

# Innova Captab Limited

Pharmaceuticals | India

IPO | 20 December 2023

## Innovating and moving the value chain



### About the Company

Innova Captab Limited (ICL) is an integrated pharmaceutical company in India with a presence across the pharmaceuticals value chain including research and development, manufacturing, drug distribution and marketing and exports. ICL business includes (i) a contract development and manufacturing organization ("CDMO") business providing manufacturing services to Indian pharmaceutical companies, (ii) domestic branded generics business and (iii) international branded generics business. ICL manufactured a diverse generics product portfolio of over 600 products and market them under their own brands in the Indian market through a developed network of approximately 5,000 distributors and stockiest and over 150,000 retail pharmacies.

### Long standing relationships with higher market share

ICL is growing its branded generics business on both domestic and exports markets with revenue share increase from 9% to 27% over FY21-23 which will help to improve the wallet share of high margin business along with the traditional CDMO business portfolio span across acute and chronic therapeutic areas. ICL has built a long-term customer base with innovator pharmaceutical companies and generic pharmaceutical companies supported by committed multi-year contracts. The increasing use of outsourcing by pharmaceutical companies has created opportunities to build more strategic relationships with customers and introduce new products regularly moving the number from 435 to 627 products over FY21-23.

### Diversifying revenues and expanding capacities for increased demand

ICL has state-of-the-art 2 manufacturing facilities in Baddi, Himachal Pradesh which helps provides customers with large volumes maintaining a high standard of quality products critical to brands and continued growth. ICL is expanding its manufacturing capacities constructing a new 240,916 sq. ft facility in Jammu with an estimated project cost of Rs 355 Crs and benefitting from the new central sector scheme for Industrial Development of Jammu and Kashmir. ICL aims to increase the formulations manufactured for our existing customers leveraging our in-house R&D and large-scale manufacturing capabilities and expand portfolio into new products and more complex dosages for the domestic and exports markets.

### Acquisition of Sharon Biomedicine adds value

ICL acquired Sharon, an entity undergoing CIRP under the IBC for Rs.195 Crs with revenue of 192 Crs with a mix of 75% exports and 25% domestic for FY23 which is a great advantage with 1X Sales for two manufacturing facilities located in Dehradun, Uttarakhand and Taloja, Maharashtra. Sharon caters to both domestic as well as international markets including Canada, the United Kingdom, Europe, Australia, Korea, Vietnam and Central and South America and the R&D sanctuary has its footprints across the globe including South East Asia, Europe and Australia. ICL will help introduce the new product baskets and improving the capacity utilization from 48% to 75-80% over the next few years adding incremental growth on a consolidated basis.

### Financials in Brief

On the financial front, the company reported a turnover of Rs 410 Crs, Rs 800 Crs and Rs 1186 Crs for FY21, FY22 and FY23 respectively, on a consolidated basis. It posted net profit of Rs 56 Crs, Rs98 Crs and Rs 197 Crs respectively for the aforementioned period. Its EBITDA margins has improved from 13.6% to 17.6% over the past few years and expected to improve further with the growth in generics segment over the next few years. As of October 31, 2023, the company has 200 active product registrations and 20 registrations pending renewal with international authorities. In addition, 218 new registration applications are being processed with international authorities.

### Our View

The CDMO segment growth of 14-16% is expected to be driven by strong demand from outsourcing of development and manufacturing of new products by big pharmaceutical companies including both Indian and multinational and global companies ICL is an integrated pharmaceutical company in India with presence across the pharmaceutical value chain with industry leading fixed asset turnover and ROCE in FY21 and has a customer base with 14 of the Top 15 pharma companies. **The increased expansion over the next 2 years envisaged increase in demand and leveraging the customer relationships for domestic branded generics; international generics growth in Sharon Bio Medicine and taxation benefits from the new plant will boost earnings over the next few years. We recommend a SUBSCRIBE to the issue.**

#### IPO Details

Price Band (Rs)	426-448
Face Value (Rs)	10
Issue Open/Closing Date	21-Oct-23/26-Oct-23
Fresh Issues (Crs)	320.0
OFS (Crs)	250.0
<b>Total Issue (Crs)</b>	<b>570.0</b>
Minimum Bid Qty. (Nos)	33
QIB / HNI / Retail	50%/15%/35%
<b>Implied Market Cap (Rs Crs)*</b>	<b>2,564</b>

\*At higher band

#### Object of the Issue

- ▶ Repayment in full or part of borrowings.
- ▶ Expansion and up gradation works in subsidiaries.
- ▶ General Corporate purposes.

#### Strengths

- ▶ Fastest and one of the leading growing CDMOs player and well established relationships with top pharma companies.
- ▶ Rapidly growing domestic and international export branded generics businesses.
- ▶ Strong R&D focus to build an increasingly complex product portfolio.
- ▶ Strong product development and process optimization capabilities with a focus on sustainability.

#### Key Risk

- ▶ Failure to comply with the quality requirements and technical specifications.
- ▶ Clinical trials failure of new products and lower capacity utilization.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	66.9	51.7
Others	33.2	48.3

#### Key Financials

(Rs Crs)	FY21	FY22	FY23
Revenue	410	800	1,186
EBITDA	56	99	197
EBITDA Margin (%)	13.6	12.4	16.6
PAT	35	64	101
PAT Margin (%)	8.4	8.0	8.5
EPS (Rs)	7.2	13.3	14.2
RocE (%)	26.5	23.5	24.0
RoE (%)	23.8	30.6	31.1
FA Turnover (x)	4.9	5.1	3.6

Source: RHP

Senior Research Analyst:

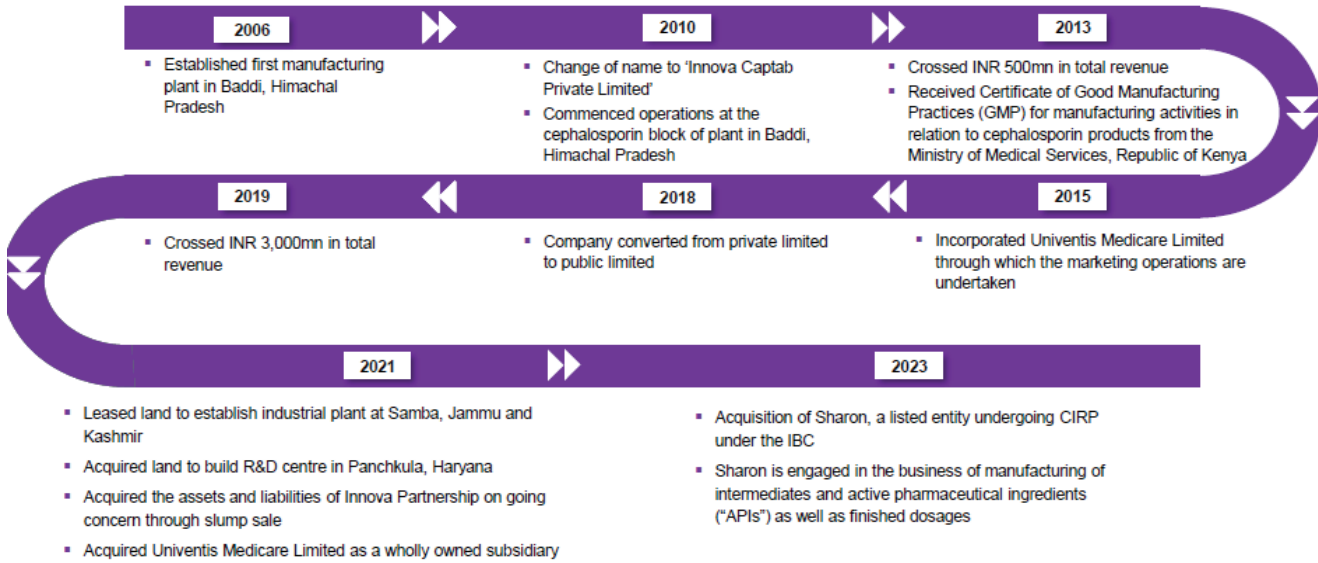
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Exhibit 1: The Evolution

Major Events and Milestones

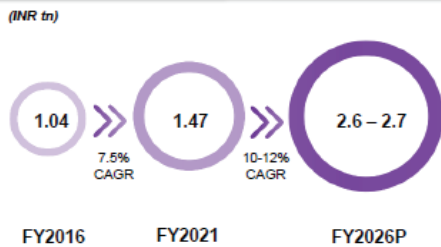


Source: RHP, Company

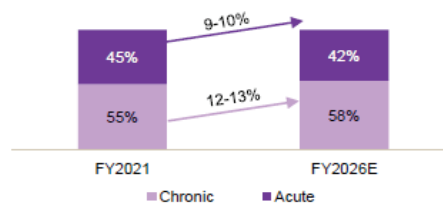
Exhibit 2: Indian Domestic Formulation Market

Expected to Grow at ~10-12% CAGR over Fiscal 2021 to Fiscal 2026

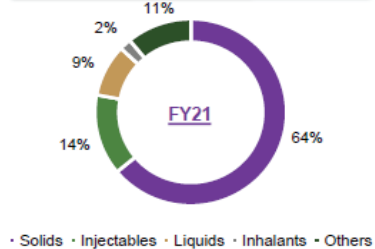
Domestic Formulation Market to Grow at a Healthy Rate



Chronic vs Acute Split in Domestic Formulation Market



Dosage-wise Segmentation in Value Terms



Top 10 Therapy Areas (FY21)

- |                                   |                     |
|-----------------------------------|---------------------|
| 1 Cardiac                         | 2 Anti-Infectives   |
| 3 Gastro Intestinal               | 4 Anti-Diabetic     |
| 5 Vitamins / Minerals / Nutrients | 6 Respiratory       |
| 7 Derma                           | 8 Pain / Analgesics |
| 9 Neuro / CNS                     | 10 Gynaecological   |

Factors Driving Growth...

- ✓ Rising income levels along with strong awareness for health
- ✓ Improving life expectancy and changing demographic profile
- ✓ Improvement in health insurance penetration

Recent Trends in Indian Pharma Industry

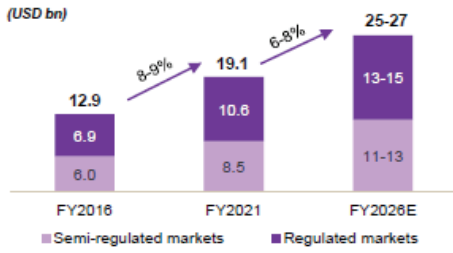
- 🏢 Growth in outsourcing
- 🔄 Agility & flexibility in business
- 🏠 Asset light model and cost control
- 🕒 Reducing the time to market new products

Source: RHP, Company; CRISIL Report

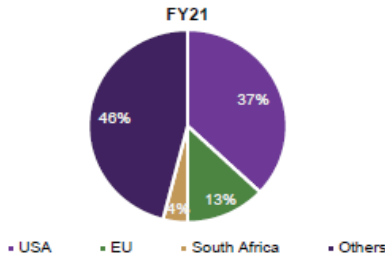
**Exhibit 3: Indian Formulation Export Market**

*Expected to Increase at a CAGR of 6.8% from Fiscal 2021 to Fiscal 2026*

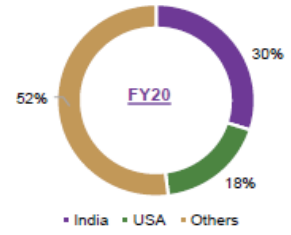
**Indian Formulation Export Trend...**



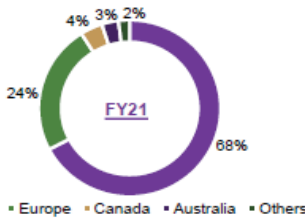
**Region-wise Split of Indian Formulation Exports**



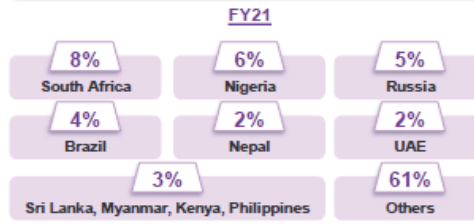
**India's share in Overall ANDA Approvals**



**Split of Formulation Exports to Regulated Markets**



**Split of Formulation Exports to Semi-regulated Markets**



**Factors Driving Growth...**

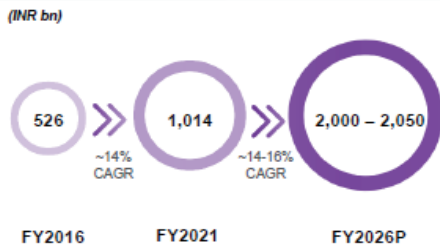
- ✓ India- a preferred manufacturing hub for pharma companies
- ✓ India leads total ANDA approvals and US-approved plants
- ✓ Rising healthcare cost driving preference for generic drugs in regulated markets

Source: RHP, Company; CRISIL Report

**Exhibit 4: Indian CDMO Market**

*Expected to Sustain its Strong Growth Trajectory over Fiscals 2021-2026*

**Growth Story...**



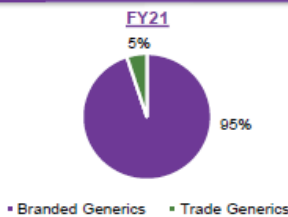
**Factors Driving Growth...**

- ✓ Rising trend of outsourcing among the pharmaceutical industry players
- ✓ Rising demand for generics
- ✓ India's share of overall ANDA approvals and growth in formulation export markets
- ✓ Patent cliff and traction in regulated market for biosimilars
- ✓ Growth of the formulations and API sector
- ✓ Ability to offer reliable integrated services across the drug lifecycle

**Trends in Indian CDMO Industry...**

- ✓ Potential consolidation opportunity in fragmented CDMO space
- ✓ Strong tailwinds for larger and more organized players due to regulatory changes
- ✓ CDMO capabilities in emerging/complex technologies
- ✓ Impact of new Schedule M
- ✓ Government's boost to domestic pharmaceutical manufacturing through PLI Schemes
- ✓ New Central Sector Scheme for Industrial Development of Jammu & Kashmir

**Split of Trade and Branded Generics in India**



Source: RHP, Company; CRISIL Report

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