

| Recommendation | SUBSCRIBE | | BACKGROUND | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|-------------------|--|------------|------|------|------|--------------|-------|-------|-------|------------|------|------|-------|--------|-------|-------|-------|-------------------|-------|-------|-------|-----|-----|-----|-----|--------------|-----|-----|-----|-----|-------|-------|-------|------|-------|-------|-------|----------|-----|-----|-----|-----------|------|------|------|-----|------|------|------|
| Price Band | Rs 960-1,008 | | Emcure Pharmaceuticals Ltd manufactures and markets pharmaceutical products. The Company offers a broad range of products across therapeutic areas, including minerals and nutrients, gynecology, cardiovascular, vitamins, human immunodeficiency virus antivirals, blood-related, and oncology. They have cemented strategic global partnerships that are a result of their alliances with local and multi-national companies which are at the helm of leadership in key therapeutic areas. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bidding Date | 03rd - 05th July'24 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Book Running Lead Manager | Kotak Mahindra Capital, Axis Capital, Jefferies, JP Morgan | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Registrar | Link Intime India | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sector | Pharmaceutical | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minimum Retail Application- Detail At Cut off Price | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number of Shares | 14 | | Details of the Issue: <ul style="list-style-type: none"> The issue consists of offer for sale worth Rs. 1,152 cr and fresh issue of Rs. 800cr Repayment of outstanding borrowings amounting to Rs. 600 cr General corporate purposes. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minimum Application Money | Rs. 14,112 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount to retail | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Payment Mode | ASBA | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consolidated Financials (Rs Cr) | FY23 | FY24 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Income | 5,986 | 6,658 | Investment Rationale: <ul style="list-style-type: none"> Well-placed to leverage its position in the domestic market Large, diversified, and fast-growing product portfolio in international markets Strong R&D capabilities driving differentiated portfolio of products Exceptional brand-building capabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EBITDA | 1,181 | 1,230 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adj PAT | 578 | 543 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Valuations (FY23) | Lower Band | Upper Band | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Market Cap (Rs Cr) | 18,124 | 19,030 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adj EPS | 28.77 | 28.77 | Valuation and Recommendation:- Emcure Pharmaceutical has delivered steady performance over the last few years with topline growth of 6-7% CAGR whereas bottomline has seen de-growth on account of increase in both employee cost as well as other operating expenses. Repayment of borrowings worth ~Rs. 600 cr from current outstanding debt of Rs. 2,087 cr to reduce company's borrowing costs to an extent which is expected to improve company's profitability in the years ahead. Further, investment in human capital as well as operational capabilities is expected to drive growth for future. The issue is valued at EV/EBITDA of 16.7x based on FY24 financials, which we believe at discount when compared with average peer valuation of 27.4x. Along with debt reduction, we expect the company to deliver growth on account of its focus on chronic segment which is expected to be a high growth category in the future. As a result, Emcure is expected to deliver decent earnings growth and provides a better opportunity for investment at this valuation. Thus, we recommend SUBSCRIBE to the issue. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PE | 33 | 35 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EV/ EBITDA | 16 | 16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Enterprise Value (Rs Cr) | 19,379 | 20,285 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Post Issue Shareholding Pattern | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Promoters | 78% | | <table border="1"> <thead> <tr> <th>Financials</th> <th>FY22</th> <th>FY23</th> <th>FY24</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>5,855</td> <td>5,986</td> <td>6,658</td> </tr> <tr> <td>Growth (%)</td> <td>0.0%</td> <td>2.2%</td> <td>11.2%</td> </tr> <tr> <td>EBITDA</td> <td>1,330</td> <td>1,181</td> <td>1,230</td> </tr> <tr> <td>EBITDA Margin (%)</td> <td>22.7%</td> <td>19.7%</td> <td>18.5%</td> </tr> <tr> <td>PBT</td> <td>973</td> <td>747</td> <td>727</td> </tr> <tr> <td>Adjusted PAT</td> <td>694</td> <td>578</td> <td>543</td> </tr> <tr> <td>EPS</td> <td>36.74</td> <td>30.63</td> <td>28.77</td> </tr> <tr> <td>ROCE</td> <td>37.1%</td> <td>28.5%</td> <td>23.4%</td> </tr> <tr> <td>EV/Sales</td> <td>3.5</td> <td>3.4</td> <td>3.1</td> </tr> <tr> <td>EV/EBITDA</td> <td>15.4</td> <td>17.4</td> <td>16.7</td> </tr> <tr> <td>P/E</td> <td>27.4</td> <td>32.9</td> <td>35.0</td> </tr> </tbody> </table> | Financials | FY22 | FY23 | FY24 | Net Revenues | 5,855 | 5,986 | 6,658 | Growth (%) | 0.0% | 2.2% | 11.2% | EBITDA | 1,330 | 1,181 | 1,230 | EBITDA Margin (%) | 22.7% | 19.7% | 18.5% | PBT | 973 | 747 | 727 | Adjusted PAT | 694 | 578 | 543 | EPS | 36.74 | 30.63 | 28.77 | ROCE | 37.1% | 28.5% | 23.4% | EV/Sales | 3.5 | 3.4 | 3.1 | EV/EBITDA | 15.4 | 17.4 | 16.7 | P/E | 27.4 | 32.9 | 35.0 |
| Financials | FY22 | FY23 | | FY24 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net Revenues | 5,855 | 5,986 | 6,658 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Growth (%) | 0.0% | 2.2% | 11.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EBITDA | 1,330 | 1,181 | 1,230 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EBITDA Margin (%) | 22.7% | 19.7% | 18.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PBT | 973 | 747 | 727 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adjusted PAT | 694 | 578 | 543 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EPS | 36.74 | 30.63 | 28.77 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ROCE | 37.1% | 28.5% | 23.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EV/Sales | 3.5 | 3.4 | 3.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EV/EBITDA | 15.4 | 17.4 | 16.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| P/E | 27.4 | 32.9 | 35.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Public/Other | 22% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Offer structure for different categories | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| QIB (Including Mutual Fund) | 50% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-Institutional | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retail | 35% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Post Issue Equity (Rs. in cr) | 188.8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issue Size (Rs in cr) | 1,952 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Face Value (Rs) | 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Priyanka Ghadigaonkar Research Analyst (+91 22 6273 8177) priyanka.g@nirmalbang.com | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Source: RHP, NBRR | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Company Background

Emcure Pharmaceuticals, a technology-driven biopharma player, boasts a differentiated portfolio and a global presence. As one of India's leading pharmaceutical companies, Emcure focuses on developing, manufacturing, and globally marketing a broad range of pharmaceutical products across several major therapeutic areas. With a strong foothold in gynecology, cardiology, anti-infective treatments, diabetes management, and biologics, Emcure has become the 13th largest pharm company in India based on domestic sales as of Sep 23. Their commitment to R&D, supported by ~500 qualified scientists, ensures a robust pipeline of orals, injectable, and bio therapeutics. Emcure operates across 70+ countries, with a network of distribution channels that spans the globe.

Leading Brands of the company:

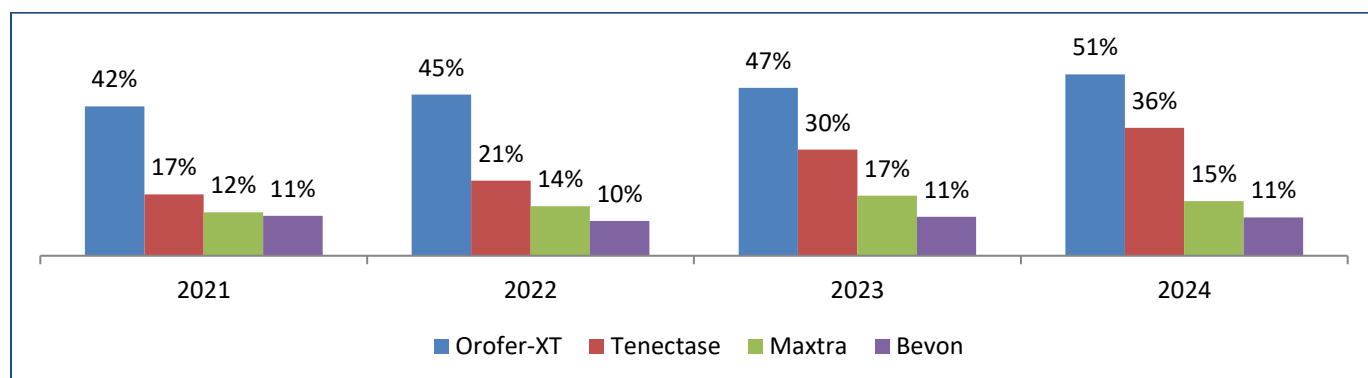
Orofer-XT: Orofer-XT, a leading treatment for anemia, stands as the company's flagship brand in the iron supplement category. Impressively, it has secured the 27th position among the largest brands in the IPM for the FY24. Over the past four years, Orofer-XT's sales have surged from Rs.2,209 mn in FY20 to Rs.3,688 mn in FY24, reflecting a robust CAGR of 14%.

Tenectase: Tenectase is an effective thrombolytic treatment for acute ischemic stroke, usable within four and a half hours of stroke onset. In the FY24, Tenectase achieved the second-highest domestic sales in its molecule subgroup, trailing only behind Elaxim, another product from the same company. Over the past four years, Tenectase's domestic sales have impressively increased from Rs.140 mn in FY20 to Rs.488 mn in FY24, demonstrating a remarkable CAGR of 37%.

Maxtra: Maxtra, a treatment for the common cold, achieved the second-highest domestic sales in its molecule subgroup for the FY24. Its domestic sales have grown from Rs.1,505 mn in FY20 to RS.2,163 mn in FY24, reflecting a notable CAGR of 9.5%. Through dedicated research and development efforts, the company has formulated Maxtra to mask the bitter taste of the molecule, ensuring increased patient compliance and setting it apart from other anti-cold medications.

Bevon: Bevon, a widely used nutritional supplement, secured the 3rd position in its molecule subgroup for the FY24 and ranked as the 83rd largest brand in the IPM for the same period. Bevon's sales have grown from Rs.1,501 mn in FY20 to Rs.2,372 mn in FY24. This growth reflects a CAGR of 12%. A key product under the Bevon brand is the Bevon suspension, a dietary supplement with a unique formulation suitable for both therapeutic and prophylactic use. Additionally, Bevon capsules are utilized in a wide range of acute and chronic conditions, as well as during convalescence.

Market Share of each of these Brands:



Source: RHP, NBRR

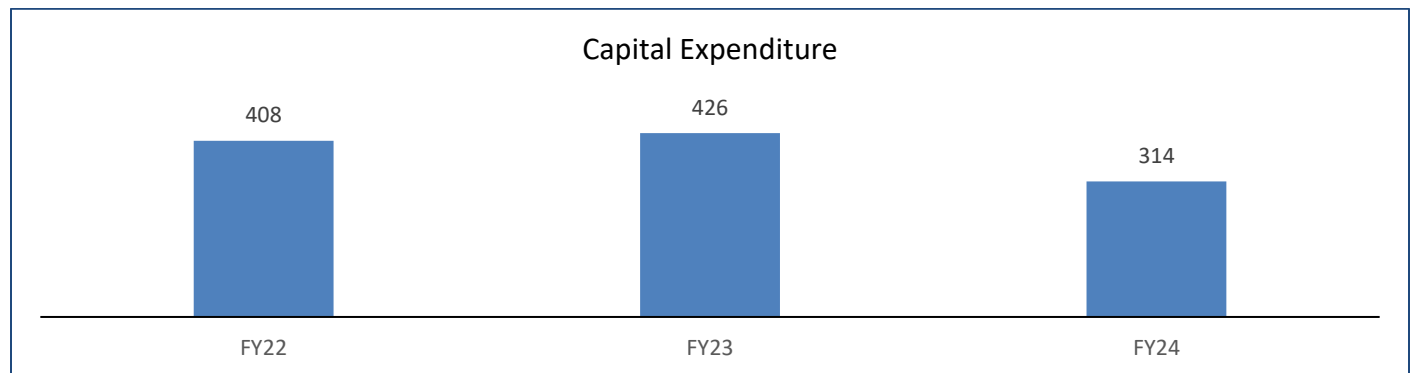
Manufacturing Facilities

The company has 13 manufacturing facilities across the states of Maharashtra, Gujarat, Sikkim and Karnataka and the union territory of Jammu and Kashmir. These facilities are capable of producing pharmaceutical products of a wide range of dosage forms, including oral solids, oral liquids, injectable, including complex injectable such as liposomal and lyophilized injectable, bio therapeutics and complex APIs, including chiral molecules, iron molecules and cytotoxic products.

In the last 24 months, production has started at its four manufacturing facilities

- (i) Biotech Formulations, Hinjewadi manufacturing facility, which was repurposed and commissioned in Jun’23 to produce injectable, as they required higher capacity for bio therapeutic products
- (ii) Oncology Injectable, Sanand manufacturing facility, which was commissioned in Apr’23 to produce oncology injectable
- (iii) Orals, Mehsana manufacturing facility, at which the solid orals plant was commissioned in Mar’22 and the injectable plant was commissioned in Aug’23,
- (iv) Orals, Kadu manufacturing facility, which was commissioned in Sept’23 to produce solid orals.

Collectively, these newly operational facilities have increased its installed manufacturing capacities by 22.33 mn vials and 1,055.72 mn tablets. They expect these new manufacturing capacities and capabilities to help meet the growing demand for their differentiated product portfolio and also allow them to take their products to newer markets



Segment Wise Sales:

The company has focused on pharmaceutical products used in chronic (including sub-chronic) therapeutic areas. Chronic therapeutic areas in the IPM have registered higher growth than acute therapeutic areas over the last five Financial Years. Chronic therapeutic areas contributed 46.2% of its total Domestic Sales for MAT FY24

| Therapy Segment | Emcure MAT FY24 | IPM MAT FY24 | Emcure MAT 5-Year CAGR | IPM MAT 5-Year CAGR |
|-----------------|-----------------|--------------|------------------------|---------------------|
| Acute | 2,962 | 93,293 | 8% | 8% |
| Chronic | 2,546 | 104,653 | 12% | 9% |

Source: RHP, NBRR

Product Offerings:

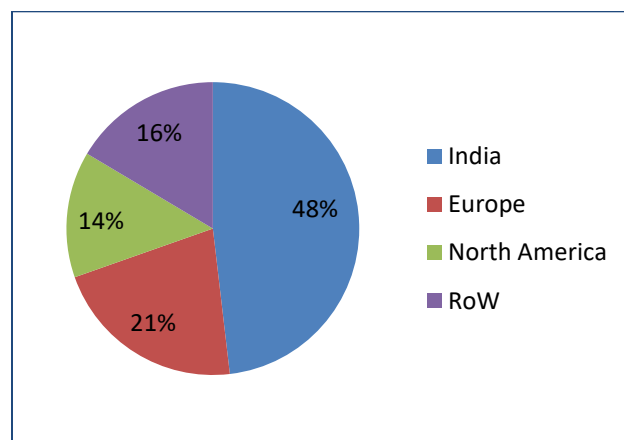
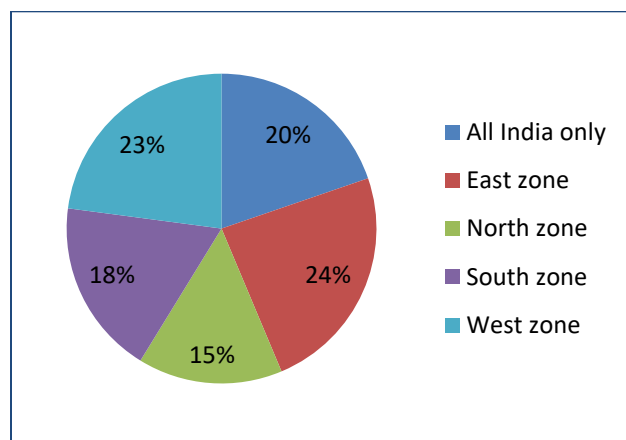
The company offers two types of products, namely formulations and APIs. The following tables set forth a break-down of their revenue from the sale of its formulations and API products, in absolute terms and as a percentage of total revenue from sale of products

| Particulars | 2024 | | 2023 | | 2022 | |
|----------------------|-------|------------|--------|------------|-------|------------|
| | Sales | % of Sales | Sales | % of Sales | Sales | % of Sales |
| Formulations: | | | | | | |
| Generic products | 2,623 | 40% | 20,114 | 34% | 1765 | 31% |
| Branded generics | 3,454 | 53% | 33,218 | 57% | 3402 | 60% |
| Branded patented | 180 | 3% | 2265 | 4% | 259 | 5% |
| APIs | 279 | 4% | 3146 | 5% | 233 | 4% |

Source: RHP, NBRR

Geographic presence:

The company has a pan India presence led by its marketing and distribution network which is supported by a field force of over 5,000 personnel who interact regularly with doctors and other healthcare providers to promote its pharmaceutical products. In addition to India, the company also sells their products internationally in over 70 countries as on Mar'24, with Europe and Canada as its primary international markets.



All India only" is used in relation to the sale of products in certain niche businesses such as oncology or nephro science, whereby due to the relatively small number of distributors that distribute such products, it would be misleading to instead categorize the sale of such products across geographic regional zones.
Source: RHP, NBRR

Industry Overview:

In 2021, global healthcare expenditure as a percentage of GDP rose to 10.3%, driven by the prioritization of public health during the pandemic, improved medical facilities, advancements in medicine, and increased disposable incomes.

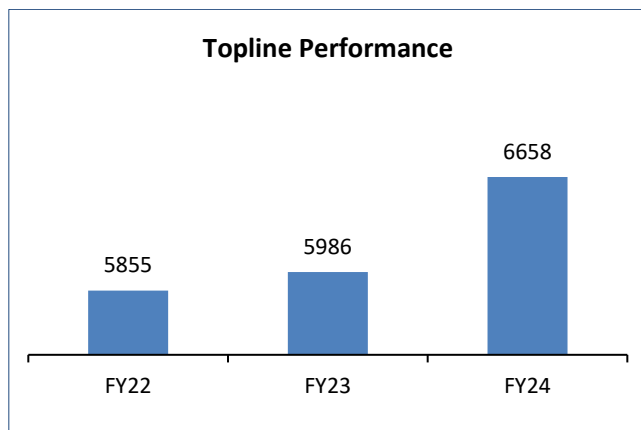
India's Current Health Expenditure (CHE) as a percentage of GDP is significantly lower than that of its global peers. In 2021, India's healthcare expenditure was 3.3% of GDP, lagging behind not only developed countries like the US and the UK but also developing nations such as Brazil, Nepal, Sri Lanka, Malaysia and Thailand. However, India's CHE as a percentage of GDP improved by approximately 3% post-COVID, indicating a heightened focus on healthcare.

Additionally, the pharmaceutical markets in Europe have recently shifted towards generic medicines, presenting significant opportunities for generic players. Similarly, the Canadian pharmaceutical market grew at a CAGR of ~2.4% from 2018 to 2023.

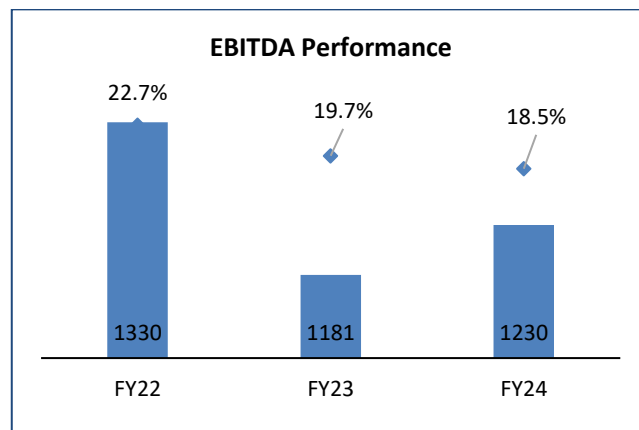
Exports to Europe and Canadian account for 35% of revenue, allowing their company to leverage the benefit of growing European and Canadian market.

Regulated markets like Europe and Canada, which account for 35% of the company's total sales, spend the most on healthcare. Germany allocated 12.9% of its GDP to healthcare expenditure, while France and Canada each spent around 12.3% of their GDP on healthcare.

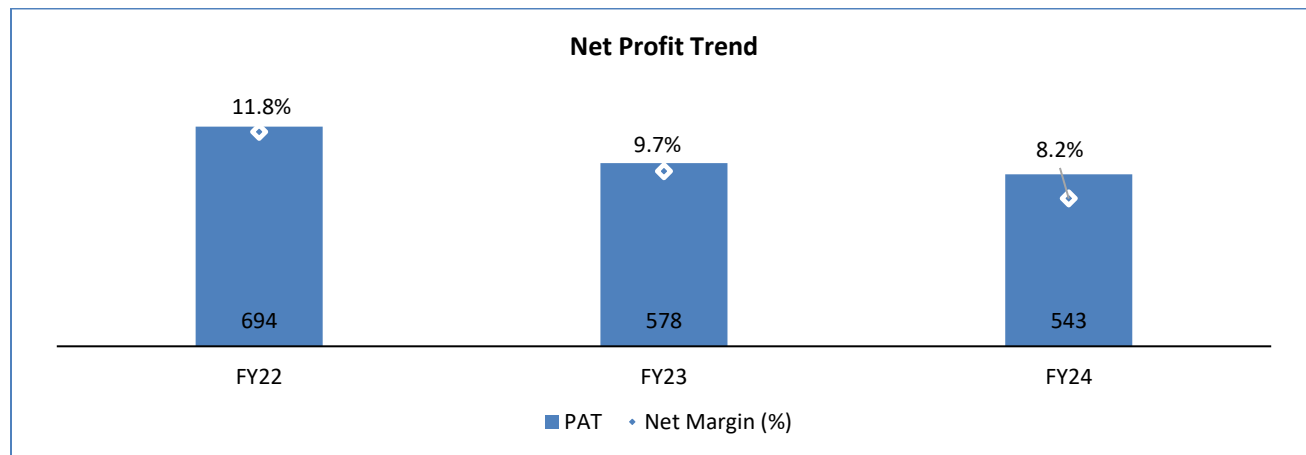
Financial Performance Metrics:



Source: RHP, NBRR

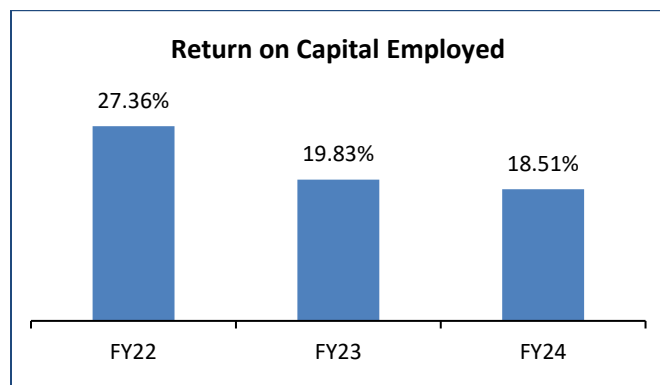


Source: RHP, NBRR

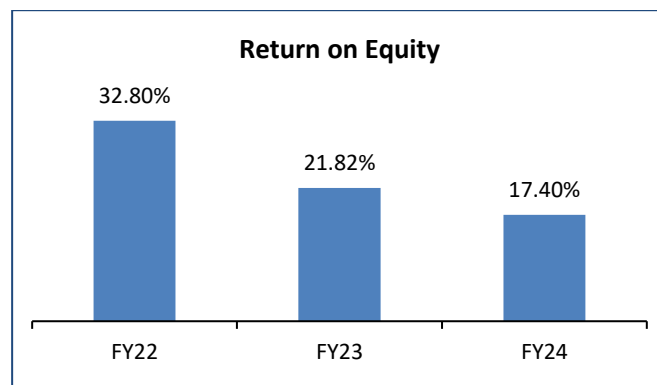


Source: RHP, NBRR

Return Ratios:



Source: RHP, NBRR



Source: RHP, NBRR

Investment Rationale

Well-placed to leverage their position in the domestic market

- Emcure Pharmaceuticals has maintained a strong market presence since shifting its focus to Indian domestic branded generics in 1995. Over the years, it has grown to become the 13th largest pharmaceutical company in India by sales and the 4th largest by market share.
- They are largest pharmaceutical company in the gynecology and HIV antivirals therapeutic areas in India in terms of Domestic Sales for MAT FY24.
- The company has outgrown the IPM in terms of Domestic Sales between MAT FY20 and MAT FY24 in several of its key therapeutic areas, including gynecology, blood-related, HIV antivirals, respiratory, oncology/anti-neoplastic, hormones and anti-diabetics.
- Their specialist prescriptions contributed to 70.67% of its total prescriptions for MAT Feb 24, which is the highest share among the 20 largest pharmaceutical companies in India.
- They entered into agreements with Sanofi India Ltd and Sanofi Healthcare India Pvt Ltd to exclusively distribute and promote their products, which include brands such as Cardace, Clexane, Targocid, Lasix, Lasilactone Cordarone, Plavix and Synvisc, in India.

Large, diversified, and fast-growing product portfolio in international markets

- The company has an established presence in international markets, which is a strong complement to its domestic business and presents strong opportunities for growth. Its sales outside India contributed to 51.72% of its total revenue from operations for the FY24.
- Sales of its iron, chiral, bio therapeutics, injectable and photo-chemistry products, most of which are developed and manufactured in-house, contributed to 29.70% of its revenue from sales outside India for the FY24.
- The company has in the past, made strategic acquisitions of companies, such as Tillomed Laboratories in the United Kingdom in 2014 and Marcan in Canada in 2015. They have recently strengthened their presence in the Quebec region of Canada through their acquisition of Mantra in Nov'23.
- They intend to continue to pursue strategic acquisitions of companies, products, and facilities across key markets as well as in-license pharmaceutical products of other companies for their key and focus therapeutic areas, which they expect would allow them to both deepen their presence in their existing Markets and facilitate their entry into new markets.

Strong R&D capabilities driving differentiated portfolio of products

- The company has a strong in-house R&D expertise, which has allowed them to develop a differentiated portfolio of pharmaceutical products that gives them a competitive advantage in the markets in which they operate
- Their R&D efforts are focused towards complex molecules, including highly complex APIs that require multi-step transformation, differentiated pharmaceutical formulations, in multiple dosage forms and novel drug delivery systems, which are capable of greater efficacy and better patient compliance, continuous product and process improvements to achieve better quality and productivity, and niche bio therapeutics formulations.
- They have five R&D facilities in India having dedicated teams for development of new product they have been granted 220 patents and had 30 pending patent applications in several countries, and had submitted 102 DMFs for APIs with the USFDA.

Exceptional brand-building capabilities

- Emcure Pharmaceuticals has demonstrated exceptional brand-building capabilities since shifting its focus to Indian domestic branded generics in 1995. Their strategic approach, robust marketing efforts, and commitment to quality have contributed significantly to their market success.
- Six of their brands were ranked among the 300 highest selling brands in the IPM, in terms of Domestic Sales for MAT FY24. In addition, 16 of its top 20 brands were each ranked among the three highest selling brands in their respective therapeutic areas in the IPM, in terms of Domestic Sales for MAT FY24.
- As mentioned in the table below, there are around 8 of its brand which are ranked 1st based on MAT FY24 revenue having a more than 50% market share.

| Brand Name | Therapeutic Area | MAT 2024 | Market Rank | Market Share 2024 |
|-------------|--------------------|----------|-------------|-------------------|
| Orofer-XT | Gynecology | 369 | 1 | 51% |
| Bevon | Vitamins, minerals | 221 | 3 | 10% |
| Zostum Anti | Anti-infectives | 193 | 1 | 34% |
| Maxtra | Respiratory | 140 | 1 | 34% |
| Orofer FCM | Gynecology | 131 | 1 | 30% |
| Orofer-S | Cardiovascular | 127 | 1 | 42% |
| Metpure XL | Cardiovascular | 97 | 1 | 83% |
| Feronia XT | Gynecology | 94 | 2 | 14% |
| Spegra HIV | HIV antivirals | 93 | 1 | 100% |
| Orofer XT | Gynecology | 90 | 1 | 60% |
| Exhep | Cardiovascular | 83 | 4 | 11% |
| Eslo | Cardiovascular | 74 | 1 | 43% |
| Viropil | HIV antivirals | 68 | 1 | 93% |
| Elaxim | Cardiovascular | 68 | 1 | 50% |
| Augpen | Anti-infectives | 66 | 10 | 2% |
| Dydrofem | Gynecology | 63 | 4 | 7% |
| Maxtra P | Respiratory | 62 | 5 | 9% |
| Lornit | Gastrointestinal | 59 | 2 | 34% |
| Pause | Blood-related | 59 | 2 | 26% |
| Encicarb | Gynecology | 58 | 2 | 13% |

Source: RHP, NBRR

Risks and concerns

- They are subject to extensive government regulations in India and international markets, and if they fail to obtain, maintain or renew their statutory and regulatory licenses, permits and approvals required to operate their business, then their business, financial condition, results of operations and cash flows may be adversely affected.
- Any disruptions to the supply, or increases in the pricing, of the raw materials and finished products that they outsource, may adversely affect the supply and pricing of their products and, in turn, adversely affect their business, cash flows, financial condition and results of operations.
- Pricing pressure from customers may affect their ability to maintain or increase their product prices and, in turn, their revenue from product sales, gross margin and profitability, which may adversely affect their business, financial condition and results of operations.
- Certain therapeutic areas contribute to a more significant portion of their total revenue in India, and their business, prospects, results of operations and financial condition may be adversely affected if their products in these therapeutic areas do not perform as expected or if competing products become available and gain wider market acceptance
- Although they have de-merged their U.S. operations, they have ongoing civil proceedings in the United States, including class-action antitrust cases and complaints filed by U.S. state attorneys-general, which may subject them to significant losses and liabilities

Valuation and Recommendation

Emcure Pharmaceutical has delivered steady performance over the last few years with topline growth of 6-7% CAGR whereas bottom-line has seen de-growth on account of increase in both employee cost as well as other operating expenses. Repayment of borrowings worth ~Rs. 600 cr from current outstanding debt of Rs. 2,087 cr to reduce company's borrowing costs to an extent which is expected to improve company's profitability in the years ahead. Further, investment in human capital as well as operational capabilities is expected to drive growth for future.

The issue is valued at EV/EBITDA of 16.7x based on FY24 financials, which we believe at discount when compared with average peer valuation of 27.4x. Along with debt reduction, we expect the company to deliver growth on account of its focus on chronic segment which is expected to be a high growth category in the future. As a result, Emcure is expected to deliver decent earnings growth and provides a better opportunity for investment at this valuation. **Thus, we recommend SUBSCRIBE to the issue.**

Peer Comparison

| FY24 Figures | Mankind Pharma | IPCA Laboratories | Alkem Laboratories | Average | EMCURE Pharmaceuticals |
|----------------|----------------|-------------------|--------------------|---------|------------------------|
| Revenue | 10,335 | 7,705 | 12,668 | 10,236 | 6,658 |
| CAGR (FY19-24) | 16% | 15.5% | 11.5% | 14.2% | 7.1% |
| EBITDA Margin | 24.5% | 17.1% | 17.7% | 19.8% | 18.5% |
| Asset Turns | 0.9x | 0.7x | 0.8x | 0.8x | 0.9x |
| CCC Days | 42 | 132 | 97 | 90 | 110 |
| ROCE (%) | 21.7% | 11.0% | 16.8% | 16.5% | 17.7% |
| ROE (%) | 20.0% | 7.1% | 16.8% | 14.6% | 17.4% |
| Debt/Equity | 0.0x | 0.2x | 0.1x | 0.1x | 0.7x |
| EV/EBITDA | 33.5x | 22.4x | 26.2x | 27.4x | 16.7x |
| P/E | 45.0x | 43.5x | 32.8x | 40.4x | 35.0x |

Source: Company, NBRR

Financials

| P&L (Rs. Cr) | FY22 | FY23 | FY24 | Balance Sheet (Rs. Cr) | FY22 | FY23 | FY24 |
|-----------------------------|--------------|--------------|--------------|--|--------------|--------------|--------------|
| Net Revenue | 5,855 | 5,986 | 6,658 | Share Capital | 181 | 181 | 181 |
| % Growth | | 2% | 11% | Other Equity | 1,807 | 2,320 | 2,771 |
| Purchases of stock in trade | 2,233 | 2,261 | 2,475 | Minority Interest | 127 | 149 | 169 |
| % of Revenues | 38.1% | 37.8% | 37.2% | Networth | 2,114 | 2,650 | 3,122 |
| Employee Cost | 1,012 | 1,117 | 1,292 | Total Loans | 2,217 | 2,334 | 2,335 |
| % of Revenues | 17.3% | 18.7% | 19.4% | Other non-curr liab. | 156 | 144 | 492 |
| Other expenses | 1,281 | 1,427 | 1,661 | Trade payable | 1,125 | 1,086 | 1,309 |
| % of Revenues | 21.9% | 23.8% | 24.9% | Other Current Liab | 451 | 458 | 548 |
| EBITDA | 1,330 | 1,181 | 1,230 | Total Equity & Liab. | 6,063 | 6,673 | 7,806 |
| EBITDA Margin | 22.7% | 19.7% | 18.5% | Property, Plant and Equipment | 1,470 | 1,605 | 1,949 |
| Depreciation | 245 | 260 | 312 | CWIP | 310 | 404 | 132 |
| Other Income | 63 | 46 | 57 | Other Intangible assets / Right of u | 584 | 550 | 1,203 |
| Interest | 176 | 214 | 237 | Non Current Financial assets | 73 | 90 | 59 |
| Exceptional item | 0 | 6 | 10 | Other non Curr. assets | 202 | 189 | 203 |
| PBT | 973 | 747 | 727 | Inventories | 1,449 | 1,383 | 1,525 |
| Tax | 270 | 185 | 200 | cash and cash equivalents | 163 | 242 | 169 |
| Tax rate | 28% | 25% | 27% | Bank balances | 150 | 216 | 63 |
| Other Comprehensive income | -9 | 16 | 16 | Trade receivables(debtor) | 1,309 | 1,648 | 1,859 |
| Adj. PAT (norm. Tax) | 694 | 578 | 543 | Other Current assets | 353 | 346 | 644 |
| % Growth | | -17% | -6% | Total Assets | 6,063 | 6,673 | 7,806 |
| EPS (Post Issue) | 36.74 | 30.63 | 28.77 | | | | |
| | | | | Cash Flow (Rs. Cr) | FY22 | FY23 | FY24 |
| Ratios & Others | FY22 | FY23 | FY24 | Profit Before Tax | 973 | 747 | 727 |
| Debt / Equity | 1.0 | 0.9 | 0.7 | Provisions & Others | 399 | 492 | 543 |
| EBITDA Margin (%) | 22.7% | 19.7% | 18.5% | Op. profit before WC | 1,371 | 1,240 | 1,270 |
| PAT Margin (%) | 11.8% | 9.7% | 8.2% | Change in WC | -292 | -292 | 51 |
| ROE (%) | 32.8% | 24.3% | 18.8% | Less: Tax | 311 | 200 | 224 |
| ROCE (%) | 37.1% | 28.5% | 23.4% | CF from operations | 768 | 747 | 1,097 |
| | | | | Purchase/Sale of fixed assets | -394 | -402 | -276 |
| Turnover Ratios | FY22 | FY23 | FY24 | Sale/Purchase of Investments | -406 | -71 | -455 |
| Debtors Days | 82 | 101 | 102 | Interest, dividend and other inc | 11 | 5 | 18 |
| Inventory Days | 90 | 84 | 84 | CF from Investing | -789 | -468 | -713 |
| Creditor Days | 70 | 66 | 72 | Repayment towards Lease Liab | -35 | -35 | -49 |
| Asset Turnover (x) | 1.0 | 0.9 | 0.9 | Repayment of Borrowings | 101 | 113 | 168 |
| | | | | Proceeds from issue of shares/Payment on account c | | | -13 |
| Valuation Ratios | FY22 | FY23 | FY24 | interest & div paid | -218 | -223 | -271 |
| Price/Earnings (x) | 27.4 | 32.9 | 35.0 | CF from Financing | -152 | -145 | -164 |
| EV/EBITDA (x) | 15.4 | 17.4 | 16.7 | Net Change in cash | (172) | 134 | 221 |
| EV/Sales (x) | 3.5 | 3.4 | 3.1 | Cash & Bank at beginning | -136 | -308 | -177 |
| Price/BV (x) | 9.0 | 7.2 | 7.2 | Cash & Bank at end | -308 | -175 | 44 |

Source: Company Data, NBRR

Disclosure:

Research Reports that are published by Nirmal Bang Securities Private Limited (hereinafter referred to as "NBSPL") are for private circulation only. NBSPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001766. NBSPL is also a registered Stock Broker with National Stock Exchange of India Limited, BSE Limited, Metropolitan Stock Exchange of India Limited, Multi Commodity Exchange of India Limited and , National Commodity and Derivative Exchange Limited in Capital Market , Equity and Commodities derivatives segments and Currency Derivatives Segment .

NBSPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBSPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market since last 20 years. NBSPL, its associates or analyst or his relatives do not hold any financial interest (Except Investment) in the subject company. NBSPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBSPL or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBSPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBSPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company. NBSPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: The research analysts and authors of these reports, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendation

Disclaimer:

The Research Report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice. NBSPL is not soliciting any action based upon it. Nothing in the research report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing the research report, we did not take into account the investment objectives, financial situation and particular needs of the reader.

The research report has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in the research report in any way. Though disseminated to all the customers simultaneously, not all customers may receive the research report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving the research report. The research report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the research report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of the research report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of research report, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of the research report and/or further communication in relation to the research report. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in the research report.

Copyright of this document vests exclusively with NBSPL.

Our reports are also available on our website www.nirmalbang.com

Registration granted by SEBI and certification from NISM in no way guarantee performance of NBSPL or provide any assurance of returns to investors.

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 6723 8000/8001
Fax. : 022 6723 8010