

Retail Research	IPO Note
Sector: Pharmaceuticals (CDMO)	Price Band (Rs): 426 - 448
20th December 2023	Recommendation: Subscribe for Long Term Horizon.

Innova Captab Limited

Company Overview:

The company is engaged in (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. The company has presence across the pharmaceutical value chain including R&D, manufacturing, drug distribution, marketing and exports. As of 1QFY24, the company manufactures a diverse generic product portfolio of over 600 products, marketing them under the company's brand through a developed network of ~5,000 distributors and ~15,000 retail pharmacies. The company has 2 manufacturing facilities in Baddi, Himachal Pradesh and is planning to construct a new 240,916 sq. ft. facility in Jammu.

Key Highlights:

1. Leading presence in Indian Pharmaceutical markets: The company is among the fastest growing CDMO business in the Indian pharmaceutical formulation markets. The company's comprehensive CDMO formulation capabilities allows it to offer 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 to its customers. The company's CDMO products sold increased 131.4% from 1,066 in FY21 to 2,467 in FY23.

2. Marquee Customer Base: The company has strong relations within the Indian pharmaceutical industry due to the increased outsourcing by pharmaceutical companies. The company typically enters into long-term CDMO contracts ranging between 3-5 years which results in predictable and stable cashflows. The company has strong relations with key customers including Cipla Ltd, Mankind Pharma Ltd, Lupin Ltd, Indoco Remedies Ltd, Ajanta Pharma Ltd, Wockhardt Ltd etc.

3. Rapidly growing domestic and international export branded generic businesses: The company is also engaged in development, manufacture and distribution of generic formulation products in Indian and international pharmaceutical markets. In FY23, the domestic and international branded generics business saw revenue growth of 348.5% and 5.1% respectively. As of October'23, the company has 200 active product registrations with international authorities and 218 fresh registration and application in process.

4. Strong focus on R&D: The company is a R&D centric organization with dedicated R&D plant and pilot equipment located at its manufacturing plant in Baddi, Himachal Pradesh. The company is adding products produced by nano-technology as well as modified and sustained release and tablets in capsules. The company's R&D capabilities has helped to develop various products, processes and technologies for diverse therapeutic segments.

Valuation: The company is valued at FY23 P/E multiple of 37.7x based on the upper price band on post-issue capital. It is an integrated pharmaceutical company in India with a presence across the pharmaceutical value chain. The recently acquired Sharon Bio Medicine Ltd will add many synergies to the business. The company's revenue and PAT has witnessed a healthy CAGR growth of 50% and 40% respectively during FY21-FY23. We recommend investors to subscribe to the issue for long-term investment horizon.

Issue Details	
Date of Opening	21 st December 23
Date of Closing	26 th December 23
Price Band (Rs)	426-448
OFS	55,80,357 equity shares
Fresh Issue (Rs cr)	320
Issue Size (Rs cr)	558-570
No. of shares	1,30,92,094-1,27,23,214
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,453-2,564
BRLMs	ICICI Securities, JM Financial
Registrar	KFin Technologies Limited
Bid Lot	33 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Repayment and/ or prepayment, in part or in full, of certain outstanding loans	144.4
Investment in subsidiary, UML, for repayment and/ or prepayment, in part or in full of outstanding loans availed by UML	23.6
Funding working capital requirements	72.0
General corporate purposes [^]	-
Total proceeds from fresh issue	320.0

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

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	3,34,80,000	66.9
Public & Others	1,66,02,072	33.1
Total	5,00,82,072	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	2,95,73,750	51.3
Public & Others	2,80,20,059	48.7
Total	5,75,93,809	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	2,95,73,750	51.7
Public & Others	2,76,51,179	48.3
Total	5,72,24,929	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	1QFY24
Revenue from operations (Rs cr)	411	801	926	233
EBITDA (Rs cr)	54	96	114	31
Profit (Rs cr)	35	64	68	18
EBITDA Margin (%)	13.3	12.0	12.3	13.4
PAT Margin (%)	8.4	8.0	7.3	7.5
EPS (Rs)	7.2	13.3	14.2	3.7*
ROE (%)	23.8	30.7	24.6	4.8*
ROCE (%)	26.5	22.5	21.8	3.7*
Debt / Equity (x)	0.3	1.0	1.1	1.2*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- Customer concentration risk:** The company derives a significant portion of its revenue accounting for 54.5%, 48.7%, 56.3% and 68.4% of its FY21, FY22, FY23 and 1QFY24 revenue respectively from its top 10 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 business, results of operations and financial condition.
- Quality regulation risk:** The CDMO space is subject to stringent quality standards and specifications typically specified by customers in their respective agreements. Any deviations from the required specifications by the company or failure to comply with the technical specifications of customers regarding the composition of drugs or any alterations in manufacturing process or method or raw material may lead to a recall of products or cancellation of the orders placed by customers. Failure to comply with the quality requirements and technical specifications prescribed by the customers may lead to loss of business from such customers and could negatively impact business, results of operations and financial condition, including cancellation of existing and future orders.
- Geo-political risk:** The company is dependent on China, China SEZ and Hong Kong for its imported raw materials. In FY21, FY22, FY23 and 1QFY24 imports as a cost of imported raw materials from China, China SEZ and Hong Kong stood at 91.9%, 90.0%, 75.4% and 100.0% respectively. Further, any political, social or economic risk in China or any geo-political events and clashes between India and China could adversely affect the business, results of operations and financial condition.
- Competition:** The company operates in a highly fragmented industry with 300 to 400 organized players and ~15,000 unorganized players. The company competes with CDMO services and products including full-service pharmaceutical outsourcing or CDMO companies; contract manufacturers focusing on a limited number of dosage forms; contract manufacturers providing multiple dosage forms; and large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity. The company's inability to compete in the industry could have a material adverse effect on its business, results of operations and financial condition.

Growth Strategy

- Continued focus on R&D:** R&D operations are the growth engine for business and the company will continue to focus on expanding its research activities for CDMO and branded generic businesses.
- Expand wallet share:** Increase formulations manufactured for existing customers by leveraging inhouse R&D and large-scale manufacturing capabilities.
- Expand manufacturing facility:** Expand capacity and product offerings with differentiated technologies and complex molecules.
- Inorganic growth:** Capitalize on the growth in the pharmaceuticals by pursuing strategic acquisitions with a focus on backward integration or expansion of capabilities in terms of capacity or products.

Revenue from operations – Segment wise

Revenue from Business Vertical	FY21		FY22		FY23		1QFY24	
	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation
Contract Development and Manufacturing	370.9	90.3	686.7	85.8	679.6	73.4	166.2	71.3
Domestic Branded Formulation	0.0	0.0	37.1	4.6	166.2	17.9	42.3	18.1
International Branded Formulation	39.8	9.7	76.8	9.6	80.7	8.7	24.8	10.6
Total	410.7	100.0	800.5	100.0	926.4	100.0	233.2	100.0

Source: RHP, SSL Research

Revenue from operations – Customer wise

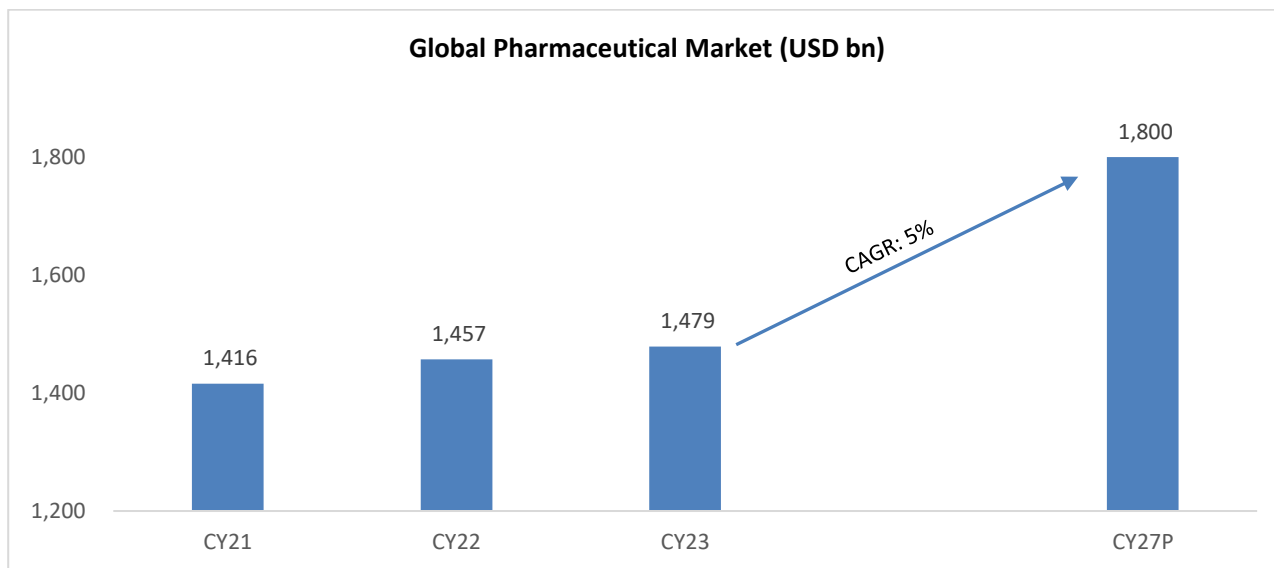
Revenue from CDMO Business Customers	FY21		FY22		FY23		1QFY24	
	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation
Largest Customer	58.1	15.7	77.1	11.2	100.1	14.7	36.5	22.0
Top 10 Customers	202.2	54.5	334.1	48.7	382.5	56.3	113.7	68.4
Top 20 Customers	238.1	64.2	419.1	61.0	475.8	70.0	136.6	82.2

Source: RHP, SSL Research

Industry Overview – Pharmaceutical and CDMO Markets

Global Pharmaceutical Markets

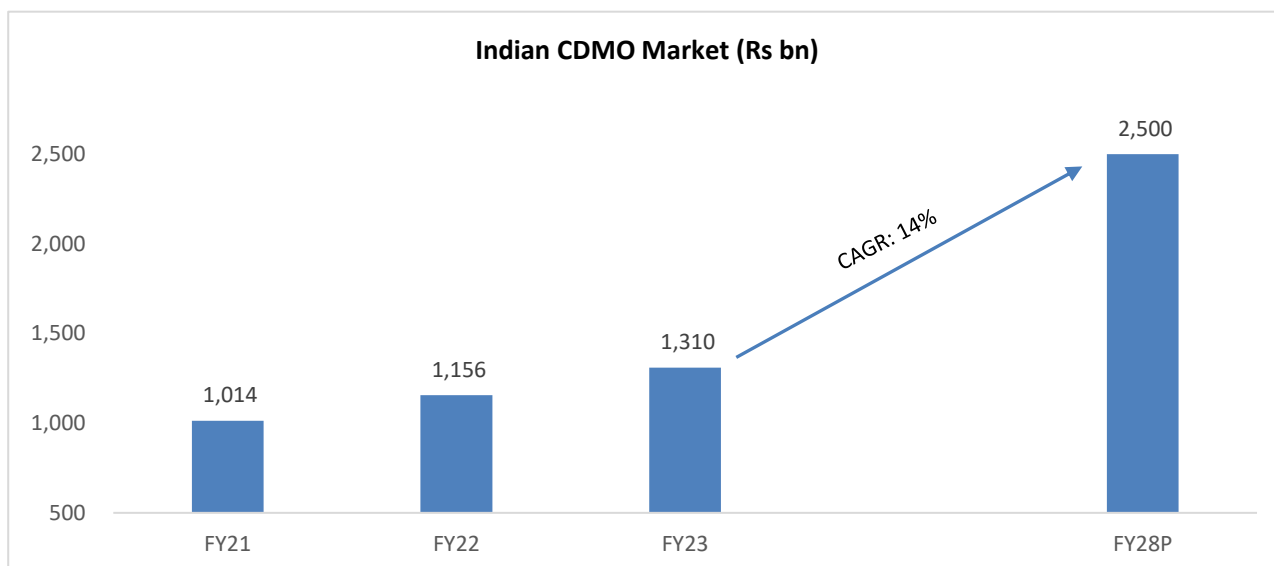
The Global pharmaceutical market was valued at USD 1,479 bn in CY23 led by the increased demand in CY20 – CY21 due to increased spending on pharmaceuticals during the pandemic, but is expected to moderate by CY23. The market is further expected to grow at a CAGR of 5% between CY23 – CY27 to reach USD 1,800 bn by CY27.



Source: RHP, SSL Research

Indian CDMO Market

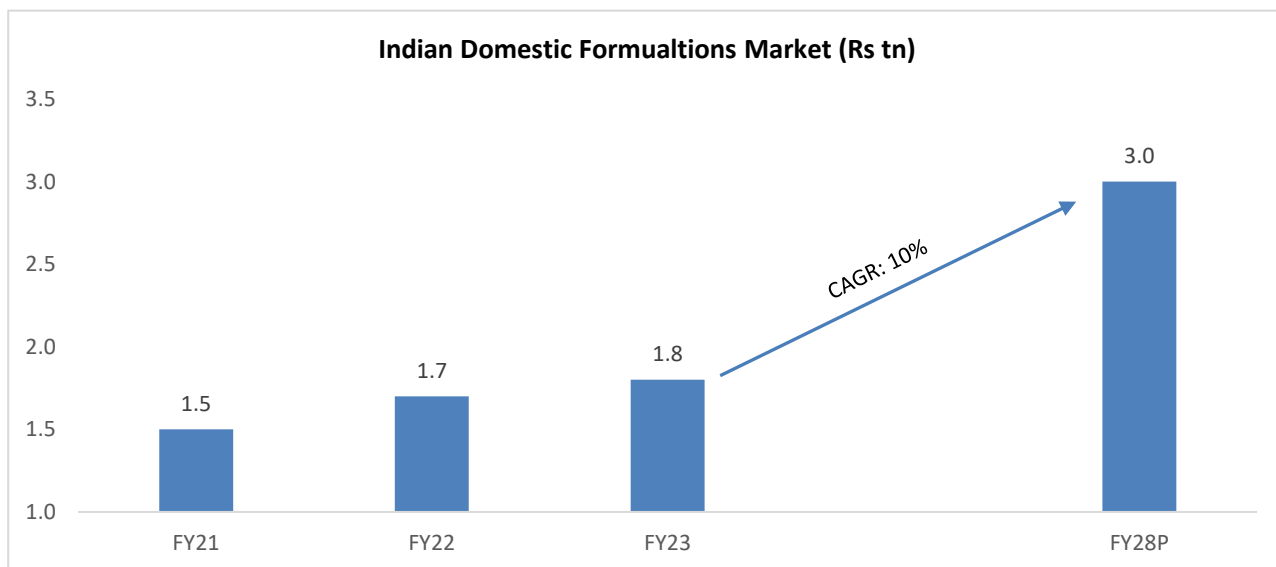
The Indian CDMO market was valued at Rs 1,310 bn in FY23 and is expected to grow at a CAGR of 14% between FY23 – FY27 to reach Rs 2,500 bn by FY23. The growth will be supported by strong growth sustained by the global pharmaceutical industry and rise in India’s export potential. The CDMO segment growth 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.



Source: RHP, SSL Research

Indian domestic formulations Market

The Indian domestic formulations market saw healthy growth being valued at Rs 1.8 tn in FY23. The market is expected to grow at a CAGR of 10% between FY23 – FY28 to reach Rs 3.0 tn by FY28, aided by strong demand because of rising incidence of chronic diseases, increased awareness and access to quality healthcare. Another key growth driver for the Indian pharmaceutical industry is the increasing prevalence of non-communicable diseases such as cardiovascular disease, stroke, cancer, diabetes and chronic lung disease.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
<i>(Rs cr)</i>	FY21	FY22	FY23
Revenue from Operations	411	801	926
YoY growth (%)	-	94.9	15.7
Cost Of Revenues (incl Stock Adj)	311	618	692
Gross Profit	100	183	235
Gross margins (%)	24.3	22.8	25.3
Employee Cost	22	40	55
Other Operating Expenses	23	46	66
EBITDA	54	96	114
EBITDA margins (%)	13.3	12.0	12.3
Other Income	1	3	9
Net Interest Exp.	4	6	20
Depreciation	6	8	11
Exceptional Items	0	0	0
PBT	46	86	92
Tax	12	22	24
PAT	35	64	68
PAT margin (%)	8.4	8.0	7.3
EPS	7.2	13.3	14.2

BALANCE SHEET			
<i>(Rs cr)</i>	FY21	FY22	FY23
Assets			
Net Block	76	157	150
Capital WIP	7	0	22
Intangible Assets under development	3	10	16
Other Non current Assets	13	30	74
Current Assets			
Current Investment	0	0	0
Inventories	91	128	117
Trade receivables	139	213	265
Cash and Bank Balances	12	2	19
Short-term loans and advances	0	0	1
Other Current Assets	28	35	40
Total Current Assets	270	379	442
Current Liabilities & Provisions			
Trade payables	112	145	158
Other current liabilities	63	18	17
Short-term provisions	1	1	1
Total Current Liabilities	176	164	177
Net Current Assets	94	215	266
Total Assets	193	412	528
Liabilities			
Share Capital	12	12	48
Reserves and Surplus	133	197	229
Total Shareholders Funds	145	209	277
Minority Interest	0	0	0
Total Debt	45	198	235
Long Term Provisions	1	2	3
Other Long Term Liabilities	0	1	9
Net Deferred Tax Liability	2	2	4
Total Liabilities	193	412	528

Cash Flow (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	42	59	67
Cash flow from Investing Activities	-20	-188	-91
Cash flow from Financing Activities	-19	125	27
Free Cash Flow	23	-21	-12

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	9.3	11.1	9.6
Return on Capital Employed (%)	26.5	22.5	21.8
Return on Equity (%)	23.8	30.7	24.6
Margin Analysis			
Gross Margin (%)	24.3	22.8	25.3
EBITDA Margin (%)	13.3	12.0	12.3
Net Income Margin (%)	8.4	8.0	7.3
Short-Term Liquidity			
Current Ratio (x)	1.3	1.3	1.6
Quick Ratio (x)	0.8	0.9	1.2
Avg. Days Sales Outstanding (x)	123	97	104
Avg. Days Inventory Outstanding (x)	81	59	46
Avg. Days Payables (x)	100	66	62
Fixed asset turnover (x)	5.4	5.1	6.2
Debt-service coverage (x)	1.1	0.5	0.4
Long-Term Solvency			
Total Debt / Equity (x)	0.3	1.0	0.9
Interest Coverage Ratio (x)	12.8	16.1	5.6
Valuation Ratios			
EV/EBITDA (x)	40.1	24.4	20.8
P/E (x)	62.3	33.6	31.6
P/B (x)	14.8	10.3	7.8

Source: RHP, SSL Research

Peer Comparison

	Innova Captab Ltd.	Torrent Pharmaceutical Ltd	Ajanta Pharma Ltd	J.B. Chemicals and Pharmaceuticals Ltd	Laurus Labs Ltd	Indoco Remedies Ltd
CMP	448.0	2,173.0	1,895.0	1,470.0	397.0	405.0
Sales (Rs cr)	1,211.9	9,620.0	3,743.0	3,149.0	5,773.0	1,669.0
EBITDA (Rs cr)	113.6	2,842.0	808.0	696.0	1,482.0	288.0
Net Profit (Rs cr)	68.0	1,245.0	588.0	410.0	760.0	142.0
M.Cap (Rs Cr)	2,563.7	73,534.0	23,864.0	22,784.0	21,387.0	3,734.0
Enterprise Value (Rs cr)	2,837.5	77,465.0	23,635.0	23,128.0	23,165.0	4,165.0
EBITDA Margin (%)	9.4	29.5	21.6	22.1	25.7	17.3
Net Margin (%)	5.6	12.9	15.7	13.0	13.2	8.5
PE(x)	37.7	59.1	40.6	55.6	28.1	26.3
EV/EBITDA	25.0	27.3	29.3	33.2	15.6	14.5
RoE (%)	24.6	20.0	17.9	17.6	20.4	14.8
RoCE (%)	21.8	19.8	22.6	22.4	22.2	17.4

The data is based on FY23 financial data.

For Innova Captab Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 19th December'23.

Source: RHP, SSL Research

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