

Akums Drugs and Pharmaceuticals **SUBSCRIBE**

Well geared to leverage CDMO growth

Summary

Akums is one of the leading CDMOs in India and owns the intellectual property for the manufacturing processes of several of its formulations and the core business is focused on providing end to end product development and manufacturing solutions to its clients. We adjust for the fair value changes since the put option liability of the Company for buy back stands extinguished as per Shareholders agreement with Quadria capital. Adjusting for the fair value changes, the company is valued at 29.8x FY24 (post equity) earnings which is at a discount to its listed peer Innova Captab which trades at 38x FY24 earnings. Also Akums possesses size and scale benefits compared to its competitors meriting a higher multiple. In light of the same we ascribe SUBSCRIBE rating to the issue

Key Investment Rationale

- Largest India focused CDMO:** Akums is the largest CDMO serving Indian market in terms of manufacturing capacity which stands at 49.2 bn units. Akums has 30.2% market share in the Indian domestic CDMO market by value. The company has 10 manufacturing facilities with 2 more facilities expected to be added along with 4 R&D centres. Their portfolio comprises of 4000+ formulations, 60+ dosage forms and 18500+ SKUs manufactured in FY24. The company has tremendous size and scale benefits over its peers in the form of number of manufacturing facilities, customer relationships and R&D strength.
- Well positioned to leverage the large opportunities in domestic CDMO space:** Akums is well positioned to capture growth in the domestic CDMO space owing to sheer strength of its manufacturing capabilities, R&D strength and deep customer relationships. Synokem Pharma, Innova Captab and Tirupati Medicare are major competitors out of which Innova Captab is listed.

Issuer	Akums Drugs and Pharmaceuticals Limited
Transaction Type	Fresh Issue of Equity shares aggregating upto ₹6800 Mn and Offer for sale of Equity Shares aggregating upto ₹11767 Mn
Issue Open / Close	30-July-2024 / 01-August-2024
Type of Offering	Fresh Issue and Offer for Sale
Total Offer Size	Rs. 18,567Mn
Price Band	Rs.646-679/Sh
Bid Lot	22 Equity Shares and in multiples thereafter
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> • QIB: 75% • NII: 15% • Retail: 10%
Objective	Debt repayment and funding of incremental working capital requirements.

Share holding pattern (%)

	Pre-Issue
Promoter	82.44
Public & Employee Trusts	17.56
Total	100%

Financial Snapshot

(Rs mn)	FY22	FY23	FY24
Revenue	36,719	36,548	41,782
EBITDA	(917)	3,380	1,230
<i>EBITDA Margin (%)</i>	(2.5)	9.2	2.9
Adj.PAT	(2,379)	1,723	268
EPS (Rs)	(16)	12	2
Dividend Yield (%)	-	-	-
P/E (x)	-	-	-
RoE (%)	(38.2)	25.7	3.8
RoCE (%)	(10.4)	12	(0.1)

Source: RHP, Company *-Non-annualized numbers

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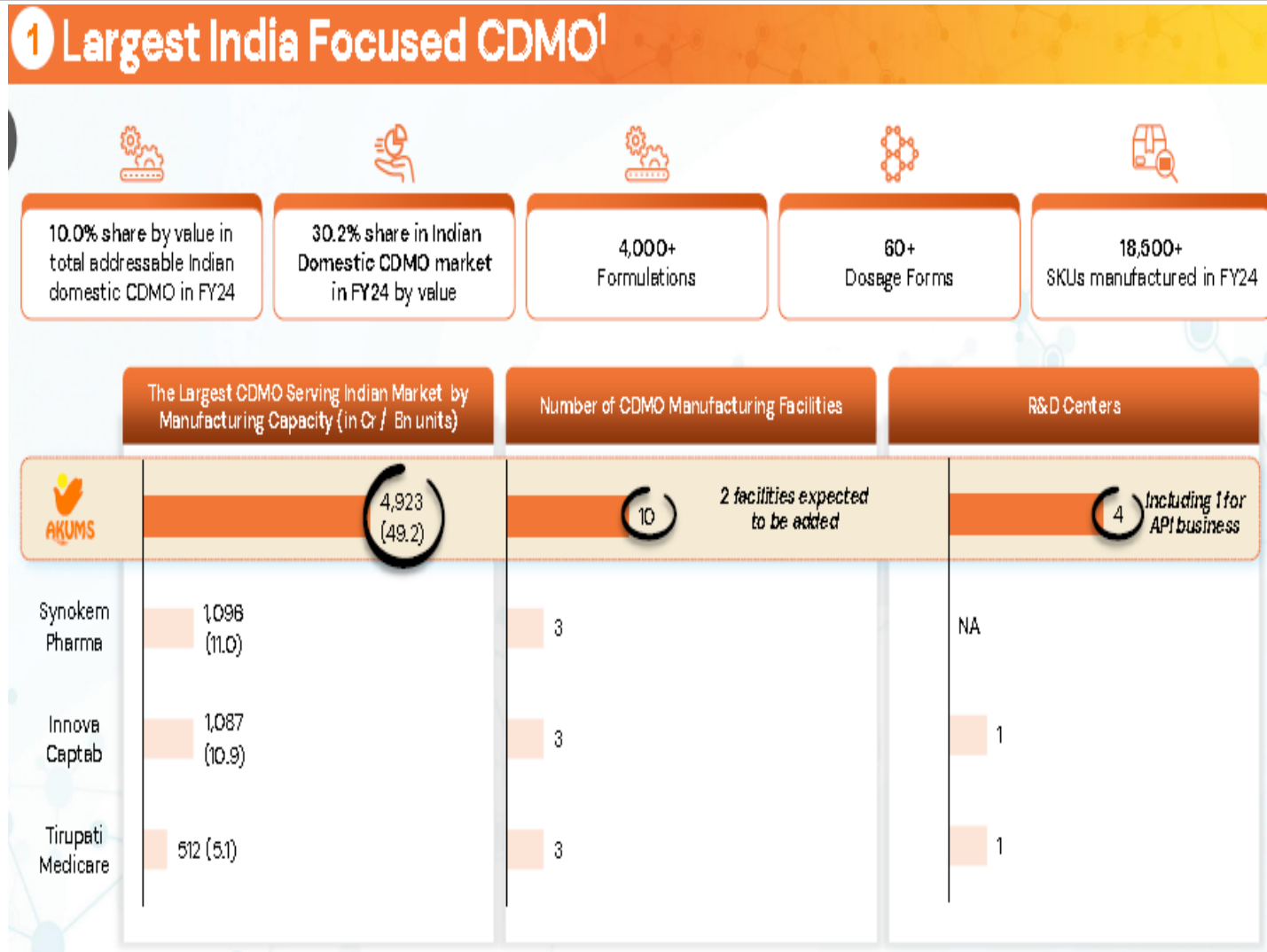
About the Company

Established in 2004, Akums is a pharmaceutical contract development and manufacturing organization (“**CDMO**”) offering a comprehensive range of pharmaceutical products and services in India and overseas. As one of the leading CDMOs in India, Akums own the intellectual property for the manufacturing processes of several of its formulations, and the core business is focused on providing end-to-end product development and manufacturing solutions to its clients. Some of its other services include formulation research and development (“**R&D**”), preparation and filing of regulatory dossiers in the Indian and global markets, and other testing services. In addition to the core CDMO business, the company is also engaged in the manufacturing and sale of branded pharmaceutical formulations and active pharmaceutical ingredients (“**APIs**”).

Since its inception, Akums has manufactured 4,146 commercialised formulations across over 60 dosage forms. During the Financial Year 2024, Akums manufactured formulations for 26 of the leading 30 pharmaceutical companies in terms of sales in India (Source: F&S Report). For the CDMO business, Akums operates 10 manufacturing units, with a cumulative formulations manufacturing capacity of 49.23 billion units annually, as of March 31, 2024.

Broad description of Company

Exhibit 1: Overview



Source: RHP, IDBI Capital Research

Competitive Strengths

■ Largest CDMO serving Indian pharmaceutical Industry

Akums is the largest India-focused CDMO in terms of revenue, production capacity and clients served during the Financial Year 2023. Since the commencement of its operations in 2004, Akums offers a comprehensive range of pharmaceutical products and services. Along with its Subsidiaries, as of March 31, 2024, the company operates 12 manufacturing units with a cumulative formulations manufacturing capacity aggregating to 49.23 billion units annually, to produce a wide range of dosage forms including tablets, hard and soft gelatin capsules, liquid orals, sachets, vials, ampoules, form fill seals, topical preparations, eye drops, dry powder injections, rotacaps and gummies, among others. Since its inception, the company has manufactured 4,146 commercialised formulations across over 60 dosage forms. During Financial Year 2024, Akums had a market share of 30.2% by value in the Indian domestic CDMO market

■ Diverse client base with longstanding CDMO relationships

As of March 31, 2024, the client base for CDMO business comprised 1,524 Indian and multinational pharmaceutical and wellness companies, increasing from 1,386 as of March 31, 2022. The client base includes a diverse range of clients such as pharmaceutical companies, nutraceutical companies, cosmo-derma companies, wellness companies, e-commerce companies, healthcare providers and central and state government entities. During the Financial Year 2024, Akums manufactured formulations for 26 of the leading 30 pharmaceutical companies in terms of sales in India (Source: F&S Report). Furthermore, Akums has benefitted from repeat orders in the past five years from 38 of its 50 largest clients in terms of revenue for the CDMO business, as of March 31, 2024.

■ Large and rapidly growing R&D capabilities across its product portfolio

As part of the CDMO operations, Akums offer differentiated products and services. The in-house product strategy team is responsible for conceptualizing new formulations based on emerging epidemiological trends, global product approvals and opportunities within the pharmaceutical, wellness, and nutraceutical sectors. As part of the product conceptualisation process, each prospective product undergoes rigorous

clinical and stability studies, scale-up procedures, and a meticulous regulatory clearance process before launch.

As of March 31, 2024, Akums operates four dedicated R&D units and engaged 406 R&D scientists across its businesses. Two of the R&D units are approved by the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India. As of March 31, 2024, Akums has obtained 1,448 trademarks across various dosage forms and formulations. Further, as of March 31, 2024, the company procured 927 DCGI approvals and five patents (Source: F&S Report). As of the date of this Red Herring Prospectus, Akums has received approval from FSSAI for 923 formulations.

■ **Strategic presence across the pharmaceutical value chain.**

The company carries out operations across the pharmaceutical value chain, operating as a CDMO as well as a marketer of formulations and manufacturer of APIs. While this approach provides Akums with multiple levers of growth, it also helps it mitigate business risks inherent in the industry. Its presence in the Indian pharmaceutical landscape is augmented by its strong domestic CDMO presence and amplified through its global export initiatives. This provides it with a competitive edge in the industry, allowing it to navigate growth opportunities across multiple markets. Moreover, the adherence to global regulatory standards reinforces Akums' ability to contribute to global healthcare solutions, expanding its footprint in overseas markets.

In addition to the core CDMO business, the company is also engaged in the manufacturing and sale of branded pharmaceutical formulations in India and overseas markets. Domestically, through its strategic initiatives and targeted marketing campaigns, Akums is a comprehensive healthcare solutions provider with diversification across a range of therapeutic areas. Akums carries out the export of branded formulations and has an established global presence across 65 countries, as of March 31, 2024.

Exhibit 2: Abridged Adjusted Financials for Fair value changes to Financial Instruments

Rs mn	FY22	FY23	FY24
Revenue	36,719	36,548	41,782
EBITDA	4,025	2,940	4,808
EBITDAM	11.0%	8.0%	11.5%
PAT	2,433	538	3,586
ROE	14.5%	3.1%	17.2%
ROCE	17.2%	10.8%	16.9%

Source: RHP, IDBI Capital Research

Strategies:

- **Leverage leadership position to continue to increase market share and consolidate position in the CDMO market.**
- **Sustaining R&D for product development across therapies and dosage forms**
- **Grow the domestic formulations business**
- **Expand global presence through strategic initiatives**
- **Scale up API business**

Exhibit 3: Key Management

Management	Designation
Mr. Sanjeev Jain	Managing Director
Mr. Sandeep Jain	Managing Director
Mr. Sanjay Sinha	Whole time Director
Mr. Sumeet Sood	CFO
Mr. Dharamvir Malik	Company Secretary
Mr. Sanjay Sharma	President Strategy
Mr. Sunil Jaiswal	VP- R&D
Mr. Sahil Maheshwari	General Manager Strategy

Source: RHP, IDBI Capital Research

Key Risks

- Protracted slowdown in outsourcing work by major clients
- Any major quality issues faced in the products
- Any crucial delays in the supply chain with regard to critical raw material or intermediate products
- Higher than anticipated increase in key input prices.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24
Net sales	36,719	36,548	41,782
<i>Change (yoy, %)</i>		(0)	14.3
Operating expenses	(37,636)	(33,169)	(40,552)
EBITDA	(917)	3,380	1,230
<i>Change (yoy, %)</i>		(468)	(64)
<i>Margin (%)</i>	(2.5)	9.2	2.9
Depreciation	(947)	(1,128)	(1,256)
EBIT	(1,864)	2,251	(27)
Interest paid	(167)	(462)	(506)
Other income	228	459	340
Pre-tax profit	(1,932)	1,503	(453)
Tax	(577)	(525)	461
<i>Effective tax rate (%)</i>	(29.9)	34.9	101.7
Minority Interest	-	-	-
Net profit	(2,509)	978	8
Exceptional items	(130)	(745)	(260)
Adjusted net profit	(2,379)	1,723	268
<i>Change (yoy, %)</i>		(172)	(84)
EPS	(16.1)	11.7	1.8
Dividend per sh	-	-	-
<i>Dividend Payout %</i>	-	-	-

Balance Sheet		(Rs mn)		
Year-end: March	FY22	FY23	FY24	
Shareholders' funds	6,220	7,172	7,095	
Share capital	143	286	286	
Reserves & surplus	6,077	6,886	6,809	
Total Debt	3,580	5,370	4,916	
Other liabilities	8,135	7,406	10,938	
Curr Liab & prov	12,724	12,656	12,106	
Current liabilities	12,135	12,196	11,540	
Provisions	589	459	566	
Total liabilities	24,439	25,432	27,959	
Total equity & liabilities	30,690	32,665	35,164	
Net fixed assets	9,628	10,661	12,600	
Investments	59	1	1	
Other non-curr assets	2,087	2,761	3,153	
Current assets	18,916	19,242	19,409	
Inventories	7,224	7,298	6,304	
Sundry Debtors	8,843	8,451	8,338	
Cash and Bank	1,028	1,500	2,771	
Loans and advances	1,820	1,993	1,996	
Total assets	30,690	32,665	35,164	

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24
Pre-tax profit	(1,932)	1,503	(453)
Depreciation	947	1,128	1,256
Tax paid	(548)	(971)	(624)
Chg in working capital	(3,516)	(343)	499
Other operating activities	5,367	449	4,304
Cash flow from operations (a)	319	1,766	4,983
Capital expenditure	(2,557)	(2,866)	(2,864)
Chg in investments	244	(450)	(635)
Other investing activities	(35)	269	195
Cash flow from investing (b)	(2,348)	(3,047)	(3,304)
Equity raised/(repaid)	-	-	-
Debt raised/(repaid)	2,613	1,780	-
Dividend (incl. tax)	-	-	-
Chg in minorities	-	-	-
Other financing activities	(253)	(534)	(1,080)
Cash flow from financing (c)	2,360	1,245	(1,080)
Net chg in cash (a+b+c)	331	(35)	598

Financial Ratios

Year-end: March	FY22	FY23	FY24
Book Value (Rs)	42	49	48
Adj EPS (Rs)	-16.1	11.7	1.8
Adj EPS growth (%)		-172	-84
EBITDA margin (%)	-2.5	9.2	2.9
Pre-tax margin (%)	-5.3	4.1	-1.1
Net Debt/Equity (x)	0.4	0.5	0.3
ROCE (%)	-10	12	0
ROE (%)	-38	26	4
DuPont Analysis			
Asset turnover (x)	2.4	1.2	1.2
Leverage factor (%)	4.9	4.7	4.8
Net margin (%)	-6.5	4.7	0.6
Working Capital & Liquidity ratio			
Inventory days	72	73	55
Receivable days	88	84	73
Payable days	57	62	48

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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