

Dipna Pharmachem Limited

A REVIEW REPORT ON DIPNA PHARMACHEM LIMITED IPO

IPO Details

Opening Date	Aug 25, 2022
Closing Date	Aug 30, 2022
Stock Exchange	NSE SME
Lot Size	3000 Shares
Issue Price	₹ 38 per share
Issue Size	40,02,000 Equity Shares
Application Amount	₹ 1,14,000

IPO Objective

- To meet the Working Capital Requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	79,67,700	99.9962%
Public	300	0.0038%

Company Background

- Company was incorporated in the year 2011 in Gujarat.
- Company is into the business of trading Raw Materials (API), Excipient and Chemical Formulation products.
- Company's product portfolio comprises of 61 APIs and APIs intermediates such as Cephalosporins, Cardiovasculars, Anti - Bacteria, Quinolones, Veterinary, Anti - Virus, Anti - Inflammatory, Neuropsychiatry, Steroid Hormone, other etc.
- As on 30th April 2022, the company had 13 employees in its payroll.

Promoter of the Company

1. Mr. Keyur Deepakkumar Shah

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Company Overview

Dipna Pharmachem Limited was incorporated in the year 2012 in Gujarat. The company is into the trading and distribution business. The company currently trades Raw Materials used in finished goods of Pharma Industry known as APIs, Excipient and Chemical Formulation products.

Analysis

Established in the year 2012, the company has a decent track record of existence. Company is into a growing industry which is expected to grow at a CAGR of 12% till 2030. However, the company is only into trading and distribution and depends upon how the medicine manufacturers perform.

The company currently trades 61 APIs and APIs intermediates and Industry Chemicals. APIs are the principle ingredients used in making finished dosages in the form of capsules, tablets, liquid or other forms of dosage, with the addition of other APIs or inactive ingredients. In current year, company has also started trading of chemical on commission basis. The amount earned from such commission in FY 22 was 127.50 lacs.

The revenue breakup of the company in past 3 years has been depicted in the table below –

(Amount in Rs.)

Year	Raw Material	% Raw Material	Industrial Chemical	% Industry Chemical	Total
2019-20	21,58,38,979	70.68	8,95,46,327	29.32	30,53,85,306
2020-21	22,20,94,303	71.65	8,78,76,812	28.35	30,99,71,115
2021-22	55,99,77,880	78.34	15,48,26,665	21.66	71,48,04,545

From the table it can be seen that the % of Raw material in trading has been increasing year to year from 70.68% in 2020 to 78.34% in 2022. The total revenue has increased more than twice in 2022 than that of 2021 and sudden jump raises question on its sustainability.

To conclude, it can be said that the industry is growing and the growth of APIs is on the cards but the problem that is visible with the company is that it only trades and distributes products on behalf of the manufacturers and is dependent on their performances. Although, the trading and distribution business would also grow with the growth in APIs but the confidence would

have been more if the company had been producing these APIs instead of just distributing it.

Industry Charts

Exhibit 1: Indian Pharma Market Expected to grow at a CAGR of 12% from FY 21 to FY 30

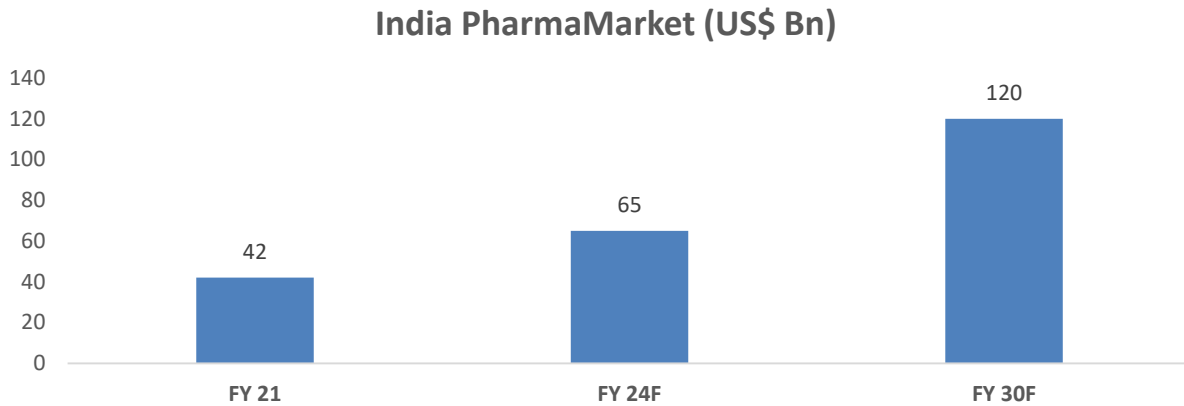


Exhibit 2: R&D as a % of Sales by Top 10 Indian Pharma Companies

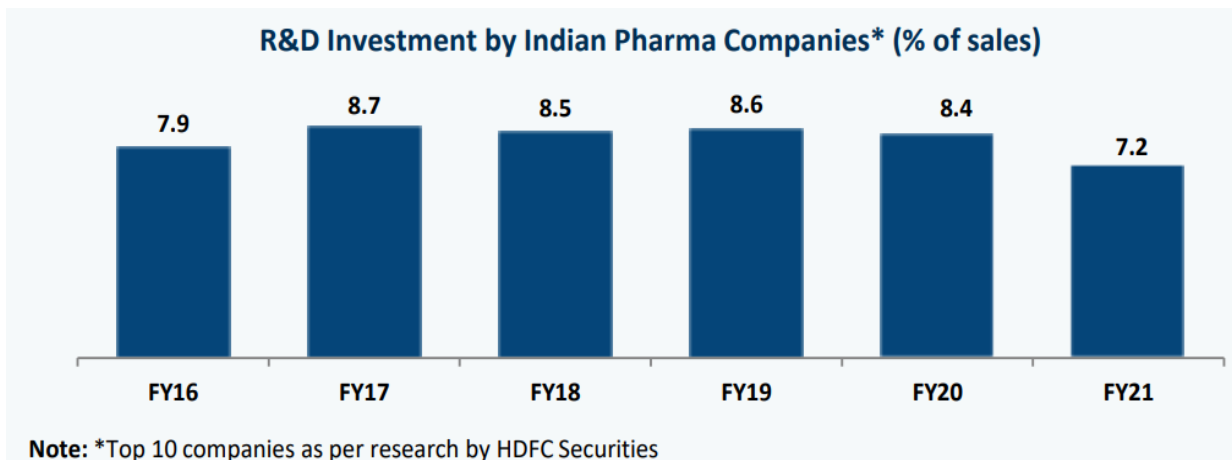
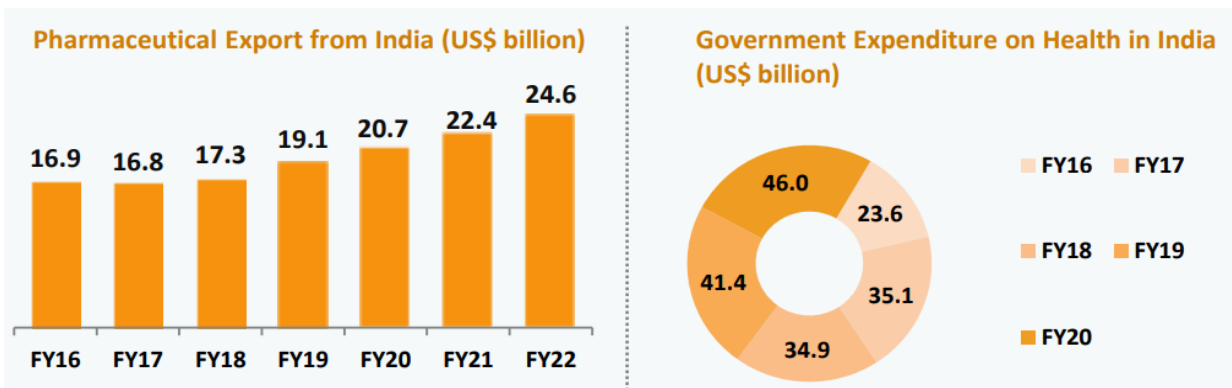


Exhibit 3: Key Trends in Pharmaceutical



Investment Overview

Pharma Industry

India is the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK. Globally, India ranks 3rd in terms of pharmaceutical production by volume and 14th by value. The domestic pharmaceutical industry includes a network of 3,000 drug companies and ~10,500 manufacturing units. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

According to the Indian Economic Survey 2021, the domestic market is expected to grow 3x in the next decade. India's domestic pharmaceutical market stood at US\$ 42 billion in 2021 and is likely to reach US\$ 65 billion by 2024 and further expand to reach US\$ 120-130 billion by 2030. India's biotechnology industry comprises biopharmaceuticals, bio-services, bio-agriculture, bio-industry, and bioinformatics. The Indian biotechnology industry was valued at US\$ 70.2 billion in 2020 and is expected to reach US\$ 150 billion by 2025. India's medical devices market stood at US\$ 10.36 billion in FY20. The market is expected to increase at a CAGR of 37% from 2020 to 2025 to reach US\$ 50 billion. As of August 2021, CARE Ratings expect India's pharmaceutical business to develop at an annual rate of ~11% over the next two years to reach more than US\$ 60 billion in value.

(Source: ibef.org)

Addressable Market for Dipna Pharmachem Limited

The company has not mentioned anything about the market it wants to target in coming times as well as about its current geographical presence.

Competition

Dealing in trading and distribution of APIs and Chemicals for Pharma Industry, company faces high degree of competition from many organised and unorganised players in the market. The entry to barrier is quite low and the industry is also fragmented giving the customers the power to bargain.

Peer Analysis

As Mentioned in the prospectus, the company has mentioned 2 peers viz. Earum Pharmaceutical limited and A-1 Acid Limited. A brief analysis on the same is given in the table below –

Company	Dipna Pharmachem Limited	Earum Pharmaceutical limited	A-1 Acid Limited
Net Profit (INR Cr)	1.17	2.22	6.31
EBITDA (INR Cr)	2.25	3.28	13.04
Return on Capital Employed	44.40%	18.89%	18.49%
Return on Equity	67.12%	13.27%	13.57%
EPS (INR)#	0.97	0.97	5.48
P/E* (Times)	39.05	2.67	57.48

***PE has been taken as on 23/08/2022**

#EPS has been calculated on post IPO basis.

Promoters' Profile

Mr. Keyur Shah



- **Mr. Keyur Shah** is the Promoter and Managing Director of the Company.
- He is having more than 2 decades of experience in trading of pharmaceutical raw material.
- He holds the Bachelor degree of Commerce from Gujarat University.
- He presently looks after marketing, sales, finance, overall management and operation of the company.

Analysis on the Company's Promoter and Board of Directors

Mr. Keyur Shah, Promoter and Managing Director, of the company is the guiding force behind the business decisions of the company. He is having more than 20 years of experience in trading of raw materials in Pharma Industry. He holds the Bachelor degree of Commerce from Gujarat University. He looks after marketing, sales, finance, overall management and operation of the company.

Mrs. Dipna Shah, is a Non- Executive Director of the company. She holds degree of Bachelor of Commerce from Saurashtra University. She has expertise of more than 10 years in the trading segment of pharma and chemical business.

Two Independent Directors of the company do not have enough experience in the field of business the company operates.

To conclude the company's management outlook is not good. The company is dependent on a single person, Mr. Keyur Shah. He takes all the decision and looks after almost everything of the company. The committees of the board have constant 3 persons in every committee which shows the committees are not properly formed and segregated. The CFO of the company has been appointed in the month of May 2022 having only 2 years of experience is also not looking good.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st March, 2022
Profit and Loss			
Revenue from operation	3,053.85	3,099.99	7,275.54
Other income	1.00	1.55	1.04
Total Revenue	3,054.85	3,101.54	7,276.58
Expenses	3,009.06	3,060.01	7,051.10
Depreciation and Amortisation Cost	0.88	0.72	0.62
Finance Cost	38.92	35.31	67.43
Total Expenses	3,048.86	3,096.04	7,119.15
PBT	5.99	5.50	157.43
PBT Margin	0.20%	0.18%	2.16%
EBITDA	45.79	41.53	225.48
EBITDA Margin	1.50%	1.34%	3.10%
Net Profit	5.90	2.42	116.69
Net Profit Margin	0.19%	0.08%	1.60%
Balance Sheet			
Total Borrowings	957.02	1,242.64	1,018.88
Net Worth	54.75	57.17	173.86
Fixed Assets	4.27	4.06	4.12
Net Working Capital	386.75	421.54	502.34
Financial Measures			
Inventory Turnover Ratio	5.61	4.34	10.73
Receivables Turnover Ratio	2.73	2.07	2.70
Payables Turnover Ratio	3.75	2.65	2.94
Fixed Assets Turnover Ratio	715.19	763.54	1,765.91
Return on Capital Employed	11.49%	9.59%	44.40%
Return on Equity	10.78%	4.23%	67.12%
Debt-Equity Ratio	17.48	21.74	5.86

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 45.79 lacs in 2020 to 225.48 lacs in 2022 at a CAGR of 121.91%. The EBITDA margin in 2022 was 3.10% from 1.34% in 2021 and 1.50% in 2020. The EBITDA and EBITDA margin both had fallen in 2021 while the pharma industry had shown good strength in that year. Also there is a sudden jump in EBITDA and its margin in the year 2022 which is little surprising and the stability of the same is doubtful.

Net Profit

The net profit of the company has grown from Rs. 5.90 lacs in 2020 to Rs. 116.69 lacs in 2022 at a CAGR of 344.72%. The net profit margin has grown from 0.19% in 2020 to 1.60% in 2022. Such a growth with falling figures in the year 2021 is again not sustainable.

Finance Cost.

The company has incurred finance cost mainly on secured borrowings availed from bank and NBFCs. The same has increased 2022 with new loan been taken from NBFC.

Financial Measures/Ratios

The financial ratios of the company have increased significantly.

RoCE of the company in FY22 was 44.40% vs 11.49% in FY 20. In the year 2021 it fell to 9.59% and then such a big jump is attributable to highly unstainable looking margins achieved by the company in the year 2022. If we look at the RoCE before 2022, the company seems to have performed below its peers. The same is expected to fall in coming year with increase of capital base being increased through IPO.

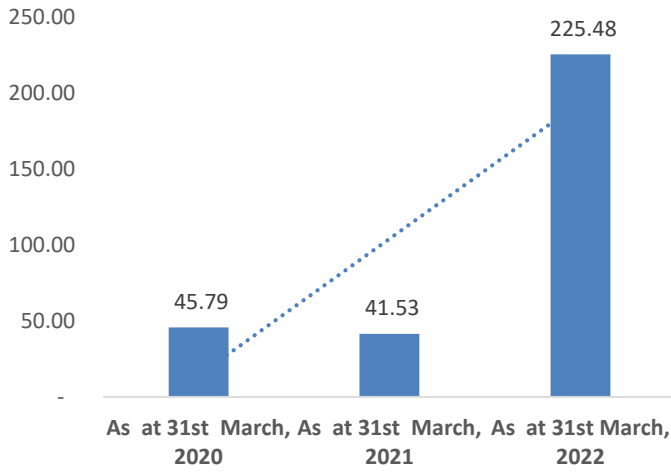
Return on Equity (ROE) of the company in FY 22 was 67.12% showing an increase from 10.78% in FY 20. The same can be set forward with similar assumptions as that of ROCE.

The company has been able to perform very well in maintaining its receivables, payables and inventory as evident from the respective turnover ratios.

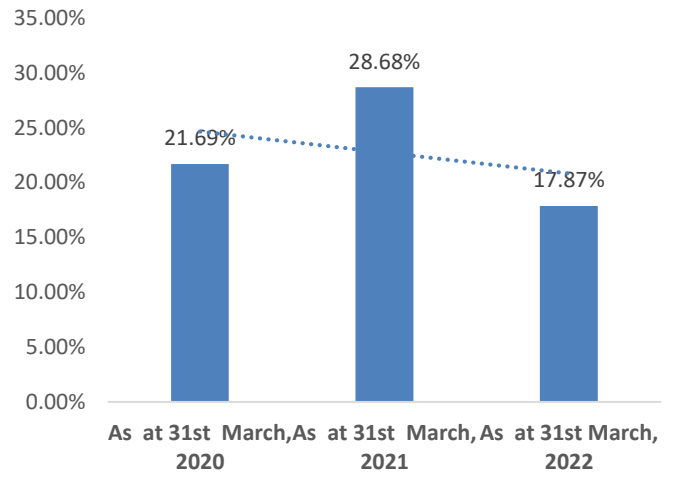
The company has debt-equity ratio of around 5.86 in FY 22. The same has decreased from previous years in spite of taking new loan is because of extra-ordinary profits contributing to an increase in the equity base.

Financial Graph

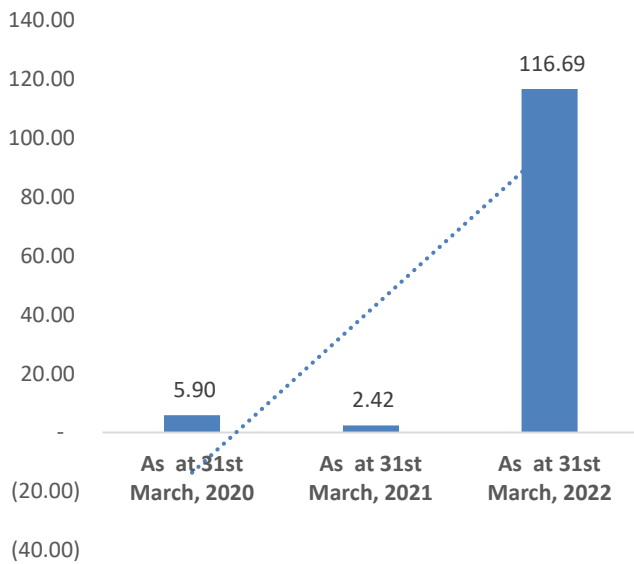
EBITDA (In Lacs)



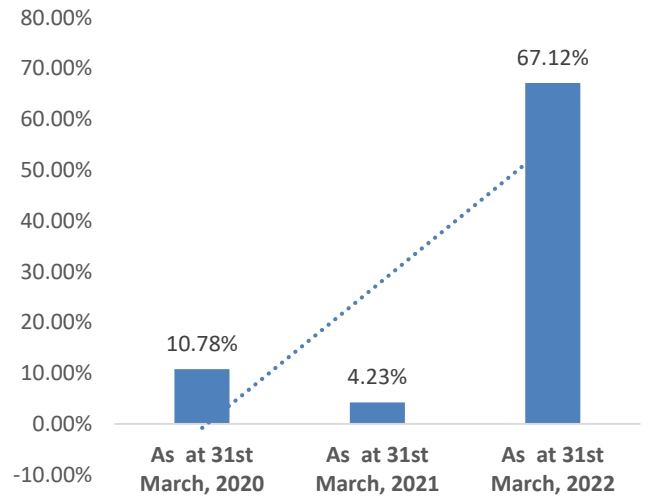
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. The Company, Promoter and Promoter Group of the company has been involved in certain outstanding litigation amounting to Rs. 8.65 lacs.
2. The company is dependent on the manufacturers of both the Raw Material Manufacturers and Finished Good manufacturers as it acts a distributor of Raw Materials to Finished Goods producers.
3. The company is dependent only on a single personnel.
4. The company has not file GST return on time on previous occasions and might have to incur some punitive actions or penalty in future.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Interactive Financial Services limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share	Listing date	CMP#
1.	Bhatia Colour Chem Limited	40.00	80.00	March 24,2022	40.60
2.	Global Longlife Hospital and Research Ltd	49.00	142.00	May 04,2022	78.00
3.	Rachana Infrastructure Ltd	76.28	135.00	June 10,2022	336.20

#CMP is taken as on 23rd August 2022

This is the 4th IPO of the Lead Manager, out of the last 3 listings, 1 opened at par and rest at premium.

Recommendation

The company has been into the business since 2011 showing decent track record of existence. The company is in the Industry of Pharmaceuticals where India has performed well and is expected to do well in coming times as the growth rate of this industry is projected to be at a CAGR of around 12% till FY 2030.

The Revenue and Profit Margin of the company has shown extra-ordinary increase in FY 22 and therefore the stability of the same is highly doubtful. In the year 2021, the company had shown a decrease in its profit margins

The sector PE is at around 29 times and the company is getting listed at a PE of 39 times which makes it overly priced looking at the size of the business and growth opportunities.

The management outlook is negative as the entire business decisions is dependent on its promoter. The committees are not properly formed and proper segregation of duties is lacking.

To conclude, the industry has good prospect and so the distributor is also likely to gain from it. But since the management outlook is negative, profit margins have grown super-normally and the price in which it is getting listed is relatively overvalued, makes it a very risky investment and therefore one **should avoid** applying in the IPO.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.