

## RETAIL EQUITY RESEARCH

# Emcure Pharmaceuticals Ltd.

## Pharma

SENSEX: 79,441

NIFTY: 24,124

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**Price Range Rs.960- Rs.1,008**

## A key player in women's healthcare segment....

Emcure Pharmaceuticals Ltd (EPL), established in 1981, is a research-focused company involved in the development, manufacturing, and global marketing of pharmaceutical products across key therapeutic areas. Its portfolio includes oral medications, injectables, and biotherapeutics. With a presence in over 70 countries, including India, Europe, and Canada, EPL operates 13 manufacturing facilities across Sikkim, Gujarat, Maharashtra, Karnataka, and Jammu and Kashmir. EPL leads the Indian market in gynecology and HIV antiviral therapeutics based on domestic sales for the MAT (Moving Annual Total) FY24 (Source: CRISIL Report).

- The Indian domestic formulations segment is expected to grow at a CAGR of ~8-9% between FY24 and FY29, reaching ~ ₹2.9 trillion to ₹3.0 trillion in FY29, aided by strong demand from the rising incidence of chronic diseases, increased awareness, and access to quality healthcare (Source: CRISIL Report).
- EPL's sales in India contributed 48%, while exports contributed 52% of its total revenue from operations for FY24. Between FY20 and FY24, its domestic sales grew at a CAGR of 9.7%, in-line with the Indian pharmaceutical market (IPM), which grew at a CAGR of 8.2%. The exports grew at a CAGR of 19.5%, outperforming the overall Indian pharmaceutical exports, which grew at a CAGR of 12.2% during the same period (source: CRISIL Report).
- Emcure Pharmaceuticals has a strong focus on the women's healthcare market and is a market leader in the gynecology therapeutic area in the Indian Pharmaceutical Market (IPM), holding a 13.53% market share in terms of domestic sales for the MAT FY24.
- EPL's revenue grew at a CAGR of ~7% from FY22 to FY24, reaching ₹6,658cr, with a PAT of ₹528cr by FY24 and an average EBITDA margin of 20.3%.
- The company has an average PAT margin of 9.8%, a RoE of 23.8%, and a RoCE of 22.4% for the FY22-24 periods.
- On March 2024, EPL entered into agreements with Sanofi India Ltd. to exclusively distribute and promote their cardiovascular products in India.
- Six of EPL's brands were ranked among the 300 highest selling brands in the IPM, in terms of domestic sales for the MAT Financial Year 2024 (source: CRISIL Report).
- EPL has a debt to equity of 0.7x in FY24. By utilising ₹600cr of IPO proceeds for debt payment, the company's debt/ equity reduces to 0.4x.
- EPL is backed by BC Investments IV Ltd, an affiliate of US-based private equity major Bain Capital which holds 9% equity in the company (post IPO).
- At the upper price band of ₹1,008, EPL is available at a P/E of 36x (FY24), which appears to be fully priced. Given its strong R&D expertise in differentiated products, established domestic and international presence, strong focus on the women's healthcare market, improved profitability post IPO, and diversified product portfolio, we assign a "Subscribe" rating on a medium to long term basis.

### Purpose of IPO

The offering includes both a fresh issue of ₹800cr and an Offer-for-Sale (OFS) of ₹1,152cr. The objective of the offer is the repayment and/or prepayment of all / portion of certain outstanding borrowings availed by the company (₹600cr) and general corporate purposes.

### Key Risks

- A significant portion of domestic revenue, 57% in FY24, comes from acute therapies, which are subject to high competitive intensity.

### Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales (x)	P/E(x)	EV/EBITDA(x)	P/BV(x)	CMP
Emcure Pharmaceuticals Ltd	19,060	6,658	18.5	7.9	28.0	17	2.9	36.0	17.4	6.1	1,008
Ajanta Pharma Ltd	28,344	4,162	28.2	19.6	64.7	23.5	6.8	35.4	23.6	8.1	2,287
Alembic Pharmaceuticals Ltd	18,803	6,229	15.0	9.9	31.2	13.4	3.0	28.1	21.2	3.6	877
J.B Chemicals & Pharma Ltd	27,956	3,484	26.8	15.9	35.7	20.5	8.0	49.2	27.3	9.3	1,755

Source: Geojit Research, Bloomberg; Valuations of EPL are based on upper end of the price band (post issue), Financials as per FY24 consolidated.

Issue Details	
Date of opening	July 03, 2024
Date of closing	July 05, 2024
Total No. of shares offered (cr.)	1.93
Post Issue No. of shares (cr)	18.9
Price Band	₹960- ₹1,008
Face Value	₹10
Bid Lot	14 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,112
Maximum application for retail (upper price band for 14 lot)	₹ 1,97568
Listing	BSE,NSE
Lead Managers	Kotak Mahindra Capital, Axis Capital, JP Morgan India, Jefferies India
Registrar	Link Intime India Pvt Ltd
Issue size (upper price)	Rs.cr
Fresh Issue	800
OFS	1,152
<b>Total Issue</b>	<b>1,952</b>

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group.	83.2	78.24
Public -Selling Shareholder	14.48	9.36
Public-Others	2.31	10.93
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	679.7
Non-Institutional	15	291.3
QIB	50	971
	-	
<b>Total</b>	<b>100</b>	<b>1,952</b>

Y.E March (Rs cr) Consol.	FY22	FY23	FY24
Sales	5,855.4	5,985.8	6,658.3
Growth (%)	-	2.2	11.2
EBITDA	1,329.9	1,181.2	1,229.7
Margin(%)	23	20	18
PAT Adj.	702.6	561.8	527.6
Growth (%)	-	-20	-6.1
EPS	37.2	29.7	27.9
P/E(x)	27.1	33.9	36.1
EV/EBITDA (x)	16.0	18.1	17.4
RoE (%)	33.2	21.2	16.9

## Business Description

The Company was incorporated as Emcure Pharmaceuticals Pvt Ltd in 1981. Emcure Pharmaceuticals started as a contract development and manufacturing organization (“CDMO”) business catering to MNCs. Emcure Pharmaceuticals is engaged in developing, manufacturing and globally marketing a broad range of pharmaceutical products across several major therapeutic areas. The company is a research and development driven company with a differentiated product portfolio including orals, injectables and biotherapeutics.

### Products and Services

**Domestic Business:** In India, the company focused on chronic (including sub-chronic) therapeutic areas, such as the gynecology, cardiovascular, oncology/anti-neoplastics, HIV, blood-related therapeutic areas. Domestically, the company classifies its products based on their therapeutic use and, as of March 31, 2024, it was present in a total of 19 therapeutic areas.

**International Markets:** In addition to India, the company also sell products internationally in over 70 countries as of March 31, 2024, with Europe and Canada as its primary international markets. The have made strategic acquisitions of companies such as Marcan in Canada in 2015 and Tillomed Laboratories in the United Kingdom in 2014.

### Product Offerings

The company offers two types of products, namely formulations and APIs. For FY 2024, 2023 and 2022, a substantial portion of the revenue was attributable to sales of formulations.

- ◆ **Solid orals:** The company manufactures a significant amount of tablets annually as well as a wide range of dissolvable and chewable tablets and capsules with a focus on controlled release.
- ◆ **Oral liquids:** The company has dedicated liquid manufacturing lines that are equipped with manufacturing blocks for the production of dry syrups such as beta lactam and cephalosporin antibiotics.
- ◆ **Injectables:** The company manufactures injectable products in different packaging formats, such as vials and pre-filled syringes, and forms, such as lyophilized, liquid and sterile powder fill.

### Active Pharmaceutical Ingredients

The company develops, manufactures and markets non-commoditized APIs. As of March 31, 2024, the company had a total of 62 commercialized APIs. Going forward, the company plans to scale its API product offerings. As the company manufactures a wide range of APIs predominantly for use in manufacturing of pharmaceutical products, the company is able to use its own APIs in the manufacturing of its pharmaceutical products.

## Key strength

### Well-placed to leverage the position in the domestic market

The company is focused on the domestic market with India contributing to 48.28% of the company’s sales in FY24. The company has outgrown the Indian Pharmaceutical Market (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 neoplastics, hormones and anti-diabetics. Emcure Pharmaceuticals has a strong focus in the women’s healthcare market, and it is a market leader in the gynecology therapeutic area in the IPM, with a 13.53% market share, in terms of Domestic Sales for MAT FY24. The company’s market share was 1.70 times the market share of the next largest competitor in this therapeutic area in the IPM

### Demonstrated Capabilities of Building Brands

The company has a proven track record of building brands with 6 brands ranked amongst the top 300 selling brands in the Indian Pharmaceutical Market. Further, 16 of the company’s top 20 brands were each ranked among the 3 highest selling brands in their respective therapeutic areas in the IPM, in terms of Domestic Sales for MAT FY24.

### Large, Diversified and Fast-Growing Product Portfolio in International Markets

The company has grown its presence in new markets through inorganic expansions. The company’s sales outside India contributed to 51.72% of the total revenue from operations for the FY24, and no single geography outside of India, Europe and Canada accounted for more than 5.00% of the revenue from operations for each of the financial years 2024, 2023 and 2022. The company’s product portfolio in the international markets comprises a mix of specialty branded generics, injectables and generic products. The company acquired Marcan Pharmaceuticals Inc. in Canada in 2015 and and Tillomed Laboratories Ltd in UK in 2014. Between the FY 2022 to2024, the company’s revenue from sales outside India grew at a CAGR of 13.97% from ₹ 2,650.72 Cr to ₹ 3,443.35 Cr.

### Strong R&D capabilities driving differentiated portfolio of products

The company’s R&D strategy is to establish differentiated technology platforms and once established, develop multiple products on the platforms. Out of the 5 R&D facilities,3 facilities are focused on formulations research, 1 facility is focused on API research and 1 facility is focused on biopharmaceuticals research. As of March 31, 2024, the company has been granted 220 patents and had 30 pending patent applications in several countries and had submitted 102 DMFs for APIs with the USFDA. Further, due to the company’s differentiated portfolio, it benefits from having limited exposure to the Government of India’s National List of Essential Medicines, 2022 (“NLEM”), which imposes prices controls of certain pharmaceutical products, and only 17.39% of the company’s domestic sales for MAT FY24 was attributed to sales of products listed on the NLEM

### Extensive and Diversified Manufacturing Capacity

Emcure Pharmaceuticals started as a contract development and manufacturing organization (“CDMO”) business catering to MNCs, which has helped the company to handle complex manufacturing processes at scale. The company has 13 manufacturing facilities across the states of Maharashtra, Gujarat, Sikkim and Karnataka and the union territory of Jammu and Kashmir, in India. The company’s 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.



## Key strategies

- Increase the market share in the domestic market .
- Continue to invest in research & development and manufacturing capabilities to enhance and grow the differentiated product portfolio.
- Deepen and expand the international presence with a focused go-to-market approach.
- Pursue Strategic Acquisitions, Partnerships and In-Licensing Arrangements .

## Industry outlook

The global pharmaceutical market is expected to sustain growth at a compound annual growth rate of approximately 5.0% to 5.5% between the calendar years 2023 and 2028, to reach approximately US\$1,900 billion (approximately ₹157 trillion) to US\$1,950 billion (approximately ₹161 trillion) in the calendar year 2028. The Indian domestic formulations segment (consumption) is expected to grow at a CAGR of approximately 8% to 9% between the Financial Years 2024 and 2029, to reach approximately ₹2.9 trillion to ₹3.0 trillion in the Financial Year 2029, aided by strong demand from the rising incidence of chronic diseases, increased awareness and access to quality healthcare. (Source: CRISIL Report).

## Promoter and promoter group

Satish Ramanlal Mehta, Sunil Rajanikant Mehta, Namita Vikas Thapar and Samit Satish Mehta are the promoters of the company.

### Brief Biographies of directors

- **Berjis Minoo Desai** is the Chairman and Non-Executive Director of the Company. He has been on the Board of the Company since April 3, 1997.
- **Satish Ramanlal Mehta** is the MD & CEO of the Company. He has been associated with the Company since its incorporation on April 16, 1981, as one of the first directors of the Company. He has significant experience in the pharmaceutical industry.
- **Sunil Rajanikant Mehta** is a Whole-time Director of the Company. He has been associated with the Company since February 1, 1985, in the position of manager of the Company.
- **Namita Vikas Thapar** is a Whole-time Director of the Company. She has been associated with the Company since August 1, 2006, and was previously the CFO of the Company.
- **Samit Satish Mehta** is a Whole-time Director of the Company. He has been associated with the company since April 1, 2003, in various capacities such as the manager – business development and president - operations of the Company and has been a Whole-time Director since July 28, 2022.
- **Mukund Keshao Gurjar** is a Whole-time Director of the Company. He has been associated with the Company since July 23, 2001, as a Director of the Company.
- **Samonnoi Banerjee** is a Non-Executive Director of the Company. He has previously worked with McKinsey & Company, Inc. as engagement manager (management consultant) and Accenture India Private Limited as a consultant.
- **Palamadai Sundararajan Jayakumar** is an Independent Director of the Company. Previously he has worked with Citibank N.A and was also the MD and CEO of VBHC Value Homes Pvt. Ltd.
- **Vijay Keshav Gokhale** is an Independent Director of the Company.
- **Vidya Rajiv Yeravdekar** is an Independent Director of the Company.
- **Shailesh Kripalu Ayyangar** is an Independent Director of the Company.
- **Tajuddin Sabir Shaikh** is the Chief Financial Officer of the Company.
- **Chetan Rajendra Sharma** is the Company Secretary and Compliance Officer of the Company.

## CONSOLIDATED FINANCIALS

### PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	FY24
Sales	5,855.4	5,985.8	6,658.3
% change		2.2	11.2
<b>EBITDA</b>	<b>1,329.9</b>	<b>1,181.2</b>	<b>1,229.7</b>
% change	-	-11	4
Depreciation	244.9	260.1	312.4
<b>EBIT</b>	<b>1,085.1</b>	<b>921.1</b>	<b>917.3</b>
Interest	176.0	213.6	237.1
Other Income	63.5	45.9	57.0
Exceptional items	-	-6	-10
<b>PBT</b>	<b>972.5</b>	<b>747.2</b>	<b>727.2</b>
% change	-	-23	-2.7
Tax	270.0	185.4	199.7
Tax Rate (%)	28	25	27
<b>Reported PAT</b>	<b>702.6</b>	<b>561.8</b>	<b>527.6</b>
Adj	-	-	-
<b>Adj. PAT</b>	<b>702.6</b>	<b>561.8</b>	<b>527.6</b>
% change	-	-20.0	-6.1
Post issue No. of shares (cr)	18.9	18.9	18.9
<b>Adj EPS (Rs)</b>	<b>37.2</b>	<b>29.7</b>	<b>27.9</b>
% change		-20.0	-6.1

### BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	FY24
Cash	313.3	458.3	232.4
Accounts Receivable	1,308.5	1,648.3	1,858.8
Inventories	1,449.4	1,383.0	1,525.1
Other Cur. Assets	352.9	346.3	344.0
Investments	25.0	25.0	318.1
Deff. Tax Assets	167.1	162.4	184.0
Net Fixed Assets	1,675.7	1,811.2	2,264.9
CWIP	309.8	403.5	132.3
Intangible Assets	378.8	343.5	886.5
Other Assets	83.1	90.9	60.1
<b>Total Assets</b>	<b>6,063</b>	<b>6,673</b>	<b>7,806</b>
Current Liabilities	1,199.6	1,174.7	1,454.2
Provisions	199.8	184.5	537.3
Debt Funds	2,217.2	2,334.3	2,335.0
Other Fin. Liabilities	270.6	280.6	304.4
Deferred Tax liability	62.2	48.8	53.4
<b>Equity Capital</b>	<b>180.9</b>	<b>180.9</b>	<b>181.2</b>
Reserves & Surplus	1,806.7	2,320.3	2,771.1
Shareholder's Fund	2,114.1	2,649.7	3,121.8
<b>Total Liabilities</b>	<b>6,063</b>	<b>6,673</b>	<b>7,806</b>
<b>BVPS (Rs)</b>	<b>111.8</b>	<b>140.1</b>	<b>165.1</b>

### CASH FLOW

Y.E March (Rs cr)	FY22	FY23	FY24
PBT Adj.	972.5	747.2	727.2
Non-operating & non cash adj.	398.7	492.3	543.1
Changes in W.C	(291.9)	(292.2)	50.5
<b>C.F.Operating</b>	<b>768</b>	<b>747</b>	<b>1,097</b>
Capital expenditure	(397.0)	(403.4)	(307.1)
Change in investment	(25.0)	-	-
Sale of investment	3.1	1.3	31.5
Other invest.CF	(369.9)	(65.6)	(436.9)
<b>C.F - investing</b>	<b>(788.8)</b>	<b>(467.7)</b>	<b>(712.5)</b>
Issue of equity	-	-	-
Issue/repay debt	(89.4)	(101.0)	(81.5)
Dividends paid	(62.4)	(44.4)	(82.7)
Other finance.CF			
<b>C.F - Financing</b>	<b>(151.9)</b>	<b>(145.4)</b>	<b>(164.2)</b>
Change. in cash	(172.4)	133.8	220.5
Opening Cash	(350.0)	(308.2)	(174.5)
Closing cash	(308.2)	(174.5)	44.0

### RATIOS

Y.E March	FY22	FY23	FY24
<b>Profitab. &amp; Return</b>			
EBITDA margin (%)	22.7	19.7	18.5
EBIT margin (%)	18.5	15.4	13.8
Net profit mgn.(%)	12.0	9.4	7.9
ROE (%)	33.2	21.2	16.9
ROCE (%)	38.3	15.5	13.4
<b>W.C &amp; Liquidity</b>			
Receivables (days)	82	90	96
Inventory (days)	237	229	214
Payables (days)	70	66	72
Current ratio (x)	2.5	2.8	2.1
Quick ratio (x)	1.4	1.8	1.4
<b>Turnover &amp;Levg.</b>			
Net asset T.O (x)	3.5	3.4	3.3
Total asset T.O (x)	1.0	0.9	0.9
Int. covge. ratio (x)	6.2	4.3	3.9
Adj. debt/equity (x)	1.0	0.9	0.7
<b>Valuation ratios</b>			
EV/Sales (x)	3.6	3.6	3.2
EV/EBITDA (x)	16.0	18.1	17.4
P/E (x)	27.1	33.9	36.1
P/BV (x)	9.0	7.2	6.1

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