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**IPO note:**

**Innova Captab Limited- "Subscribe for Listing Gains"**

Innova Captab Limited is an integrated pharmaceutical company with a presence across the pharmaceuticals value chain including research and development, manufacturing, drug distribution and marketing and exports. The company is ranked third among peers in terms of finished tablet and capsule manufacturing capacity in India. In Fiscal 2022, among Indian formulation CDMO players considered in the CRISIL Report, company recorded the third highest operating revenue, the second highest operating profit margin, the third highest net profit margin and the second highest return on capital employed. On December 31<sup>st</sup>, 2021 company acquired Univentis Medicare Limited ("UML") and on June 30, 2023, acquired Sharon Bio-Medicine Limited ("Sharon"), a listed entity pursuant to the corporate insolvency resolution process ("CIRP") under the Insolvency and Bankruptcy Code, 2016 ("IBC") before the Hon'ble National Company Law Tribunal, Mumbai Bench ("NCLT").

Innova Captab's business includes (i) a contract development and manufacturing organization ("CDMO") business providing manufacturing services to Indian pharmaceutical companies, (ii) a domestic branded generics business and (iii) an international branded generics business. Company's CDMO services and products include commercial large-scale manufacturing of generic products. They also entered into loan license agreements with their customers. Some of their key customers in CDMO space includes Cipla Limited, Glenmark Pharmaceuticals Limited, Wockhardt Limited, Corona Remedies Private Limited, Emcure Pharmaceuticals Limited, Lupin Limited, Intas Pharmaceuticals Limited, Leeford Healthcare Limited, Medley Pharmaceuticals Limited, Cachet Pharmaceuticals Limited, Eris Healthcare Private Limited, Indoco Remedies Limited, J. B. Chemicals and Pharmaceuticals Limited, Oaknet Healthcare Private Limited, Zuventus Healthcare Limited, Ajanta Pharma Limited, Mankind Pharma Limited and Smart Laboratories Private Limited. Their branded generics business consists of the development, manufacture and distribution of generic formulation products, which are marketed and distributed in India under their own brand names through online and offline channels. Company sells domestic branded generic products through their Pan-Indian network of 5000 distributors and stockiest and 150,000 pharmacies. They also have an international branded generic product business focused on exports to emerging and semi-regulated international markets. During Fiscal 2023 and the three months ended June 30, 2023, they exported branded generic products to 20 and 16 countries, respectively. They are also expanding their international branded generics business to regulated markets like the United Kingdom, and Canada. As on October 31, 2023, they have 200 active product registrations (and 20 registration subject to renewal) with international authorities and 218 fresh registration applications in process with international authorities.

Company has their own in-house research and development ("R&D"). Their R&D operations helps them to attract and retain CDMO customers and grow branded generic portfolio. They have a dedicated R&D laboratory and pilot equipment located at their manufacturing facility in Baddi, Himachal Pradesh, which is recognized by Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India ("DSIR"). Additionally, they are looking to establish a new R&D center in Panchkula, Haryana. They have employed a team of 29 scientists and engineers at their R&D laboratory. Their team includes professionals with experience ranging up to 27 years. Their R&D laboratory is equipped with a suite of equipment for the development of solid oral and liquid dosage forms which includes rapid mixer granulator/fluid bed processor /compression machine and auto coater. In addition, the analytical lab is also equipped with high pressure liquid chromatography ("HPLC"), ultraviolet and dissolution apparatuses, Karl Fischer moisture analyzers, sonicators, disintegration testers, thermal stability units and fume hoods.

#### **Investment Rational and Recommendation: -**

**At the upper price band of Rs. 448 the issue is valued at a P/E multiple 36.45x its Q1FY24 post issue annualized EPS of 12.29 and 37.74x its FY23 post issue annualized EPS of 11.87, compared to the industry average P/E multiple of 32.17, which makes the issue expensive. We recommend investors to "SUBSCRIBE FOR LISTING GAINS" to the issue for the following reasons: -**

**1) While CRISIL Research Report mentions that the Indian CDMO space has seen traction in the recent times with big pharmaceutical companies preferring to outsource R&D as well as manufacturing activities, the same generates very low margins.**

<b>Type of Issue</b>	Fresh Issue up to 71,42,857 Equity Shares aggregating up to Rs. 320 Crores Offer for sale up to 55,80,357 Equity Shares aggregating up to Rs. 250 Crores
<b>Issue size</b>	Rs. 570 Crores
<b>Price Band</b>	Rs. 426-Rs. 448 (FV- Rs. 10)
<b>Bid lot/ Bid Size</b>	33 shares/ Rs. 14,784
<b>Issue structure</b>	QIB-50% HNI-15% Retail- 35%
<b>Post issue equity shares</b>	5,72,24,929 equity shares
<b>Promoters and Promoter Group Public</b>	Pre-Issue-66.85%   Post-Issue- 51.68% Pre-Issue-33.15%   Post-Issue- 48.32%
<b>Post issue implied market cap</b>	Rs. 2563.67 Crores
<b>BRLMs</b>	ICICI Securities Limited, JM Financial Limited
<b>Registrar to the issue</b>	KFin Technologies Limited

#### **Financial Summary (Restated Consolidated) (₹Crore)**

Particulars	Q1FY24	FY23	FY22	FY21
<b>Revenue from Operations</b>	233.24	926.38	800.53	410.66
<b>Gross Profit</b>	66.7	234.82	182.62	99.97
<b>GPM(%)</b>	28.60%	25.35%	22.81%	24.34%
<b>EBIDTA</b>	31.31	113.65	96.02	54.49
<b>EBIDTA(%)</b>	13.42%	12.27%	11.99%	13.27%
<b>Profit</b>	17.59	67.954	63.953	34.5
<b>PAT Margin(%)</b>	10.49%	7.34%	7.99%	8.40%
<b>EPS</b>	3.67	14.16	13.32	7.19
<b>Net Debt</b>	358.50	216.31	195.74	33.13
<b>Debt-Equity Ratio</b>	1.21	0.85	0.95	0.31
<b>Debt/Profit</b>	25.12*	3.46	3.1	1.31
<b>Net Debt/EBIDTA Ratio</b>	11.06*	1.76	1.98	0.59
<b>Return on Equity</b>	4.81%*	24.58%	30.66%	23.82%
<b>Capital Employed</b>	789.77	494.23	389.64	189.40
<b>ROCE</b>	3.75%*	22.61%	23.46%	26.54%
<b>Fixed Asset Turnover</b>	0.72*	5.37	5.1	4.88
<b>Net Worth</b>	294.26	276.46	208.56	144.77
<b>RoNW</b>	5.98%*	24.58%	30.66%	23.83%
<b>NAV per share</b>	61.31	57.6	43.45	30.16

Source: Red Herring Prospectus (RHP), \*not annualized



2) Company has recorded the third highest operating revenue, the second highest operating profit margin, the third highest net profit margin and the second highest return on capital employed among its peer set given in CRISIL report.

3) Company has a marquee CDMO customer base.

4) Sufficient manufacturing capacity to provide customers with large volumes and satisfy their requirements.

5) Diversified branded generics product portfolio.

6) Company's products have strong brand recognition coupled with their long-term relationships and ongoing active engagements with their distributors which in turn has helped them expand their product offerings and geographic reach.

7) Plan to construct a new 240,916 sq. ft facility in Jammu, which will include tablets, capsules, dry syrups and injections and they will also get the benefit from New Central Sector Scheme for Industrial Development of Jammu & Kashmir.

### Objects of the issue

Offer for sale up to 55,80,357 Equity Shares aggregating up to Rs. 250 Crores

Name Of The Selling Shareholder	Type	No. Of Shares Offered In IPO At Upper Price Band	WEIGHTED AVERAGE COST OF ACQUISITION PER EQUITY SHARE (IN Rs)
Manoj Kumar Lohariwala	PROMOTER	Up to 1,953,125 Equity Shares Aggregating Up to Rs. 87.5 Crores	2.36
Vinay Kumar Lohariwala	PROMOTER	Up to 1,953,125 Equity Shares Aggregating Up to Rs. 87.5 Crores	15.2
Gian Parkash Aggarwal	OTHER	Up to 1,674,107 Equity Shares aggregating up to Rs. 75 Crores	2.5

### Fresh Issue

Fresh Issue up to 71,42,857 Equity Shares aggregating up to Rs. 320 Crores

Company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

1. Repayment and / or prepayment in part or in full, of certain outstanding loans of the Company;
2. Investment in the Subsidiary, UML, for repayment and / or prepayment in part or full of outstanding loans availed by UML;
3. Funding the working capital requirements;
4. General corporate purposes

### Shareholding pattern

Particulars	Pre - Offer Equity Share capital		Post - Offer Equity Share capital	
	No. of Equity Shares	% of total shareholding	No. of Equity Shares	% of total shareholding
<b>Promoter and Promoter Group</b>				
Manoj Kumar Lohariwala	19036000	38.01%	17082875	29.85%
Vinay Kumar Lohariwala	14436000	28.82%	12482875	21.81%
Vandana Lohariwal	4000	0.01%	4000	0.01%
Chhavi Lohariwala	4000	0.01%	4000	0.01%
<b>Total</b>	<b>33480000</b>	<b>66.85%</b>	<b>29573750</b>	<b>51.68%</b>
<b>Public</b>				
Gian Parkash Aggarwal	14512000	28.98%	12837893	22.43%
Public	2090072	4.17%	14813286	25.89%
<b>Total</b>	<b>16602072</b>	<b>33.15%</b>	<b>27651179.14</b>	<b>48.32%</b>

Source: Red Herring Prospectus (RHP)

**Product Portfolio and Customer Base**

			Restated Consolidated Financial Information				Three months ended June 30, 2023	
	Fiscal 2021		Fiscal 2022		Fiscal 2023			
Business Area	Rs. Crores	% of revenue from operations	Rs. Crores	% of revenue from operations	Rs. Crores	% of revenue from operations	Rs. Crores	% of revenue from operations
CDMO services and products *	370.87	90.31%	686.69	85.78%	679.56	73.36%	166.21	71.26%
Domestic branded generics	0	0.00%	37.051	4.63%	166.16	17.94%	42.253	18.12%
International branded generics	39.791	9.69%	76.781	9.59%	80.663	8.71%	24.78	10.62%
Sharon	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Revenue from Operations	410.66	100.00%	800.53	100.00%	926.38	100.00%	233.24	100.00%

\*Including incentives and scrap sales

**Customer Base and Revenue Concentration**

Year	Revenue from top 20 customers	Percentage contribution of top 20 customers to revenue from operations from CDMO Business	Revenue from top 10 customers	Percentage contribution of top 10 customers to revenue from operations from CDMO Business	Revenue from largest customer	Percentage contribution of largest customer to revenue from operations from CDMO Business
Three months ended June 30, 2023	136.641	82.21%	113.663	68.39%	36.537	21.98%
Fiscal 2023	475.806	70.02%	382.54	56.29%	100.104	14.73%
Fiscal 2022	419.122	61.03%	334.118	48.66%	77.071	11.22%
Fiscal 2021	238.093	64.20%	202.201	54.52%	58.07	15.66%

Particulars	Fiscal 2021	Fiscal 2022	Fiscal 2023	Three months ended June 30, 2023
Number of CDMO customers ( 1 )	119	174	182	133
Revenue from CDMO customers ( 1 ) (In Rs. Crores)	370.87	686.69	679.56	166.21
Revenue from CDMO customers with relationship of 10 years or more ( 1 ) (In Rs. Crores)	152.77	244.11	238.83	59.391
Revenue from CDMO customers with relationship between 5 and 10 years ( 1 ) (In Rs. Crores)	184.83	358.60	333.17	88.83
Revenue from CDMO customers with relationship of under 5 years ( 1 ) (In Rs. Crores)	33.27	83.979	107.56	17.989



(1) CDMO relationship period is measured by number of years in which an invoiced order has been placed with them. The base date for the number of years of a relationship has been taken as June 30, 2023.

Source: Red Herring Prospectus (RHP)

### Capacity Utilization

Facilities (in crores)	As of March 31st, 2021		As of March 31st, 2022		As of March 31st, 2022	
	Annual Installed Capacity	Capacity Utilization ( % )	Annual Installed Capacity	Utilization ( % ) Capacity	Annual Installed Capacity	Capacity Utilization ( % )
Tablets	423.93	66.49%	555.67	54.61%	819.16	40.68%
Capsules	159.12	60.03%	204.82	52.04%	247.25	55.49%
Ointments	2.28	76.11%	2.28	56.33%	2.28	63.22%
Dry Powder Injection	6.04	59.13%	6.04	77.27%	6.04	74.01%
Dry Syrup	5.35	30.18%	5.35	53.22%	5.35	52.77%
Liquid Orals	7.09	37.15%	7.09	89.90%	7.09	86.70%

### Acquisition

Innova Captab Limited acquired Sharon pursuant to CIRP under the IBC. In accordance with the terms of the resolution plan approved by the NCLT, company infused Rs. 195.40 Crores into Sharon on June 26, 2023, and Sharon is now a wholly owned subsidiary of UML as of June 30, 2023. Sharon is engaged in the business of manufacturing of intermediates and active pharmaceutical ingredients ("APIs") as well as finished dosages. It also offers contract manufacturing services for pharmaceutical products. Sharon caters to both domestic as well as international markets including Canada, the United Kingdom, Europe, Australia and Central and South America. Sharon has manufacturing plants located in Dehradun, Uttarakhand and Taloja, Maharashtra. As of October 31, 2023, Sharon had 567 employees. Revenue from Sharon on a pro forma consolidated basis was Rs. 192.21 Crores in Fiscal 2023.

### Peer Comparison

Name of the company	Face value ( per share )	Closing price on November 21 , 2023 (per share)	Revenue from Operations ( in Rs. Crores ) (FY23)	EPS		NAV ( per share )	P / E	Return on Net Worth ( % )
				Basic	Diluted			
Innova Captab Limited	10	NA	926.38	14.2	14.16	57.6	31.63	24.58%
Torrent Pharmaceuticals Limited	5	2,119.65	9,620.15	36.8	36.79	182.97	57.6	20.11%
Laurus Labs Limited	2	373.7	6,040.55	14.7	14.64	74.92	25.5	19.74%
Ajanta Pharma Limited	2	1,969.15	3,742.64	45.9	45.89	267.41	42.9	17.36%
J. B. Chemicals and Pharmaceuticals Limited	2	1,497.30	3,149.28	53	52.34	320.36	28.6	16.54%
NATCO Pharma Limited	2	779.55	2,707.10	39.2	39.18	264.21	19.9	14.84%
Eris Lifesciences Limited	1	926.7	1,685.15	28.1	28.07	160.85	33	17.10%
Indoco Remedies Limited	2	350.7	1,668.61	15.4	15.42	111.58	22.7	13.83%
Suven Pharmaceuticals Limited	1	600.05	1,340.33	16.2	16.16	68.16	37.1	23.70%
Windlas Biotech Limited	5	434.25	513.08	19.7	19.7	192.02	22	10.61%

The following table sets forth the key players across the Indian CDMO industry for the Fiscal 2023

Company Name	Date of Incorporation	Registered office location
Acme Formulation Private Limited	2004	Himachal Pradesh
Akums Drugs and Pharmaceuticals Ltd	2004	Delhi
Innova Captab Limited	2005	Mumbai
Synokem Pharmaceuticals Limited	1983	Delhi
Theon Pharmaceuticals Limited	2005	Chandigarh
Tirupati Medicare Ltd	2005	Delhi





Windlas Biotech Ltd	2001	Dehradun
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Source: Red Herring Prospectus (RHP)

### Competitive Strengths

- 1) Leading presence and one of the fastest growing CDMOs in the Indian pharmaceutical formulations market.
- 2) Well established relationships with their marquee CDMO customer base.
- 3) Highly efficient operations, including world class manufacturing facilities and supply chain.
- 4) Rapidly growing domestic and international export branded generics businesses.
- 5) Strong R&D focus to build an increasingly complex product portfolio and attract and retain customers.

Source: Red Herring Prospectus (RHP)

### Growth Strategies

- 1) Expansion of their manufacturing capacities
- 2) Expand the wallet share of existing customers and develop new customers.
- 3) Continued focus on R&D operations.
- 4) Growing international export business.
- 5) Expanding their domestic branded generics business.
- 6) Growth through strategic acquisitions.

Source: Red Herring Prospectus (RHP)

### Key Risks

- 1) Company operates in a highly competitive. They compete to provide outsourced pharmaceutical manufacturing services or CDMO services and products, particularly for formulations, to pharmaceutical companies in India and other jurisdictions. In addition, the branded generic products compete with generic products of other suppliers in India and other jurisdictions.
- 2) Company depends on a limited number of contract development and manufacturing organization ("CDMO") customers. Any reduction in the number of CDMO customers and adverse developments or inability to enter into or maintain relationships with these CDMO customers could have an adverse effect on the business, results of operations and financial condition.
- 3) If the company fails to comply with the quality requirements and technical specifications prescribed by their customers it may lead to loss of business from such customers and could negatively impact the business, results of operations and financial condition, including cancellation of existing and future orders which may expose them to warranty claims.
- 4) Company is dependent on China, China SEZ and Hong Kong for their raw material supplies which exposes them to political, economic and social conditions in greater China.
- 5) Being a capital intensive business any insufficient cash flows from their operations or inability to borrow to meet their working capital requirements may materially and adversely affect business and results of operations.
- 6) Company is required to transfer, obtain, renew or maintain statutory and regulatory permits, licenses and approvals connected with Sharon's business that became a wholly owned subsidiary of UML as of June 30, 2023, and any delay or inability in transferring, renewing or maintaining such permits, licenses and approvals could adversely affect business, results of operations and financial condition.

Source: Red Herring Prospectus (RHP)

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