AKUMS DRUGS AND PHARMACEUTICALS LIMITED

July 29, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Pharma
Offer for sale (Shares)	17,330,435
Fresh Issue (Shares)	10,014,727
Net Offer to the Public	**27,345,162**
Issue Size (Rs. Cr.)	1766-1857
Price Band (Rs.)	646-679
Employee Discount	Rs 64 per share
Offer Date	30-Jul-24
Close Date	1-Aug-24
Face Value	2
Lot Size	22 Shares

Issue Composition

	In shares
Total Issue for Sale	27,345,162
QIB	20,508,872
NIB	4,101,774
Retail	2,734,516

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	82.44%	75.27%
QIB	14.65%	17.66%
NIB	2.91%	5.33%
Retail	0.00%	1.74%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds towards the funding of the following objects:

Repayment/ prepayment of indebtedness of the company and its Subsidiaries;

Funding incremental working capital requirements of the company;

Pursuing inorganic growth initiatives through acquisitions; and

General corporate purposes.

Book Running Lead Manager

- ICICI Securities Limited
- Axis Capital Limited
- Citigroup Global Markets India Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Akums Drugs and Pharmaceuticals Limited is a leading Indian Contract Development and Manufacturing Organization (CDMO) established in 2004. The company offers end-to-end pharmaceutical solutions, including product development, manufacturing, R&D, regulatory affairs, and testing services. Akums also produces and markets branded drugs and active pharmaceutical ingredients (APIs). With a diverse product portfolio spanning tablets, capsules, liquids, injectables, and more, Akums has manufactured over 4,000 commercialized formulations. The company is a preferred partner for major Indian pharmaceutical firms, supplying 26 of the top 30 companies in FY2023. Akums operates 10 manufacturing facilities with a combined annual capacity of 49.21 billion units, and plans to expand production with two additional units by FY2025. Committed to quality and compliance, Akums holds certifications from global regulatory authorities such as EU-GMP, WHO-GMP, and US NSF.

Strength

Largest CDMO serving the Indian pharmaceutical industry: Since its inception in 2004, the company has provided a comprehensive range of pharmaceutical products and services. Together with its subsidiaries, the company operates 12 manufacturing facilities with a combined annual capacity of 49.23 billion units across various dosage forms, including tablets, capsules, liquids, injectables, and topical preparations. With over 4,146 commercialized formulations produced to date, the company manufactured 18,874 SKUs in FY2024, securing a 30.2% market share by value in the Indian domestic CDMO market.

Diverse client base with longstanding CDMO relationships: As of March 31, 2024, the company's CDMO client base expanded to 1,524 Indian and multinational pharmaceutical and wellness companies, up from 1,386 in 2022. This diverse clientele includes pharmaceutical, nutraceutical, cosmetic, wellness, e-commerce, healthcare, and government entities. The company is a preferred partner for leading pharmaceutical companies, manufacturing formulations for 26 of India's top 30 pharmaceutical firms by sales in FY2024. Strong client relationships, built on reliability, expertise, and cost-efficiency, have resulted in repeat business from 38 of the company's top 50 CDMO clients over the past five years. The company maintains a diversified client base with low concentration risk. The table below outlines revenue contributions from the top ten CDMO clients for FY2024, FY2023, and FY2022.

Particulars	Financial Year 2024	Financial Year 2023	Financial Year 2022
Revenue contributions from its ten largest clients by revenue in CDMO business (in Rs. million)	12,841.14	10,597.55	10,982.66
Revenue contributions from its ten largest clients by revenue in CDMO business (in %)	39.31	38.92	41.27

Large and rapidly growing R&D capabilities across the company product portfolio: The company's CDMO division offers differentiated products and services. An in-house product strategy team identifies new formulation opportunities based on epidemiological trends, global approvals, and market potential across pharmaceuticals, wellness, and nutraceuticals. Each potential product undergoes rigorous clinical, stability, and scale-up testing, followed by comprehensive regulatory approval before launch. Committed to innovation, the company is a CDMO leader in India and globally. Its R&D capabilities span a wide range of dosage forms (oral solids, liquids, injectables, sterile products, topicals) and

product categories (pharmaceuticals, cosmeceuticals, nutraceuticals, ayurvedic). As of March 31, 2024, the company operated four dedicated R&D units with 406 scientists. Two units hold approval from the Department of Scientific and Industrial Research. The company has a strong intellectual property portfolio, including 1,448 trademarks, 927 DCGI approvals, five patents, and 923 FSSAI approvals (as of March 31, 2024). The table below outlines R&D expenses for the past three financial years.

Particulars	For the Financial Year					
	2024		2023		2022	
	(Rs in millions)	% of revenue from operations	(Rs in millions)	% of revenue from operations	(Rs in millions)	% of revenue from operations
R&D expenses	1,123.54	2.69	979.64	2.68	713.02	1.94

Strategic presence across the pharmaceutical value chain: The company operates across the entire pharmaceutical value chain, serving as a Contract Development and Manufacturing Organization (CDMO), marketing formulations, and manufacturing Active Pharmaceutical Ingredients (APIs). This diversified approach offers multiple growth avenues while mitigating industry risks. With a strong domestic CDMO presence and expanding global export business, the company is a leading player in the Indian pharmaceutical market. This dual focus provides a competitive advantage, enabling the company to capitalize on growth opportunities in various markets. Adherence to global regulatory standards further strengthens its position, facilitating entry into international markets and contributing to global healthcare solutions. Beyond its core CDMO operations, the company manufactures and sells branded pharmaceutical formulations domestically and internationally. Through strategic initiatives and targeted marketing, it has established a comprehensive healthcare solutions portfolio across multiple therapeutic areas in India. The company's branded formulations are exported to 65 countries as of March 31, 2024, distributed through a combination of company-owned salesforces and external distributors. To support product development for global and regulated markets, the company operates an R&D center in Mahape MIDC, Navi Mumbai. As of March 31, 2024, it has 289 product dossiers under registration. Strategic acquisitions have also enabled the company to enter API manufacturing, securing its supply chain and creating opportunities for further growth.

Strategy

Leverage leadership position to continue to increase market share and consolidate the company position in the CDMO market: Akums is India's largest CDMO by revenue, production capacity, and client base in FY23. The company boasts strong, long-term relationships with leading Indian pharmaceutical companies, including 26 of the top 30 by sales in FY24. To maintain market leadership, Akums is focused on domestic growth by increasing revenue from existing clients and acquiring new ones. Since inception, the company has expanded its CDMO offerings across diverse therapeutic areas and dosage forms. The company's strategy is to strengthen its market position by expanding product and dosage form offerings while maintaining a synergistic approach to product categories, clients, and manufacturing capabilities. This includes increasing market share through new product launches and expanding the client base.

Sustaining R&D for product development across therapies and dosage forms: The company prioritizes R&D to develop innovative formulations across diverse therapeutic areas and dosage forms. Its "Patient First" philosophy drives the creation of differentiated products to enhance clinical outcomes. It invested in developing formulations that address unmet patient needs and introduce novel drug combinations. Its R&D focuses on advancements in taste masking, targeted drug delivery, solubility enhancement, reduced excipients, improved permeation, and enhanced stability. In FY23, it collaborated with a pharmaceutical innovation company to develop products for CNS disorders, pain management, and hormonal disorders. Its formulation research spans oral solids, sterile products, topicals, and liquids across various therapeutic areas and drug combinations. This comprehensive approach ensures its product portfolio meets diverse patient needs and market demands.

Grow its company domestic formulations business: The Company aims to expand its domestic

formulations business by strengthening existing brands and entering new therapeutic areas. To achieve this, it will:

- **Expand brand presence:** Increase market penetration through strategic marketing, targeted promotions, and a strengthened sales force.
- **Enhance marketing efforts:** Boost brand visibility by participating in international conferences and engaging with healthcare professionals.
- **Diversify therapeutic focus:** Enter new areas like neurology, psychiatry, orphan diseases, metabolic disorders, infertility, and pediatrics through Akumentis. This will broaden its market reach and position itself as a comprehensive healthcare solutions provider.

Expanding its global presence through strategic initiatives : The company aims to expand its global footprint, enter new markets, and diversify operations. Through its subsidiary, Unosource, it currently markets branded and generic formulations in 65 countries across Southeast Asia, Africa, and the Commonwealth of Independent States. The company seeks to expand into underpenetrated regions like Latin America, Europe, and the Middle East. It will introduce products for both acute and chronic conditions in Southeast Asia and Africa. To strengthen its CDMO business, the company will offer additional services such as formulation development, global supply chain manufacturing, dossier development, and regulatory support. By focusing on R&D as a service, it plans to secure contract manufacturing deals and form manufacturing partnerships globally. The company will explore joint ventures with local manufacturers and distributors to establish CDMO operations in key markets. It is committed to achieving global regulatory approvals and certifications to meet stringent quality standards required for international expansion.

Risk factor

- **Geographic Concentration Risk:** The Company's operations are concentrated in Haridwar, Uttarakhand, exposing it to economic, regulatory, political, and natural disaster risks that could harm its business, financial performance, and cash flow.
- **Operational Disruption:** Any slowdown or shutdown of manufacturing or research and development activities could negatively impact the company's business, financial results, and cash flow.
- **Regulatory Oversight:** The Company's manufacturing facilities are subject to regular inspections and audits by regulatory authorities and clients.
- **Supply Chain Dependence:** The Company relies on domestic and international suppliers for raw materials, and disruptions in supply could adversely affect its business, financial performance, and cash flow.
- **Raw Material Sourcing:** The Company imports some raw materials from China and other countries while sourcing the remainder domestically.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
J B Chemicals &	3484.18	552.64	35.60	52.97	10.01	188.34	1	1885.70	29268.53
Torrent Pharma.	10829.00	1735.00	49.44	64.55	15.75	202.59	5	3191.25	108001.55
Gland Pharma	5664.72	772.46	46.89	43.08	3.82	529.51	1	2020.15	33282.32
Alkem Lab	12667.58	1795.77	158.23	33.47	6.14	862.47	2	5295.80	63319.23
Divi's Lab.	7845.00	1600.00	60.38	79.37	9.37	511.21	2	4792.15	127216.53
Mankind Pharma	10334.78	1912.90	45.09	45.57	8.79	233.71	1	2054.90	82326.51
ERIS Lifescience	1991.30	391.99	28.81	37.25	5.65	190.05	1	1073.10	14602.21
Suven Pharma	1051.35	300.27	10.50	88.06	11.48	80.56	1	924.65	23538.35
Innova Captab	1081.30	94.35	16.49	37.02	4.20	145.20	10	610.50	3493.58
Akums Drugs and Pharmaceuticals Ltd	4212.21	0.79	0.05	13525.94	7.63	88.99	2	679.00	10685.49

***Peer companies financials are TTM based**
*****Akums Drugs and Pharmaceuticals Limited is based on FY24**

Valuation

On account of no consistent profit, we are considering the P/B ratio valuation at Rs.679 pre issue, book value of Rs. 48.89 of P/Bvx 13.89x. Post issue, book value of Rs. 88.99 of P/Bvx 7.63x.

On account of no consistent profit, we are considering the P/B ratio valuation at Rs.646 pre issue, book value of Rs. 48.89 of P/Bvx 13.21x. Post issue, book value of Rs. 88.99 of P/Bvx 7.26x.

Industry Outlook

The pharmaceutical industry in India is characterized by significant challenges, including, high capital expenditure required to establish and maintain sizeable manufacturing units, research and development expertise, trained manpower, consistent quality control, pricing pressure, disruptions within the supply chain, and the long-drawn regulatory and client approval and inspection processes, among others. An increase in chronic patient population, insurance penetration, trade generics, demand from tier II and III cities, and Government schemes focused on drug access are supporting growth in the Indian pharmaceutical market. Contract Development and Manufacturing Organizations assist pharmaceutical companies to employ an asset-light model and access global and specialized expertise while staying abreast with rapid innovation launches.

Outlook

Akums Drugs and Pharmaceuticals Limited is a leading global Contract Development and Manufacturing Organization (CDMO) with a strong focus on the Indian pharmaceutical market. The company has significantly expanded its domestic market share, growing from 26.7% in FY21 to 30.2% in FY24, solidifying its position as the largest third-party pharma manufacturing company in India. Akums' CDMO business boasts an impressive client roster, including prominent pharmaceutical players such as Alembic, Alkem, Cipla, Dabur, Dr Reddy's, Mankind Pharma, MedPlus, Natco Pharma, and Sun Pharmaceutical. However, the company's concentrated operations in Haridwar, Uttarakhand, expose it to potential economic, regulatory, political, and natural disaster risks that could impact its business performance and financial stability. Despite these risks, Akums' strong market position and growth trajectory make it a potentially attractive investment for long-term investors.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	30-July-24
BID/ISSUE CLOSES ON	01-August-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	02-August-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	05-August-24
Credit of Equity Shares to Demat Accounts of Allottees	05-August-24
Commencement of trading of the Equity Shares on the Stock Exchanges	06-August-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	4178.18	3654.82	3671.89
Total expenditure	4055.20	3316.87	3763.61
Operating Profit	**122.99**	**337.95**	**-91.72**
OPM%	2.94	9.25	-2.50
Other Income	34.03	46.11	22.63
Total Net Income	**157.01**	**384.06**	**-69.09**
Interest	50.61	46.25	16.66
PBDT	**106.40**	**337.81**	**-85.74**
Depreciation	125.64	112.81	94.68
Restated Profit before tax	**-19.24**	**225.00**	**-180.42**
Share of (loss)/ profit of an associate	0.00	-0.20	0.20
Loss)/ profit before exceptional items and tax	**-19.24**	**224.80**	**-180.22**
Exceptional items	26.03	74.50	12.98
Restated Profit after Exceptional items	**-45.28**	**150.30**	**-193.20**
Tax	-46.07	52.48	57.68
PAT	**0.79**	**97.82**	**-250.87**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	1064.91	963.15	932.03
Right-of-use assets	117.19	126.36	81.06
Capital work-in-progress	195.13	102.99	30.82
Goodwil	2.06	2.06	2.06
Other Intangible assets	6.60	5.74	5.39
Intangible assets under development	0.28	0.16	0.25
Financial Assets			
Investments	0.14	0.14	0.39
Loans	0.00	0.00	5.50
Other financial assets	31.41	34.42	39.40
Non-current tax assets (net)	10.02	12.26	36.04
Deferred tax assets (net)	123.06	31.52	18.85
Other non-current assets	24.67	63.56	25.64
Total non-current assets	**1575.48**	**1342.37**	**1177.43**
Current asset			
Inventories	630.43	729.80	722.45
Financial Assets			
Trade receivables	833.81	845.09	884.31
Cash and cash equivalents	111.05	51.61	55.14
Bank balances other than (iii) above	166.00	98.38	47.71
Loans	0.00	7.37	0.00
Other financial assets	23.31	15.23	20.80
Current-tax assets (net)	0.00	11.41	0.00
Other current assets	176.18	119.99	133.66
Total current assets	**1940.78**	**1878.87**	**1864.06**
Assets classified as held for sale	**0.10**	**45.29**	**27.55**
Total Assets	**3516.37**	**3266.53**	**3069.05**
Non-current liabilities			
Borrowings	78.30	115.50	13.33
Lease liabilities	67.91	74.88	30.41
Other financial liabilities	1395.95	1035.68	1064.49
Provisions	31.03	26.23	23.93
Deferred tax liabilities (net)	12.15	25.30	39.30
Total Non- Financial liabilities	**1585.33**	**1277.59**	**1171.46**
Current liabilities			
Financial Liabilities			
Borrowings	413.26	421.48	344.62
Lease Liability	5.77	7.24	6.62
Trades Payable - MSME	47.23	44.22	33.19
Trades Payable - MESE	484.91	522.92	556.48
Other financial liabilities	158.14	62.81	70.21
Other current liabilities	43.23	142.20	154.58
Provisions	56.60	45.94	58.92
Current tax liabilities (net)	1.44	18.77	47.80
Total Financial liabilities	**1210.55**	**1265.57**	**1272.42**
Total	**2795.88**	**2543.15**	**2443.88**
Net worth represented by:			
Equity Share Capital	28.61	28.61	14.31
Other equity	680.89	688.58	607.67
Non-controlling interest	10.99	6.19	3.20
Net Worth	**720.49**	**723.37**	**625.17**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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