

Innova Captab Limited



Innova Captab Ltd.

Issue Opens On
December 21, 2023

Issue Closes On
December 26, 2023

Price Band (INR)
426-448

Issue Size (INR Mn)
5,420 – 5,700

Rating
SUBSCRIBE

Innova Captab Limited is an integrated pharmaceutical company in India, which carries out contract development and manufacturing (CDMO) services for Indian formulation pharma companies. The company also manufactures and markets branded generic products for both domestic and international markets. The company services and products includes commercial large-scale manufacturing of generic products in multiple product forms such as oral solids, oral liquids, dry syrups, and injectable and more complex delivery forms such as sustained release and tablets in capsules. The company also has products using new technology such as Nano technology. The company's branded generics business comprises of development, manufacture and distribution of generic formulation products, which are marketed and distributed in India under its own brand names, through online and offline channels.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (Mn)	12.7
Fresh issue (# shares) (Mn)	7.1
Offer for sale (# shares) (Mn)	5.6
Fresh issue (INR Mn)	3,200
Offer for sale (INR Mn)	2,500
Price band (INR)	426-448
Post issue MCAP (INR Mn)	24,378-25,637

Source: IPO Prospectus

Issue	# Shares	INR Mn	%
QIB	6,361,607	2,850	50%
NIB	1,908,482	855	15%
Retail	4,453,125	1,995	35%
Net Offer	12,723,214	5,700	100%

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	December 26, 2023
Finalization of Basis of Allotment with Stock Exchange	December 27, 2023
Initiation of Refunds	December 28, 2023
Credit of Equity Shares to Demat accounts	December 28, 2023
Commencement of Trading of Eq.shares on NSE	December 29, 2023

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose

Repayment and / or prepayment in part or in full, of certain outstanding loans of the Company
Investment in the Subsidiary, UML, for repayment and / or prepayment in part or full of outstanding loans availed by UML

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	66.9%	54.0%
Others	33.1%	46.0%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY21	FY22	FY23	Q1FY24
Revenue	4,107	8,005	9,264	2,332
EBITDA	545	960	1,136	313
EBITDA Margin	13.3%	12.0%	12.3%	13.4%
PAT	345	640	680	176
PAT Margin	8.4%	8.0%	7.3%	7.5%
Net Worth	1,448	2,086	2,765	2,943
RONW	23.8	30.7	24.6	5.98**

Source: IPO Prospectus, * Restated Statement, consolidated numbers, **Not annualized

Innova Captab Ltd.

Company Overview

Innova Captab Limited, promoted by Manoj Kumar Lohariwala and Vinay Kumar Lohariwala (holding 66.8% pre-IPO), is an integrated pharmaceutical company in India, which carries out contract development and manufacturing (CDMO) services for Indian formulation pharma companies such as Cipla Limited, Glenmark Pharmaceuticals Limited, Wockhardt Limited,, Emcure Pharmaceuticals Limited, Lupin Limited, Intas Pharmaceuticals Limited, Eris Healthcare Private Limited, Indoco Remedies Limited, J. B. Chemicals and Pharmaceuticals Limited, Ajanta Pharma Limited, and Mankind Pharma Limited. The company also manufactures and markets branded generic products for both domestic and international markets.

CDMO

The company services and products includes commercial large-scale manufacturing of generic products in multiple product forms such as oral solids, oral liquids, dry syrups, and injectable and more complex delivery forms such as sustained release and tablets in capsules. The company also has products using new technology such as Nano technology. The CDMO products are available in both acute and chronic therapy areas. Its number of CDMO products sold have grown by 131% from 1,066 in FY21 to 2,467 in FY23, on a restated consolidated basis. As per CRISIL, the company was the third largest revenue and net income margin generating company among Indian CDMO players in FY22. As of FY23 and Q1FY24, the company had 182 and 133 CDMO customers, respectively. The company typically enters into long-term CDMO agreements ranging mostly between two to five years with its customers resulting in predictable and stable cash flows.

Branded generics

The company's branded generics business comprises of development, manufacture and distribution of generic formulation products, which are marketed and distributed in India under its own brand names, through online and offline channels. The branded generic products are generic medicines for which the patents have expired, that are sold directly to its distributors, stockists and retailers. The company has developed a diversified branded generics product portfolio including tablets, capsules, dry syrups, dry powder injection, ointments and liquid orals. The company sells its domestic branded generic products through its pan-Indian network of distributors, stockists and pharmacies. In FY23, the company manufactured over 600 products and marketed them under its own brands in the Indian market through a developed network of approximately 5,000 distributors and stockists and 15,000 retail pharmacies. In FY23 and Q1FY24, the company exported its branded generic products to 20 and 16 countries, respectively. As of October 31, 2023, the company had 200 active product registrations (and 20 registrations subject to renewal) with international authorities and 218 registration applications in process with international authorities. As of October 31, 2023, the company had a total sales and marketing team of 6 personnel focused on its international business and plan on increasing marketing efforts to pharmaceutical companies in our target market countries.

The company has a dedicated R&D laboratory and pilot equipment located at its manufacturing facility in Baddi, Himachal Pradesh. R&D is critical to maintaining its competitive position and addressing changing consumer trends and industry developments. Its R&D operations have played a key role in the expansion of its commercialized branded generics and export product portfolio, enabling it to target and enter regulated markets. Apart from India, its R&D team is working to develop and register products across the globe, such as the European Union, Latin America, Africa and ASEAN countries.

Revenue in Rs Million (segments wise)	FY21	FY22	FY23	CAGR
CDMO	3,709	6,867	6,796	35.4%
Domestic Branded generic	0	371	1,662	348.5%
International Branded generic	398	768	807	42.4%
Total Revenue	4,107	8,005	9,264	50.2%

Revenue mix	FY21	FY22	FY23
CDMO	90%	86%	73%
Domestic generic branded	0%	5%	18%
International generic branded	10%	10%	9%
Total	100%	100%	100%

Source: IPO Prospectus

Innova Captab Ltd.

Company Overview

Innova Captab Limited has two manufacturing facilities at Baddi, Himachal Pradesh. According to CRISIL Research, the company was ranked third amongst its peers in terms of its finished tablet and capsule manufacturing capacity in India.

The company has a dedicated R&D laboratory and pilot equipment located at its 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”). As of October 31, 2023, the company employed a team of 29 scientists and engineers at its R&D laboratory. The team includes professionals with experience ranging up to 27 years. The 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, its 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.

Capacity in Million units	FY21	FY22	FY23	Q1FY24	CAGR FY21-FY23
Tablets	4,239	5,557	8,192	2,048	39%
Utilisation	66%	55%	41%	47%	
Capsules	1,591	2,048	2,472	618	25%
Utilisation	60%	52%	55%	66%	
Ointment	23	23	23	6	0%
Utilisation	76%	56%	63%	66%	0
Dry Powder Injection	60	60	60	15	0%
Utilisation	59%	77%	74%	72%	0
Dry Syrup	54	54	54	13	0%
Utilisation	30%	53%	53%	65%	0
Liquid Orals	71	71	71	18	0%
Utilisation	37%	90%	87%	84%	0

Source: IPO Prospectus

The company is planning to construct a new 240,916 sq. ft facility in Jammu, which will include tablets, capsules, dry syrups and injections, as certified by Ravinder K. Sharma & Co. Chartered Accountants. The company anticipates to benefit from the New Central Sector Scheme for Industrial Development of Jammu & Kashmir through this upcoming manufacturing facility in Jammu.

The company has acquired Sharon pursuant to CIRP under the IBC. In accordance with the terms of the resolution plan approved by the NCLT, the company infused Rs. 1,954.00 million 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. The company had Nil revenue from Sharon on a restated consolidated basis in FY21, FY22, FY23 and for Q1FY24. Revenue at Sharon was Rs 1,922 million in FY23 though.

Rs in Mn	Sharon Bio-Medicine Ltd. FY23	Pro-Forma Consolidated FY23 of Innova + Sharon
Revenue	1,922.16	11,185.96
Total Expenses	1,765.36	9,892.69
Cost of Materials	953.57	7,869.19
Gross profit	968.59	3,316.77
GPM	50.4%	29.7%
Employee cost	332.93	880.90
Other expenses	478.86	1,142.60
EBITDA	156.80	1,293.27
%	8.2%	11.6%
Depreciation	107.42	197.13
EBIT	49.38	1,096.14
Other income	44.56	679.48
Finance cost	0.62	365.59
PBT	93.32	1,410.03
Tax	0.00	398.83
PAT	93.32	1,011.20
EPS	NA	21.07

Source: IPO Prospectus

Innova Captab Ltd.

Industry Overview

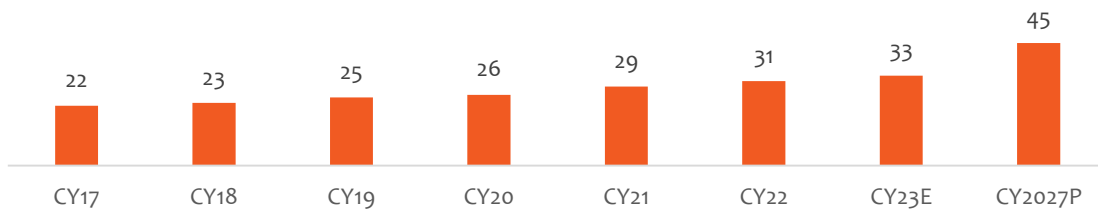
CDMO – Contract Development and Manufacturing Organisation services

Contract research organisation (CRO) and CDMO offer outsourcing services to pharmaceutical research, development and manufacturing. CROs typically support pharmaceutical companies for drug and new chemical entity (NCE) development and clinical research and trials. CROs carry out patient recruitment for clinical trials, clinical monitoring, analytics of the data collected, biostatistics and regulatory consultations. CDMOs take over the formulation drug development and manufacturing activities.

Global formulation CDMO market grew at approximately 7.0% CAGR from 2017 to 2022 with increased outsourcing by big pharma companies. In value terms, global formulation CDMO market grew from approximately USD 22 Bn in 2017 to approximately USD 31 Bn in 2022.

Global formulation CDMO market is expected to grow at a 6.0-7.0% CAGR from 2022 to 2027. It is expected to reach USD 40-45 Bn by 2027, due to robust growth in the outsourcing space, aided by many large pharma players outsourcing their research and manufacturing to specialised contract manufacturing players. In addition, companies are increasing outsourcing formulations research and development activities to CDMOs. Rising penetration of generics along with development of newer molecules is expected to support the growth of the CDMO market in the near to medium term.

Global market size for the formulation outsourcing market (USD Bn)



Source: IPO Prospectus

Key Growth Drivers for global formulation outsourcing industry

With the growing demand for generic medicines and biologics, which is evident from increasing number of ANDA (Abbreviated New Drug Application) approvals from regulatory bodies like US FDA have aided the penetration of generic medicines in the regulated markets.

In light of the capital-intensive nature of the business and the complex manufacturing requirements, many pharmaceutical companies have identified the potential profitability in contracting with contract manufacturing outsourcing organisations for formulation manufacturing. Pharmaceutical companies are also outsourcing R&D activities to academic and private contract research organisations (CROs) to reduce drug development timelines and costs.

Pharmaceutical companies are partnering with manufacturing facilities in emerging countries to access skilled, low-cost manpower and quality data. Lower costs, greater innovation, access to specialised knowledge and technology, and increased speed and agility are some significant factors encouraging pharma companies to expand their level of formulation development outsourcing.

CDMOs are investing in personnel, infrastructure, and technology to acquire a significant revenue share of the healthcare outsourcing market. CDMO players are investing in technology and are becoming end-to-end service providers to meet the rising demand for low-cost drug development and manufacturing.

Moreover, novel drug delivery mechanisms and new product launches are anticipated to drive formulation development outsourcing demand. CDMO are investing in novel areas like technology advancements and latest drug delivery mechanism to provide a better value proposition and occupy larger share in outsourcing market.

Innova Captab Ltd.

Industry Overview

Overview of Indian CDMO industry

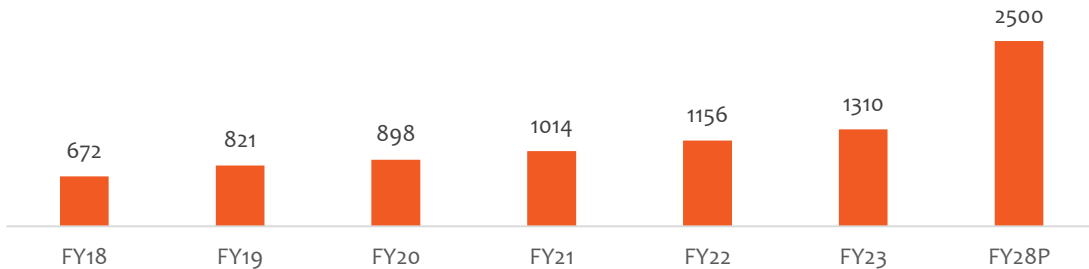
Pharmaceutical companies are increasingly outsourcing development and manufacturing of pharmaceutical products across the world and India. The Indian CDMO market grew at a CAGR of 14.0% from FY18 to FY23, and such growth trend is expected to continue in the next five years from FY23 to FY28.

Supported by strong growth sustained by the global pharmaceutical industry and rise in India’s export potential, it is projected that the Indian CDMO market (including domestic and exports) will grow at a CAGR of approximately 12.0-14.0% from Rs. 1,310 Bn in FY23 to Rs. 2,400 to 2,500 Bn in FY28. The CDMO segment growth is expected to be driven by strong demand of outsourcing of development and manufacturing of new products by big pharmaceutical companies, including both Indian and multinational/global companies.

The Indian CDMO market caters to a significant portion of total pharmaceutical production in the Indian pharmaceutical market. As of FY23, approximately 35.0-40.0% of the Indian Pharmaceutical Production is catered by CDMOs in India and such market share is expected to rise to approximately 40.0-45.0% by FY28.

Globally CDMOs cater to approximately 30.0-40.0% of the total pharmaceutical production as of year 2022. The expected growth in the Indian CDMO market from FY23 to FY28 (CAGR of 12.0-14.0%) is stronger than the expected growth in Indian domestic formulation market across the same period (CAGR of 9.0-10.0%), mainly due to the strong growth of the outsourcing in global pharmaceutical industry and the rise of India’s export potential. Further, the need for pharmaceutical companies to achieve better products and patient compliance is expected to further drive the growth of Indian CDMO market.

Market size for the Indian CDMO (INR bn)



Source: IPO Prospectus

Key Growth Drivers for the CDMO industry

Over the past few years, there has been an increasing trend across pharmaceutical companies to outsource discovery, development and manufacturing of new products, thus saving fixed or capital costs and gaining access to capacity and specialty capabilities which are not routinely available in-house.

In this context, contract development and manufacturing organizations (CDMOs) have been providing niche services such as product development and characterization, manufacturing of clinical and commercial APIs and drug products, along with a range of ancillary services including but not limited to clinical, logistical, distribution and regulatory support.

As the patents for innovative drugs continue to expire, many pharmaceutical companies are actively exploring the generic market and breaking the monopoly of multinational pharmaceutical companies in Europe and America. India maintains a high share of ANDA approvals across the world, which signifies penetration of Indian generic players in regulated markets such as the US.

This trend is expected to provide opportunities for Indian CDMO players as there is significant export opportunity to big pharma companies across the world. CDMOs have accumulated a lot of process research and development and large-scale production experience in the field of manufacturing.

Innova Captab Ltd.

INVESTMENT RATIONALE

Increasing demand for CDMO and Innova's position as one of the largest market players in India to drive growth: The 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 (ROCE) for FY22, as per CRISIL. In the recent times, the big pharma companies prefer to outsource R&D as well as manufacturing activities in order to move to being light asset. As a result, while the CDMO market in India has grown at ~14% CAGR over the last 5 years, it is expected to continue to grow at ~12-14% CAGR over FY23-FY28 from Rs. 1,310 billion in FY23 to Rs. 2,400 – 2,500 billion by FY28. Additionally, the company has strong relationships across its Indian Pharma industry customers. Some of its key customers include Cipla Ltd., Glenmark Pharma, Wockhardt Ltd., Emcure Pharmaceuticals, Lupin, Intas Pharma, Leeford Healthcare, Medley Pharma Ltd., Eris Lifesciences etc. The company's revenue from CDMO services has grown at 35.0% CAGR over FY21-FY23 as number of products sold has grown at 52.0% CAGR from 1,066 in FY21 to 2,467 products in FY23. The sales from customers having relationship of over 10 years with the company has grown at 25.0% CAGR over FY21-FY23 and contributes 35% of revenue as of FY23 vs. 36% in FY22 and 41% in FY21. We expect the company to benefit from this favorable industry trend besides its plan to continuously expand its portfolio on the back of strong relationship with Indian CDMO players. Additionally, the company has acquired Sharon Bio Medicine Ltd. (likely to integrate in FY24 consolidated numbers of Innova Cap Tab) for Rs. 1,954 Mn in Q1FY24 and has made it the wholly owned subsidiary since the end of Q1FY24. Sharon, which is into APIs and Intermediates and CDMO services for both domestic and international markets is likely to add 17% incremental revenue and enhanced EBITDA and net profitability from FY24E onwards.

The quality quotient is high indicative of likely strengthening of its competitive edge: The company has long term relationship with clients which depends on a large extent on it delivering quality products consistently. The potential customers may require considerable amounts of time to approve the company as suppliers to ensure that all their quality controls are met and that the company meets all their regulatory requirements across a variety of jurisdictions and multiple regulators. The company aims at putting great importance on maintaining its relationships with its top pharmaceutical customers, building its customer base and strengthening its product basket for existing customers. As of October 31, 2023, the company had 3 sales and marketing personnel focused on our CDMO business. The fact that its top 10 customers continue to contribute 50-56% of its revenue while it increases such clients base consistently indicates strength of its offerings in CDMO space. Many of its key customers have audited and approved its facilities and manufacturing processes in the past, which ensures that the regulator and its customers are able to confirm the continuance of quality of its facility and processes. In FY21, FY22 and FY23 and during the Q1FY24, the companies' facilities were audited 27 times and it has had 83 customers' audits. In addition, its facilities have GMP certifications from the Health and Family Welfare Department, Himachal Pradesh, in conformity with the format recommended by the WHO and Ethiopia. We believe that its GMP certifications and scale of our operations creates a significant barrier to entry for new competitors.

Cost rationalization to sustain profitability: The company continuously aims to improve cost-efficiencies and increase productivity in its operations through use of automation in process equipment as well as use of software in capacity and resource planning. The company has implemented building management system to control its environment, a fully automated water management system, including purified water and water for injection. In the operations, the company has an automated contained material handling system, which contributes in improving its quality and obtaining higher yield. The company also have an electronic camera inspection system, wherever required, to identify and remove defects. In addition, the company have integrated auto cartoning and auto collect and shrink machines in its packaging process. Additionally, its manufacturing is efficient. In FY22, among Indian formulation CDMO players considered in the CRISIL Report, the company recorded second highest fixed asset turnover ratio and ROCE. The fixed asset turnover has improved from 4.9x in FY21 to 5.4x in FY23.

Rapid rise in demand for branded generics to drive growth: The branded generics business has grown at a rapid pace over FY22-FY23. Its domestic branded generics business has grown at 348.5% y-o-y to Rs. 1,661.61 Mn. in line with increased capacity. Similarly, the international branded generics business has grown at 42.4% CAGR to Rs. 806.63 Mn over FY21-FY23. Its strong generic brands comprising of products such as tablets, capsules, syrups, dry powder injection, ointments, and liquid orals across several therapies and its long term relationship and engagement with its distributors has helped it expand its product offerings and geographical reach. It also sells some of its branded generics products online. The company continues to leverage strong relationship with its distributors and growth in its retail pharmacy base by launching newer products, to gain growth. The company has been selling its products in overseas geographies to drive its international branded generic business revenue. The company exported branded generics to 16 countries in Q1FY24 and 20 countries in FY23. The company is expanding its international branded generics business to regulated markets like the UK and Canada. As on October 31, 2023, the company has 200 active product registrations (and 20 registration subject to renewal) with international authorities and 218 fresh registration applications in process with international authorities. As on date, the company has a strong pipeline of over 36 in-process product dossiers for exports. We believe the segment can continue to drive overall growth for the company at a high pace.

Innova Captab Ltd.

KEY STRENGTHS

Leading presence and one of the fastest growing CDMOs in the Indian pharmaceutical formulations market

In FY22, among Indian formulation CDMO players considered in the CRISIL Report, Innova Captab 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. Their comprehensive CDMO formulation capabilities allow them to offer their customers multiple dosage forms, including oral solids, oral liquids, dry syrups and injectables, as well as capabilities in more complex delivery forms such as modified and sustained release forms and tablets in capsules. CDMO product portfolio spans across both acute and chronic therapeutic areas. They manufacture products across some of the key therapeutic areas identified by CRISIL Research, including cephalosporins, proton pump inhibitors, anticholinergic and heparin NSAIDs, analgesics and antipyretic, anticold and antiallergic, antiemetic, antidiabetic, antispasmodic, antifibrinolytic, cardiovascular, antioxidant and vitamins, antihyperuricemia and antigout, fluroquinolone and macrolide, nootropics and neurotronic/neurotrophic, antiulcerative, antimalarial anxiolytic, anticonvulsant and antipsychotic, bladder and prostate disorders, antifungal, anthelmintic and antiviral anticholinergic and anti-asthmatic and bronchodilator and erectile dysfunction. Their number of CDMO products sold has grown by 131% from 1,066 in FY21 to 2,467 in FY23, on a restated consolidated basis.

Well established relationships with marquee CDMO customer base

In their CDMO business, the Company have developed strong relationships across the Indian pharmaceutical industry. In FY23, the Company had 182 CDMO customers. Some of their key customers include 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 customer engagements are dependent on them delivering quality products consistently. Their potential customers may require considerable amounts of time to approve them as suppliers to ensure that all their quality controls are met and that they meet all their regulatory requirements across a variety of jurisdictions and multiple regulators.

Highly efficient operations, including world class manufacturing facilities and supply chain

They have two manufacturing facilities in Baddi, Himachal Pradesh. Their facilities produce tablets, capsules, dry syrups, dry powder injections, ointments and liquid orals. According to CRISIL Research, they were ranked third among their peers in terms of their finished tablet and capsule manufacturing capacity in India. In FY21, FY22 and FY23 and in the three months ended June 30, 2023, the total installed capacity of the Company and the Innova Partnership, on a combined basis (not including Sharon), was of 4,239.31 Mn, 5,556.73 Mn, 8,191.59 Mn and 2,047.90 tablets, respectively, and 1,591.20 Mn, 2,048.16 Mn, 2,472.48 Mn and 618.12 Mn capsules, respectively, during the same periods. In FY21, FY22 and FY23 and in the three months ended June 30, 2023, the aggregate manufacturing capacity utilization of the Company and the Innova Partnership, on a combined basis (not including Sharon), for tablets was 66.5%, 54.6%, 40.7% and 46.7%, respectively, and for capsules was 60.0%, 52.0%, 55.5% and 65.9%, respectively. They continuously aim to improve cost-efficiencies and increase productivity in their operations through use of automation in process equipment as well as use of software in capacity and resource planning. They have implemented building management system to control their environment, a fully automated water management system including purified water and water for injection. In the operations, they have an automated contained material handling system which contributes in improving their quality and obtaining higher yield. They also have an electronic camera inspection system, wherever required, to identify and remove defects. In addition, they have integrated auto cartoning and auto collect and shrink machines in their packaging process.

Rapidly growing domestic and international export branded generics businesses

Their branded generics business consists of the development, manufacture and distribution of generic formulation products, which are marketed and distributed in India. Their domestic and international export branded generics businesses have been growing rapidly. During FY21, FY22 and FY23 and during the three months ended June 30, 2023, revenue from their domestic branded generic business on a restated consolidated basis was nil, INR 370.51 Mn, INR 1,661.61 Mn and INR 422.53 Mn, respectively. Revenue from their domestic branded generic business on a pro forma consolidated basis was INR 1,661.61 million in Fiscal 2023. Their products' strong brand recognition coupled with their long-term relationships and ongoing active engagements with their distributors has helped them expand their product offerings and geographic reach. They also sell certain of their generic drug products online through various e-commerce pharmacy sites. Their sales and marketing team focuses on maintaining Their relationships with their distributors, building their retail pharmacy base and launching new products. As of October 31, 2023, they had a total sales and marketing team of 287 personnel focused on their domestic branded generics business.

Innova Captab Ltd.

Future Growth Strategies

Expansion of manufacturing capacities

CDMOs are considered an important and growing part of the pharmaceutical value chain. The CDMO market in India is competitive and, hence, differentiation is important to remain competitive in the market. According to CRISIL Research, players with differentiated technologies, offering manufacturing of complex molecules which usually has high barriers to entry and higher regulatory compliance enjoy higher growth and higher margins as compared to their peers. By expanding their manufacturing capacity in these areas, they will be able to expand their product offering in both CDMO and branded generic businesses. Accordingly, they are planning to construct a new 240,916 sq. ft facility in Jammu, which will include tablets, capsules, dry syrups and injections. The estimated total project cost for this new manufacturing facility at Jammu is INR 3,551.72 Mn. They anticipate benefitting from the New Central Sector Scheme for Industrial Development of Jammu & Kashmir through this upcoming manufacturing facility in Jammu. Under this scheme, the Govt offers companies registered under the scheme a capital investment incentive, a capital interest incentive, a goods and service tax incentive and a working capital interest incentive. As on November 15, 2023, they have made the following progress on construction of new Jammu Facility. Purchase orders for plant, equipment and other fixed assets, both imported and indigenous, amounting to INR 2,946.97 Mn have been placed. An amount of INR 2,498.65 million has already been incurred on the project out of which INR 1,061.48 million has funded by through their internal accruals and the remaining INR 1,437.16 million has been disbursed by HDFC bank / State Bank of India.

Continued focus on R&D operations

Their R&D operations is the growth engine for their business, and they will continue to focus on expanding their research activities for their CDMO and branded generic businesses. In FY24, they have 72 new therapeutic generic products in the development stage and expect that 30 new generic products will be commercialized in FY24. Accordingly, they endeavor to keep R&D expenditure at current levels and will continue to invest in R&D capital expenditure. For example, they have been focused on nano technology, modified and sustained release dosage forms, liquid injectables and respules. As on date of Red Herring Prospectus, they have 218 fresh registration applications in process with international authorities. Further, as on date of Red Herring Prospectus, they had begun preliminary research on over 15 formulations that had gone (or are going) off patent. They are also looking to expand the capacity of their R&D laboratories. In addition, they are looking to establish a new R&D center in Panchkula, Haryana. They have already acquired land for the same. The new R&D center will be equipped with advanced equipment and instruments and will focus on the development of generic and complex generic products.

Growing international export business

In FY23 and in the three months ended June 30, 2023, they exported branded generic products to 20 and 16 countries, respectively. They have focused their international branded generic business on emerging and semi regulated international markets. They are 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. Their strategy is also to expand their exports to developed markets like the United Kingdom, and Canada. They are currently working with customers in Canada, and the UK to obtain product approvals. For example, in Canada, they are working with a pharmaceutical company to develop various products which they will manufacture and their partner will market. Their R&D team is working with their partner to develop drugs which they aim to submit to the concerned regulatory authority. In addition, in Canada, through the technology transfer route, they are looking to manufacture two products in solid dosage form. The products are waiting for regulatory clearance. In the United Kingdom, through technology transfer route, they are introducing three new products in both solid as well as dry powder injection dosage form for the UK market. The products are waiting for regulatory clearance. They are currently developing six product formulations for the European market. They have completed a submission batch manufacturing (exhibit batch) to The European Medicines Agency (EMA) for two of these products.

Acquisition of Sharon Bio-Medicine Limited (“Sharon”)

Sharon is engaged in the business of manufacturing of intermediates and API 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. They had Nil revenue from Sharon on a restated consolidated basis in FY21, FY22 and FY23 and in the three months ended June 30, 2023. Revenue from Sharon was INR 1,922.16 Mn in FY23. Sharon also manufactures APIs and intermediates in key therapeutic areas including cardio-vascular, anti-fungal, anti-diabetic, muscle relaxant and antipsychotic. Sharon’s major API and intermediate products were Eperisone Hydrochloride, Trimetazidine Hydrochloride, Miconazole Nitrate, Ketoconazole and Nifedipine. Also, three API products are vertically integrated to formulations, which comprise Aripiprazole, Memantine Hydrochloride and Trazodone Hydrochloride.

Innova Captab Ltd.

Key Risks

Recent acquisition may not materialize as anticipated: The company has recently acquired Sharon Bio-Medicine Ltd., and do not yet know whether it will achieve the expected benefits from such acquisition, which could materially adversely affect its business, results of operation, cash flows and financial condition. The company acquired Sharon pursuant to CIRP under the IBC. In accordance with the terms of the resolution plan approved by the NCLT, the company infused ₹1,954.00 million 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 as well as finished dosages. It also offers contract manufacturing services for formulations. It also offers contract manufacturing services for pharmaceutical products. Revenue from Sharon on a pro-forma consolidated basis was Rs. 1,922.16 Mn in FY23. The company's ability to realize the anticipated benefits of the acquisition of Sharon will depend, to a large extent, on its ability to integrate its business. The combination of two independent businesses is a complex, costly and time-consuming process. The overall integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customers and other business relationships. As a result, the company will be required to devote significant management attention and resources to integrate its business practices and operations with Sharon. The integration process may disrupt the businesses and, if implemented ineffectively, would restrict the realization of the full expected benefits. The company's failure to meet the challenges involved in integrating Sharon and to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, the activities of the combined businesses and could adversely affect our business, results of operation, cash flows and financial condition.

Depends on limited number of CDMO customers: The company's CDMO business derives 56.3% of CDMO revenue from top 10 customers as of FY23 vs. 68.4% in Q1FY24. The company has long term agreements with the customers though and is growing its customers number.

	FY21	FY22	FY23	Q1FY24	CAGR %
Top 10 Customers (Revenue contribution) Rs in Mn					
1	581	771	1,001	365	31%
2	325	728	644	186	41%
3	221	462	468	162	45%
4	185	283	412	100	49%
5	183	240	239	70	14%
6	163	230	229	69	19%
7	113	199	225	61	41%
8	98	155	222	45	51%
9	85	144	198	40	53%
10	67	129	188	39	68%
Total	2,021	2,879	3,358	975	29%

Source: IPO Prospectus

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Outlook and Valuation

Innova Captab Limited, is promoted by experienced management such as Manoj Kumar Lohariwala (Chairman and whole time Director) and Vinay Kumar Lohariwala (Promoter and Co-Founder and MD) (holding 66.8% pre-IPO), with over 26 and 21 years of industry experience, respectively, in the field of manufacturing and marketing of pharmaceutical products. The company is considered to be the third largest in terms of revenue generated and net profits margin generated in FY22 as per CRISIL among the CDMO players. It has 14 of the top 15 Indian pharma companies as its customers for its CDMO services. Its branded generics business is also growing at a strong pace in line with increased demand for branded generics products in India and overseas markets as well as its increased capacity for the same.

The company has acquired 100% of the Sharon Bio – Medicine Limited under the corporate insolvency resolution process (CIRP) under the Insolvency and Bankruptcy Code (IBC) in Q1FY24 for Rs. 1,954 Mn. The acquired company is into API and intermediates and finished dosages manufacturing and CDMO services, largely exporting with 75.3% of revenue coming from it for FY23. The acquisition has been made at ~12.5x of Sharon’s EBITDA for FY23, which looks slightly expensive. Nevertheless, given the likely synergies from the acquired entity and incremental revenue and improved profitability likely, we recommend Subscribe to the issue.

Peer Comparison

Comparison with listed industry peers (FY23)

Parameters (FY23)	Innova Captab	Torrent Pharma	Laurus Labs
Face value (INR)	10	5	2
Closing price as on 19th December 2023 (INR)	NA	2,134	387
Revenue from Operations (INR Mn)	9,264	96,202	60,405
EPS (INR)	14.2	36.8	14.6
P/E	NA	57.6x	25.5x
Operating Margin (%)	13.3%	30.0%	26.5%
Net Profit Margin (%)	7.3%	12.9%	13.2%
ROCE%	22.6%	35.9%	22.1%
ROE%	24.6%	20.1%	19.7%

Source: IPO Prospectus, KRChoksey Research

Innova Captab Ltd.

Financials:

Income Statement (INR Mn)	FY21	FY22	FY23	Q1FY24
Total Revenue from Operations	4,107	8,005	9,264	2,332
YoY Growth (%)		94.9%	15.7%	
Other income	14	29	92	11
EBITDA*	545	960	1,136	313
EBITDA Margin (%)	13.3%	12.0%	12.3%	13.4%
Depreciation	56	75	111	28
EBIT	489	885	1,026	285
Interest expense	39	57	200	50
PBT	463	857	918	246
Exceptional items	0	0	0	0
Tax	118	218	238	70
PAT	345	640	680	176
Diluted EPS (INR)	7.2	13.3	14.2	3.7

Source: IPO Prospectus, KRChoksey Research. Note: EBITDA does not include other income

Balance Sheet (INR Mn)	FY21	FY22	FY23	Q1FY24
Assets				
Non-current assets				
(a) Property, plant and equipment	764	1,566	1,501	2,901
(b) Right-of-use assets	23	93	153	442
(c) Capital work-in-progress	73	0	215	348
(d) Goodwill	-	167	167	167
(e) Other intangible assets	4	5	8	9
(ii) Loans	-	2	5	5
(iii) Other financial assets	35	8	6	26
Deferred tax assets (net)	-	2	1	255
(h) Income tax assets (net)	13	40	7	7
(i) Other non-current assets	79	81	556	720
Total non-current assets	992	1,964	2,619	4,882
Current assets				
(a) Inventories	914	1,284	1,173	1,452
(b) Financial assets				
(i) Trade receivables	1,386	2,127	2,652	3,033
(ii) Cash and cash equivalents	48	2	35	324
(iii) Bank balances other than (ii) above	71	23	154	510
(iv) Loans	5	3	10	6
(v) Other financial assets	22	43	72	102
(c) Other current assets	259	309	329	553
Total current assets	2,705	3,791	4,425	5,980
Total assets	3,696	5,755	7,044	10,862
(a) Equity share capital	120	120	480	480
(b) Other equity	1,328	1,966	2,285	3,175
Total equity	1,448	2,086	2,765	3,655
Borrowings	60	674	1,342	2,957
Lease liabilities	4	6	14	12
Other financial liabilities	-	-	79	96
(b) Provisions	12	23	29	105
Deferred tax liabilities (net)	19	21	39	47
(d) Other non-current liabilities	1	1	1	-
Total non-current liabilities	96	724	1,504	3,216
(i) Borrowings	390	1,308	1,010	1,462
(ii) Lease liabilities	1	4	4	7
(iii) Trade payables				
total outstanding dues of micro and small enterprises	35	14	6	24
total outstanding dues of creditors other than micro and small enterprises	1,088	1,434	1,579	1,940
(iv) Other financial liabilities	582	93	115	315
(b) Other current liabilities	50	78	56	181
(c) Provisions	5	4	6	27
(d) Current tax liabilities (net)	-	10	-	35
Total current liabilities	2,152	2,945	2,776	3,990
Total liabilities	2,248	3,669	4,279	7,207
Total equity and liabilities	3,696	5,755	7,044	10,862

Source: IPO Prospectus, KRChoksey Research.

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