

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Pharmaceutical</b>	<b>Price Band (Rs): 960 – 1,008</b>
<b>02<sup>nd</sup> July 2024</b>	<b>Recommendation: Subscribe for Long Term Investment Horizon</b>

## Emcure Pharmaceuticals Limited

### Company Overview:

**Emcure Pharmaceuticals Ltd (Emcure)** is the 13<sup>th</sup> largest pharmaceutical company in India in terms of domestic sales and the 4<sup>th</sup> largest pharmaceutical company in its domestic covered markets as of FY24. Emcure is engaged in developing, manufacturing and marketing of a broad range of pharmaceutical products across several major therapeutics area. The company has a geographic reach in 70+ countries with a strong presence in India, Canada and Europe. It is also the largest pharmaceutical company in gynecology and HIV antiviral therapeutic areas in India in terms of domestic sales as of FY24. The company is R&D driven with a global differentiated product portfolio which includes orals, injectables and biotherapeutics. Further, the company is vertically integrated with in-house manufacturing of Active Pharmaceutical Ingredients (APIs) and Formulations.

### Key Highlights:

**1. Strong domestic presence:** Emcure holds a long-standing presence in Indian Pharmaceutical Markets (IPM). As of FY24, the company is amongst the 5 largest domestic pharmaceutical companies by market share in its covered markets of gynecology, cardiovascular, vitamins, minerals and nutrients, HIV antivirals, oncology, blood-related and hormones therapeutic areas. Further, 16 of its top 20 brands were ranked amongst the 3 highest selling brands in their respective therapeutic areas in IPM.

**2. Robust penetration in international markets:** Emcure has an established presence in international markets led by its calibrated and differentiated approach for entering and deepening presence in each of their markets so as to address the unique characteristics of each market. The company's range of products and geographic presence provides with a risk-minimizing business model that derives considerable resilience through different revenue streams, as well as leveraging its manufacturing and R&D capabilities.

**3. Differentiated product portfolio:** The company's strong focus on R&D has allowed it to develop a differentiated product portfolio providing them with a competitive advantage. The company operates 5 R&D facilities and has established dedicated teams for new product developments, technology transfers and life cycle management. As of FY24, Emcure has been granted 220 patents across various geographies and have submitted 102 Drug Master File (DMF) with the USFDA.

**4. Extensive and diversified manufacturing capacity:** Emcure operates 13 manufacturing facilities across Maharashtra, Gujarat, Sikkim, Karnataka and Jammu & Kashmir. These facilities are capable of producing pharmaceutical products of a wide range of dosage forms, including oral solids, oral liquids, injectables, including complex injectables such as liposomal and lyophilized injectables, biotherapeutics and complex APIs, including chiral molecules, iron molecules and cytotoxic products. Further, the ability to manufacture APIs and formulations in-house has allowed the company to attain a significant degree of vertical integration.

**Valuation:** The company is valued at FY24 P/E multiple of 36.1x based on the upper price band on the post-issue capital. The company has strong domestic presence with leadership positions across key brands. Increased geographic penetration will help to grow the company's topline, while debt reduction from proceeds of the issue will augment profitability. We recommend subscribing to the issue for long-term investment.

Issue Details	
Date of Opening	03 <sup>rd</sup> July 2024
Date of Closing	05 <sup>th</sup> July 2024
Price Band (Rs)	960 – 1,008
OFS	1,14,28,839 equity shares
Fresh Issue (Rs cr)	800
Issue Size (Rs cr)	1,897 – 1,952
No. of shares	1,97,62,172 – 1,93,65,347
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	18,191 – 19,060
BRLMs	Kotak Mahindra Capital, Axis Capital, Jefferies India, J. P. Morgan India
Registrar	Link Intime India Pvt Ltd
Bid Lot	14 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Repayment and/or prepayment of all or a portion of certain outstanding borrowings	600.0
General Corporate Purposes <sup>^</sup>	-
<b>Total proceeds from fresh issue</b>	<b>800.0</b>

<sup>^</sup> To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	15,07,30,468	83.2
Public & Others	3,04,21,648	16.8
<b>Total</b>	<b>18,11,52,116</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	14,79,45,468	78.1
Public & Others	4,15,39,981	21.9
<b>Total</b>	<b>18,94,85,449</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	14,79,45,468	78.2
Public & Others	4,11,43,156	21.8
<b>Total</b>	<b>18,90,88,624</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

	FY22	FY23	FY24
Revenue from operation (Rs cr)	5,855	5,986	6,658
EBITDA (Rs cr)	1,330	1,181	1,230
Adj. PAT (Rs cr)	662	538	508
EBITDA Margin (%)	22.7	19.7	18.5
Adj. PAT Margin (%)	11.3	9.0	7.6
EPS	36.6	29.4	27.5
ROE (%)	33.3	21.3	16.9
ROCE (%)	28.2	20.6	19.3
Total Debt / Equity (x)	1.0	0.9	0.7

Source: RHP, SSL Research

## Risk Factors

- **Quality control risk:** The pharmaceutical industry is required to comply with the regulations and quality standards stipulated by, regulators in India and other jurisdictions. While there is no fixed frequency of inspections, its manufacturing facilities and products are subject to multiple periodic inspection/audits by these regulatory agencies. Further, any manufacturing or quality control problems may adversely affect the reputation, business, financial condition and results of operations.
- **Operation Risk:** The company is dependent on its ability to manage manufacturing and R&D facilities, which are subject to various operating risks and factors outside the company's control. The company may also be subject to manufacturing disruptions due to delays in receiving regulatory approvals, which may require the manufacturing facilities to cease or limit production until the required approvals are received, or disputes concerning these approvals are resolved.
- **Regulatory Risk:** The company operates in a highly regulated industry and its operations including development, testing, manufacturing, marketing and sales activities are subject to extensive laws and regulations in India and other countries.
- **Supply Risk:** The company is dependent on third-party suppliers for certain of their raw materials as well as for the manufacturing of certain finished products. Any disruptions to the supply, or increases in the pricing of raw materials and finished products that are outsource, may adversely affect the supply and pricing of products and in turn, adversely affect the business, cash flows, financial condition and results of operations.

## Growth Strategy

- **Increase market share in domestic markets:** Continue to leverage existing and growing product portfolio to increase market share from domestic business. Capitalize on growing market dynamics through constant investments in product portfolio and increasing reach.
- **Continued investment in R&D capabilities:** Focus on R&D and manufacturing capabilities to offer a differentiated portfolio and strengthening the company by vertical integration. Focus on formulations and APIs for high-growth therapeutic areas through increased investments.
- **Expand international presence:** Sustain and improve growth in sales for all target international markets by registering more products and increasing customer penetration, through either developing an on-the-ground sales force or establishing partnerships.
- **Inorganic growth:** Continue to pursue strategic acquisitions of companies, products and facilities across key markets as well as in-license pharmaceutical products of other companies for key and focus therapeutic areas to unlock synergies and operating efficiencies.

## Revenue Split – Geographical Split

Geographical Split (Rs cr)	FY22		FY23		FY24	
	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue
India	3,204.7	54.7	3,181.8	53.2	3,214.9	48.3
Europe	896.8	15.3	1,187.3	19.8	1,423.6	21.4
North America	679.5	11.6	729.4	12.2	927.9	13.9
Other Continents	1,074.5	18.4	887.2	14.8	1,091.9	16.4
<b>Total</b>	<b>5,855.4</b>	<b>100.0</b>	<b>5,985.8</b>	<b>100.0</b>	<b>6,658.3</b>	<b>100.0</b>

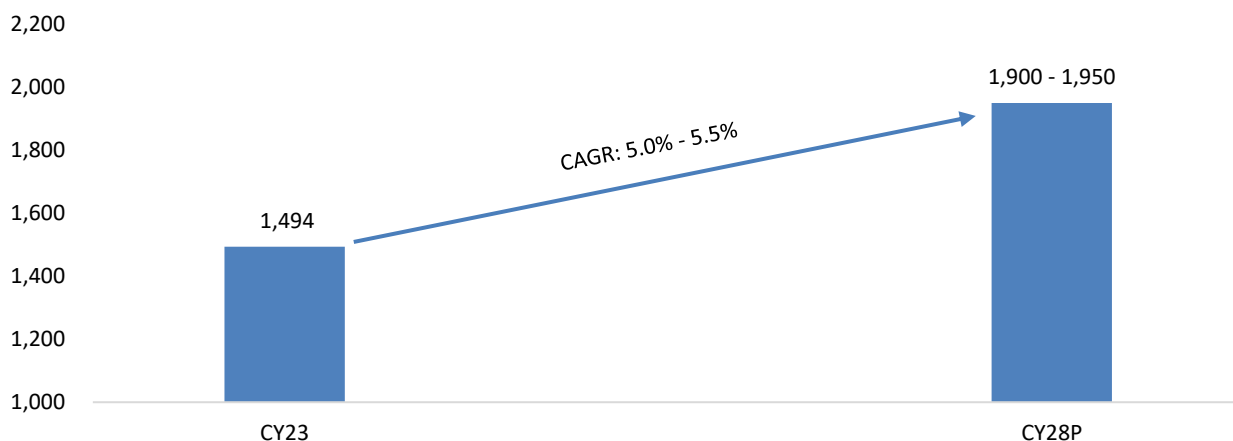
Source: RHP, SSL Research

# Industry Overview

## Global Pharmaceutical Market

The global pharmaceutical market is traditionally characterized by the concentration of consumption, production, and innovation in a relatively small number of high-income and developed regions like North America and Europe which continues to account for a major chunk of this market in value terms on account of higher priced drugs and newer products. However, production as well as consumption have picked up in middle-income countries like Brazil, China and India in the past few years, which now account for a significant share in volume consumption and have outpaced growth in high-income and developed markets. The industry was valued at USD 1,494 bn in CY23 and is expected to grow at a CAGR of 5.0%-5.5% between CY23-CY28P to reach USD 1,900–1,950 bn.

**Global Pharmaceutical Market (USD bn)**

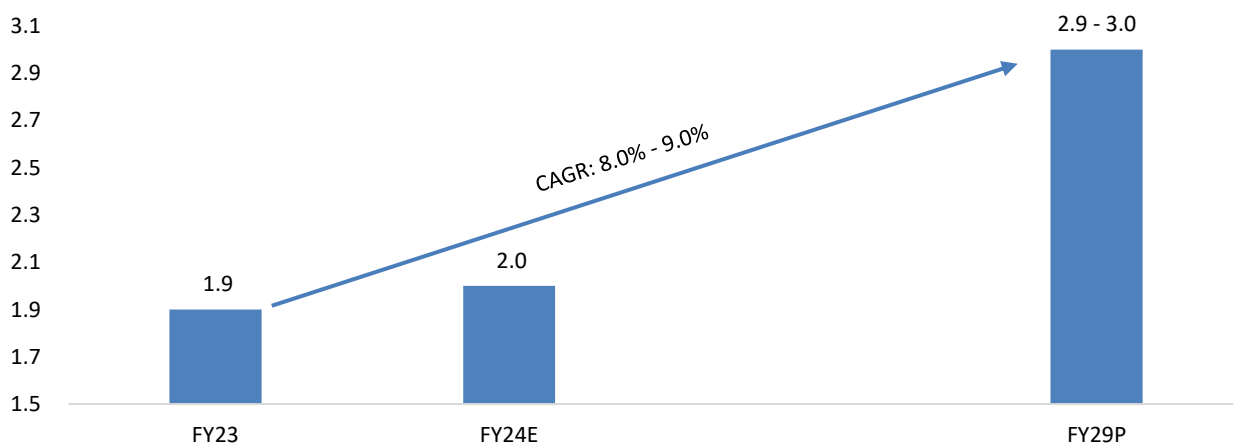


Source: RHP, SSL Research

## Indian Domestic Formulation Market

The Indian domestic formulation market has seen healthy growth in the recent times. As of the FY24, the Indian domestic formulation market contributed to approximately 2.0% of the total global pharmaceutical market. The market was valued at Rs 1.9 tn in FY23 and is expected to be valued at Rs 2.0 tn in FY24E. Indian domestic formulation market is expected to be valued at Rs 2.9-3.0 tn by FY29P, growing at a CAGR of 8.0%-9.0% between FY23-FY29P.

**Indian Domestic Formulation Market (Rs tn)**



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>5,855</b>	<b>5,986</b>	<b>6,658</b>
<b>% YoY growth</b>	-	2.2	11.2
Cost Of Revenues (incl Stock Adj)	2,233	2,261	2,475
<b>Gross Profit</b>	<b>3,622</b>	<b>3,725</b>	<b>4,183</b>
<b>Gross margins (%)</b>	<b>61.9</b>	<b>62.2</b>	<b>62.8</b>
Employee Cost	1,012	1,117	1,292
Other Operating Expenses	1,281	1,427	1,661
<b>EBITDA</b>	<b>1,330</b>	<b>1,181</b>	<b>1,230</b>
<b>EBITDA margin (%)</b>	<b>22.7</b>	<b>19.7</b>	<b>18.5</b>
Other Income	63	46	57
Net Interest Exp.	176	214	237
Depreciation	245	260	312
Exceptional Items	-	(6)	(10)
<b>PBT</b>	<b>973</b>	<b>747</b>	<b>727</b>
Tax	270	185	200
<b>Adj. PAT</b>	<b>662</b>	<b>538</b>	<b>508</b>
<b>Adj. PAT margin (%)</b>	<b>11.3</b>	<b>9.0</b>	<b>7.6</b>
<b>Adj. EPS</b>	<b>36.6</b>	<b>29.4</b>	<b>27.5</b>

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	1,470	1,605	1,949
Right of Use Assets	205	207	316
Capital WIP	310	404	132
Intangible Assets	161	126	508
Other Non-current Assets	493	496	647
<b>Current Assets</b>			
Current Investment	-	-	300
Inventories	1,449	1,383	1,525
Trade receivables	1,309	1,648	1,859
Cash and Bank Balances	313	458	232
Other Current Assets	353	346	339
<b>Total Current Assets</b>	<b>3,424</b>	<b>3,836</b>	<b>4,254</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	1,125	1,086	1,309
Other current liabilities	407	418	503
Short-term provisions	44	40	46
<b>Total Current Liabilities</b>	<b>1,576</b>	<b>1,544</b>	<b>1,858</b>
<b>Net Current Assets</b>	<b>1,848</b>	<b>2,292</b>	<b>2,397</b>
<b>Total Assets</b>	<b>4,487</b>	<b>5,128</b>	<b>5,948</b>
<b>Liabilities</b>			
Share Capital	181	181	181
Reserves and Surplus	1,807	2,320	2,771
<b>Total Shareholders' Funds</b>	<b>1,988</b>	<b>2,501</b>	<b>2,952</b>
Minority Interest	127	149	169
<b>Total Debt</b>	<b>2,084</b>	<b>2,195</b>	<b>2,087</b>
Long Term Provisions	42	40	43
Lease Liabilities	134	139	248
Other Long-Term Liabilities	71	66	311
Net Deferred Tax Liability	43	39	137
<b>Total Liabilities</b>	<b>4,487</b>	<b>5,128</b>	<b>5,948</b>

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	768	747	1,097
Cash flow from Investing Activities	(789)	(468)	(713)
Cash flow from Financing Activities	(152)	(145)	(164)
Free Cash Flow	390	356	821

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	10.9	8.0	6.4
Return on Capital (%)	28.2	20.6	19.3
Return on Equity (%)	33.3	21.3	16.9
<b>Margin Analysis</b>			
Gross Margin (%)	61.9	62.2	62.8
EBITDA Margin (%)	22.7	19.7	18.5
Net Income Margin (%)	11.3	8.9	7.5
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.2	1.3	1.3
Quick Ratio (x)	0.7	0.8	0.9
Avg. Days Sales Outstanding	82	101	102
Avg. Days Inventory Outstanding	90	84	84
Avg. Days Payables	70	66	72
Fixed asset turnover (x)	4.0	3.7	3.4
Debt-service coverage (x)	0.6	0.5	0.5
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	1.0	0.9	0.7
Interest Coverage Ratio (x)	6.5	4.5	4.1
<b>Valuation Ratios</b>			
EV/EBITDA (x)	15.1	16.9	16.4
P/E (x)	27.6	34.3	36.7
P/B (x)	9.2	7.3	6.2

Source: RHP, SSL Research

## Peer Comparison

	Emcure Pharmaceuticals Ltd	Cipla Ltd	Mankind Pharma Ltd	J B Chemicals & Pharmaceuticals Ltd
CMP	1,008.0	1,479.0	2,145.0	1,814.0
Sales (Rs cr)	6,658.3	25,774.0	9,265.0	3,484.0
EBITDA (Rs cr)	1,229.7	6,291.0	2,325.0	897.0
Net Profit (Rs cr)	527.6	4,154.0	1,823.0	553.0
M.Cap (Rs cr)	19,060.1	1,19,416.0	85,944.0	28,153.0
Enterprise Value (Rs cr)	20,915.0	1,18,788.1	84,942.1	28,415.0
EBITDA Margin (%)	18.5	24.4	25.1	25.7
Net Margin (%)	7.9	16.1	19.7	15.9
P/E (x)	36.1	28.7	47.1	50.9
EV/EBITDA (x)	16.4	18.9	36.5	31.7
RoE (%)	19.3	17.0	21.0	20.4
RoCE (%)	20.0	23.1	26.1	25.1

*The data is based on FY24 financial data.*

*For Emcure 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 01<sup>st</sup> July, 2024.*

*Source: RHP, SSL Research*

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