EMCURE PHARMACEUTICALS LIMITED

July 01, 2024

Emcure
cure and beyond

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Pharma
Offer for sale (Shares)	11,428,839
Fresh Issue (Shares)	7,936,507
Net Offer to the Public	**19,365,346**
Issue Size (Rs. Cr.)	161-171
Price Band (Rs.)	960-1008
Employee Discount	Rs 90 per share
Offer Date	03-Jul-24
Close Date	05-Jul-24
Face Value	10
Lot Size	14 Shares

Issue Composition

	In shares
Total Issue for Sale	19,365,346
QIB	9,682,673
NIB	2,904,802
Retail	6,777,871

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	83.21%	78.24%
QIB	16.79%	16.64%
NIB	0.00%	1.54%
Retail	0.00%	3.58%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

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

Repayment and/ or prepayment of all or a portion of certain outstanding borrowings availed by the company; and

General corporate purposes

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Axis Capital Limited
- Jefferies India Private Limited
- J. P. Morgan India Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1981, Emcure is a well-established pharmaceutical company in India, ranking 13th in domestic sales and leading in specific therapeutic areas. It not only manufactures in India but also market products internationally, reaching over 70 countries. . The company has been ranked 13th in domestic sales among pharmaceutical companies in India for MAT September 2023 and 4th in market share in its covered markets for the same period. Emcure invested heavily in R&D with a team of scientists, multiple research facilities, and a growing patent portfolio. The company has a wide range of manufacturing facilities, capable of producing various drug forms and complex ingredients. Emcure leverages a strong network of field personnel, stockists, and carry-and-forward agents to distribute their products in India.

Strength

Well-placed to Leverage its position in the Domestic Market: The company is focused on the domestic market, with its sales in India contributing to 48.28% of its total revenue from operations for the Financial Year 2024. Its strong position in a number of therapeutic areas such as gynecology, cardiovascular, blood-related, pain and analgesics and oncology/anti-neoplastics has been driven by its differentiated product portfolio and first to market product launches. Its specialist prescriptions contributed to 70.67% of the total prescriptions for MAT February 2024, which was the highest share among the 20 largest pharmaceutical companies in India (Source: CRISIL Report). The company has structured its operations such that its acute and chronic (including sub-chronic) therapeutic area businesses are pre-dominantly run by separate management teams. The company is utilizes these tailored strategies for its acute and chronic products, as they require different focus and marketing strengths.

Demonstrated Capabilities of Building Brands: The Company has demonstrated strong capabilities and a proven track record in building brands. Six of its brands were ranked among the 300 highest selling brands in the IPM, in terms of Domestic Sales for MAT Financial Year 2024 (Source: CRISIL Report). It also leverages its brand strength and leadership positions in its key therapeutic areas to launch related products and penetrate into adjacent therapeutic areas. For example, it leverages its brand strength in (i) OroferXT and leadership positions in the treatment of anemia with gynecologists to launch related products such as Dydrofem, (ii) Metpure (Metoprolol) in the treatment of hypertension and angina to launch related products, such as Exafib (Rivaroxaban), and penetrate into adjacent therapeutic areas, such as anticoagulants for the treatment of deep vein thrombosis and pulmonary embolism in the cardiovascular and orthopedic therapeutic areas.

Large, Diversified and Fast-Growing Product Portfolio in International Markets: The company has an established presence in international markets, which it believes is a strong complement to its domestic business and presents strong opportunities for growth. The company employs a calibrated and differentiated approach for entering and deepening its presence in each of its markets so as to address the unique characteristics of each market, such as, among other factors, its regulatory landscape, market size, competitive landscape and scope for its products. The company sells its portfolio of products internationally in over 70 countries, with Europe and Canada currently being its primary international markets. The company has a strong track record of successfully entering and growing its presence in new markets through inorganic expansion. In the past, the company has made strategic acquisitions of companies, such as of Marcan Pharmaceuticals Inc. (“Marcan”) in Canada in 2015, and Tillomed Laboratories Limited (“Tillomed Laboratories”) in the United Kingdom

in 2014, which have allowed it to leverage its R&D and manufacturing capabilities in India and, at the same time, quickly and cost-efficiently establish distribution channels for its products in Canada and Europe, respectively.

Strong R&D capabilities driving differentiated portfolio of products: The company has strong in-house R&D expertise, which has allowed it to develop a differentiated portfolio of pharmaceutical products that gives it a competitive advantage in the markets in which it operates. Its R&D efforts are focused towards (i) complex molecules, including highly complex APIs that require multi-step transformation, (ii) differentiated pharmaceutical formulations, in multiple dosage forms and novel drug delivery systems, which are capable of greater efficacy and better patient compliance, (iii) continuous product and process improvements to achieve better quality and productivity, and (iv) niche biotherapeutics formulations. Its strategy for R&D is to establish differentiated technology platforms and, once established, develop multiple products on the platforms. The company believes in a thorough and systematic approach to selecting products for development, which includes a detailed commercial evaluation of the market opportunity of a particular formulation or API, its development complexity, intellectual property landscape and the potential competitive scenario. Despite its extensive R&D operations, it has maintained reasonable R&D expenditures. For the Financial Year 2024, its R&D expenditure amounted to Rs.3,099.89 million, representing 4.66% of its revenue from operations.

Extensive and Diversified Manufacturing Capacity: The company has 13 manufacturing facilities across the states of Maharashtra, Gujarat, Sikkim and Karnataka and the union territory of Jammu and Kashmir, in India. Its facilities are capable of producing pharmaceutical products of a wide range of dosage forms, including oral solids, oral liquids, injectables, including complex injectables such as liposomal and lyophilized injectables, biotherapeutics and complex APIs, including chiral molecules, iron molecules and cytotoxic products. The company has started as a contract development and manufacturing organization ("CDMO") business catering to multi-national corporations. Further, its ability to manufacture its own APIs and formulations has allowed it to attain a significant degree of vertical integration, allowing it to source products in a cost-effective manner, ensure quality and security of availability of an essential raw material and protect its intellectual property. In particular, it has in-house manufacturing capabilities for most of its specialty products, including complex injectables, iron products, photochemistry products, chiral molecules and biotherapeutics.

Strategies

Increase its market share in the domestic market: The company believes that the domestic market dynamics and landscape are very conducive for it to continue to leverage its existing and growing product portfolio and further develop and grow its business. The Indian domestic formulations market is expected to grow at a CAGR of approximately 8-9% over the next five years, to reach approximately Rs.2.9 trillion to Rs.3.0 trillion in the Financial Year 2029, aided by strong demand from the rising incidence of chronic diseases as well as increased awareness and access to quality healthcare (Source: CRISIL Report). The company intends to capitalize on such market dynamics through its constant investment in its capabilities, including by investing in its growing specialty product portfolio, managing the life cycle of its brands through brand extensions, increasing its reach through expansion of its sales and marketing team, implementing patient awareness programs such as "Uncondition Yourself", "Unmask Anemia" and "Cure and Beyond", and focusing on promoting its brands by highlighting the efficacy and safety of its differentiated products. Increasing its domestic market share through its developed and recognized brands allows the company to have a focused strategy that would improve its productivity, lead to better connectivity with doctors and patients and drive better growth and margins.

Continue to invest in Research & Development and manufacturing capabilities to enhance and grow its differentiated product portfolio: It focuses on R&D and strong manufacturing capabilities have been a key element of differentiation between the company and its competitors, which has supported its robust growth. The company aims to focus on incorporating sustainable sourcing practices to ensure that its supply chain, R&D and manufacturing activities are in line with its environmental, social and governance ("ESG") goals. It also expects to continue to make

investments in formulations and APIs for high-growth therapeutic areas. In addition, its new R&D focus areas include flow chemistry and photo-chemistry. In particular, the company expects to benefit from significant growth opportunities, due to limited competition globally, in the development, production and commercialization of novel drug delivery systems and biopharmaceuticals to address life-threatening diseases that exist across various indications.

Deepen and expand its international presence with a focused go-to-market approach: The company has filed over 1,800 dossiers globally for products offered through differentiated product platforms, such as chiral molecules, complex chemistry products, and complex injectables. As of March 31, 2024, the company was present in a total of 19 therapeutic areas. It sells and markets its products in over 70 countries and employs a calibrated and differentiated marketing approach to each of its international markets so as to address the unique characteristics of each market, such as, among other factors, its regulatory landscape, market size, competitive landscape and scope for its products. The company intends to continue to grow its sales in all its target international markets by registering more of its products and increasing its customer penetration, through either developing its own on-the-ground sales force or establishing partnerships, in these markets.

Pursue Strategic Acquisitions, Partnerships and In-Licensing arrangements: The company has, in the past, made strategic acquisitions of companies, such as Tillomed Laboratories in the United Kingdom in 2014 and Marcan in Canada in 2015. The company has recently strengthened its presence in the Quebec region of Canada through its acquisition of Mantra in November 2023. Further, on March 13, 2024, it entered into agreements with Sanofi India Limited and Sanofi Healthcare India Private Limited to exclusively distribute and promote their products, which include brands such as Cardace, Clexane, Targocid, Lasix, Lasilactone, Cordarone, Plavix and Synvisc, in India. The company intends to continue to pursue strategic acquisitions of companies, products and facilities across key markets as well as in-license pharmaceutical products of other companies for its key and focus therapeutic areas, which it expects would allow it to both deepen its presence in its existing markets and facilitate its entry into new markets.

Risk factor

- **Negative Cash & Cash Equivalents:** This means the company is spending more cash than it's bringing in. It could be a sign of trouble, especially if it's a long-term trend.
- **Quality Standard Issues:** Not meeting quality standards can lead to lawsuits and damage the company's reputation. This could hurt sales, finances, and overall operations.
- **Counterparty Credit Risk:** This means the company relies on others to pay their bills on time. If those payments are delayed or not received at all, it can strain the company's cash flow.
- **High Working Capital Needs:** Working capital is the money needed for day-to-day operations. If the company needs a lot of it, and can't access it easily, it could struggle to pay bills or keep running.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Abbott India	5848.91	1201.22	565.28	48.89	15.88	1740.65	10	27634.95	58724.27
Cipla	25446.63	4121.55	52.73	28.08	4.48	330.72	2	1480.40	119544.96
J B Chemicals &	3484.18	552.64	35.60	49.33	9.32	188.34	1	1756.05	27256.19
Dr Reddy's Labs	27916.40	5577.90	334.35	19.16	3.78	1693.63	5	6405.75	106866.94
Torrent Pharma.	10562.00	1656.00	47.10	59.23	13.77	202.59	5	2789.90	94418.65
Alkem Lab	12667.58	1795.77	158.23	31.55	5.79	862.47	2	4991.45	59680.27
Mankind Pharma	10334.78	1912.90	47.75	44.57	9.11	233.71	1	2128.45	85273.19
Emcure Pharmaceuticals Limited	6658.25	527.57	27.90	36.13	14.36	70.21	10	1008.00	19060.13

***Peer companies financials are TTM based**
*****Emcure Pharmaceuticals Limited is based on FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.1008, the stock is priced at pre issue P/E of 34.61x on an FY24 EPS of Rs.29.12. Post issue, the stock is priced at a P/E of 36.13x on its EPS of Rs.27.90. Looking at the P/B ratio at Rs.1008 pre issue, book value of Rs. 29.12 of P/Bvx 34.61x. Post issue, book value of Rs. 70.21 of P/Bvx 14.36x.

Considering the P/E valuation, on the lower end of the price band of Rs.960, the stock is priced at pre issue P/E of 32.96x on an FY24 EPS of Rs.29.12. Post issue, the stock is priced at a P/E of 34.41x on its EPS of Rs.27.90. Looking at the P/B ratio at Rs.960 pre issue, book value of Rs. 29.12 of P/Bvx 32.96x. Post issue, book value of Rs. 70.21 of P/Bvx 13.67x.

Industry Outlook

The global pharmaceutical market is expected to sustain growth at a compound annual growth rate of approximately 5.0% to 5.5% between the calendar years 2023 and 2028, to reach approximately US$1,900 billion (approximately Rs.157 trillion) to US$1,950 billion (approximately Rs.161 trillion) in the calendar year 2028. The Indian domestic formulations segment (consumption) is expected to grow at a CAGR of approximately 8% to 9% between the Financial Years 2024 and 2029, to reach approximately Rs.2.9 trillion to Rs.3.0 trillion in the Financial Year 2029, aided by strong demand from the rising incidence of chronic diseases, increased awareness and access to quality healthcare.

Outlook

EPL is a leading pharmaceutical company driven by innovation. The company develops, manufactures, and markets a wide range of drugs, with a global presence in over 70 countries. Notably, it hold a strong position in Europe, Canada, and especially India, where nearly half (48.28%) of its revenue comes from (Financial Year 2024). However, its operations in both manufacturing and R&D are susceptible to unforeseen challenges. Additionally, EPL requires significant working capital and relies on third-party partners for distribution and marketing. Along term Investor may opt the Issue.

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

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	03-July-24
BID/ISSUE CLOSES ON	05-July-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	08-July-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	09-July-24
Credit of Equity Shares to Demat Accounts of Allottees	09-July-24
Commencement of trading of the Equity Shares on the Stock Exchanges	10-July-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	6658.25	5985.81	5855.39
Total expenditure	5428.53	4804.63	4525.48
Operating Profit	**1229.72**	**1181.18**	**1329.91**
OPM%	18.47	19.73	22.71
Other Income	56.99	45.91	63.47
Total Net Income	**1286.71**	**1227.09**	**1393.38**
Interest	237.15	213.61	175.98
PBDT	**1049.57**	**1013.48**	**1217.40**
Depreciation	312.41	260.12	244.86
Restated Profit before tax	**737.16**	**753.36**	**972.55**
Exceptional items	**9.93**	**6.15**	**0.00**
Restated Profit after Exceptional items	**727.23**	**747.22**	**972.55**
Tax	199.65	185.37	269.99
PAT	**527.57**	**561.85**	**702.56**

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	1948.57	1604.63	1470.28
Capital work-in-progress	132.35	403.53	309.80
Right-of-use assets	316.29	206.59	205.38
Goodwil	378.69	217.74	217.40
Other Intangible assets	481.00	117.93	151.26
Intangible assets under development	26.77	7.88	10.10
Financial Assets			
Investments	18.42	25.00	25.00
Other non-current financial assets	40.77	64.58	47.79
Deferred tax assets (net)	96.80	99.13	116.08
Income tax assets (net)	87.25	63.31	51.00
Other non-current assets	19.36	26.30	35.30
Total non-current assets	**3546.25**	**2836.62**	**2639.37**
Current asset			
Inventories	1525.10	1383.03	1449.42
Financial Assets			
Investments	299.65	0.00	0.00
Trade receivables	1858.81	1648.30	1308.51
Cash and cash equivalents	169.00	242.34	162.85
Bank balances other than (iii) above	63.41	215.91	150.45
Other current financial assets	68.95	58.93	55.58
Other current assets	269.58	287.40	297.30
Assets held for sale	5.42	0.00	0.00
Total current assets	**4259.92**	**3835.91**	**3424.10**
Total Assets	**7806.16**	**6672.53**	**6063.47**
Non-current liabilities			
Borrowings	766.60	744.14	717.28
Lease liabilities	215.74	115.18	111.28
Other non-current financial liabilities	294.58	49.51	43.98
Provisions	43.32	39.67	42.11
Deferred tax liabilities (net)	137.42	38.90	42.61
Other non-current liabilities	16.27	16.29	27.24
Total Non- Financial liabilities	**1473.93**	**1003.68**	**984.50**
Current liabilities			
Financial Liabilities			
Borrowings	1320.72	1450.80	1366.35
Lease Liability	31.92	24.19	22.30
Trades Payable - MSME	16.91	19.05	33.09
Trades Payable - MESE	1292.46	1067.06	1092.10
Other current financial liabilities	304.42	280.59	270.62
Other current liabilities	144.87	88.64	74.36
Provisions	45.74	40.09	43.86
Current tax liabilities (net)	53.45	48.78	62.15
Total Financial liabilities	**3210.47**	**3019.19**	**2964.83**
Total	**4684.40**	**4022.87**	**3949.33**
Net worth represented by:			
Equity Share Capital	181.15	180.85	180.85
Other equity	2771.13	2320.27	1806.70
Non-controlling interest	169.48	148.53	126.59
Net Worth	**3121.77**	**2649.66**	**2114.14**

RANKING METHODOLOGY

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

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