 70 countries, with Europe and Canada currently being the primary international markets. Its product portfolio in international markets comprises a mix of specialty branded generics, injectables and generic products. They also sell in-house products like iron, chiral, biotherapeutics, injectables, and photochemistry products, most of which are developed and manufactured by the company.

Issue Details

Offer Period 03rd July, 2024 - 05th July, 2024

Price Band Rs. 960 to Rs. 1,008

Bid Lot 14

Listing BSE & NSE

Issue Size (no. of shares in mn) 19.36

Issue Size (Rs. in bn) 19.52

Face Value (Rs.) 10

Issue Structure

QIB 50%

NIB 15%

Retail 35%

Kotak Mahindra Capital Company Ltd.
BRLM Axis Capital Ltd.
Jefferies India Pvt. Ltd.
JP Morgan India Pvt. Ltd.

Registrar Link Intime India Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
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Promoters and promoter group	100.00	78.20
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Public	0.00	21.80
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Total	100.00	100.00
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(Assuming issue subscribed at higher band)

This diverse product range and global presence create a resilient business model with multiple revenue streams, leveraging their manufacturing and R&D capabilities. Emcure Pharma has a successful track record of entering new markets through strategic expansions, allowing it to utilize its R&D and manufacturing strengths in India while efficiently establishing distribution channels in Canada and Europe. Their focus in international markets is on developing and commercializing unique products with less competition, allowing for higher margins. Their growth strategies have deepened their presence in existing markets and enabled profitable expansion into new markets.

Valuation

Emcure Pharma Ltd. is a significant player in the pharmaceutical industry, having niche products for key therapies and a global market presence. The company is well-positioned to capitalize on its market position and expand rapidly. Emcure plans to enter the domestic market, particularly in rural areas, with its key brands in established therapies while continuing to develop unique products to meet patient needs. They have also increased their sales force over the last two years to expand their geographical presence. The company will also focus on expanding its international presence by increasing the sales force or establishing partnerships through unique products with less competition, leading to higher margins. The company's revenue has grown at a compounded annual growth rate (CAGR) of 7% between FY2022-24. However, the topline has been increasing gradually, and there has been a dip in profitability mainly due to high finance costs. The company anticipates a substantial improvement in its bottom line as it plans to repay its borrowings with the proceeds. Emcure's financial performance is driven by leveraging its leadership position in key therapeutic areas, established presence in international markets, proven track record in building brands, higher entry barriers, focus on R&D and strong manufacturing capabilities. **The issue is valued at a P/E of 36.6x on the upper price band based on FY24 earnings, which is deemed fair. Therefore, we recommend a SUBSCRIBE rating for the issue.**

Key Risks

- The company's performance is dependent upon the smooth functioning of manufacturing facilities. Any interruptions in operations, such as shutdowns, strikes, or disruptions in production, could affect the company's business and financial operations.
- The company is subject to extensive government regulations in India and international markets. If it fails to obtain, maintain, or renew statutory and regulatory licenses, permits, and approvals required to operate a business, its financial condition, operational performance, and cash flows may be adversely affected.
- Any disruptions to the supply or increase in the pricing of raw materials and finished products that the company outsources may adversely affect the supply and pricing of the products.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Revenue			
Revenue from Operations	58,554	59,858	66,583
Total Revenue	58,554	59,858	66,583
Expenses			
Cost of raw materials consumed	12,961	11,466	13,331
Purchase of stock in trade	10,825	10,472	13,325
Changes in inventory	-1,454	667	-1,902
Employee benefit expenses	10,118	11,173	12,921
Other expenses	12,805	14,268	16,610
Total Operating Expenses	45,255	48,046	54,285
EBITDA	13,299	11,812	12,297
Depreciation and Amortization expenses	2,449	2,601	3,124
Other income	635	459	570
EBIT	11,485	9,670	9,743
Finance costs	1,760	2,136	2,371
Exceptional Item	0	61	99
PBT	9,725	7,472	7,272
Total tax	2,700	1,854	1,997
PAT	7,027	5,618	5,276
Diluted EPS	36.6	29.4	27.5

Source: RHP, StoxBox

Cash Flow Statement (Rs in millions)

Particulars	FY22	FY23	FY24
Cash Flow from operating activities	7,682	7,469	10,972
Cash flow from investing activities	-7,888	-4,677	-7,125
Cash flow from financing activities	-1,519	-1,454	-1,642
Net increase/(decrease) in cash and cash equivalents	-1,724	1,338	2,205
Cash and cash equivalents at the beginning of the period	-1,357	-3,083	-1,765
Cash and cash equivalents at the end of the period	-3,082	-1,745	440

Source: RHP, StoxBox

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Assets			
Non-Current Assets			
Property, plant and equipment	14,703	16,046	19,486
Capital work in Progress	3,098	4,035	1,323
Right of Use assets	2,054	2,066	3,163
Other non current assets	2,174	2,177	3,787
Other intangible assets	1,614	1,258	5,078
(i) Investments	250	250	184
(ii) Other financial assets	478	646	408
Non-Current Tax Assets	510	633	872
Deferred tax assets (net)	1161	991	968
Other non current assets	353	263	194
Total Non current assets	26,394	28,366	35,462
Investments	0	0	2,997
Inventory	14,494	13,830	15,251
(i) Trade Receivables	13,085	16,483	18,588
(ii) Cash and cash equivalents	1,628	2,423	1,690
(iii) Other Bank Balance	1,504	2,159	634
(iv) Other Current Financial Assets	556	589	689
Other current assets	2,973	2,874	2,750
Total Current Assets	34,241	38,359	42,599
Total Assets	60,635	66,725	78,062
Equity and Liabilities			
Equity Share Capital	1,809	1,809	1,812
Other Equity	18,067	23,203	27,711
Total Equity	21,141	26,497	31,218
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	7,173	7,441	7,666
(ii) Lease Liabilities	1,113	1,152	2,157
Provisions	421	397	433
Other non-current liabilities	440	495	2,946
Deferred tax liabilities (net)	426	389	1,374
Other non-current liabilities	272	163	163
Current Liabilities			
Financial Liabilities			
(i) Borrowings	13,663	14,508	13,207
(ii) Lease Liabilities	223	319	319
(iii) Trade Payable	11,252	10,861	13,094
(iv) Other financial liabilities	2,706	2,806	3,044
Current tax liabilities	622	488	534
Provisions	439	401	457
Other current liabilities	744	886	1,449
Total Current Liabilities	29,648	30,192	32,105
Total liabilities	39,493	40,229	46,844
Total Equity and Liabilities	60,635	66,725	78,062

Source: RHP, StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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