

IPO Details	
<b>Opening Date</b>	May 15, 2024
<b>Closing Date</b>	May 17, 2024
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	1,200 Shares
<b>Issue Price</b>	₹93 to ₹97 per share
<b>Issue Size</b>	Aggregating up to 43.16 Cr.
<b>Fresh Issue</b>	Aggregating up to 43.16 Cr.
<b>Offer for Sale</b>	-
<b>Application Amount</b>	₹1,16,400

IPO Objective	
1.	Funding of capital expenditure towards purchase of plant and machinery for expansion at the existing manufacturing facility.
2.	Funding working capital requirements of the company.
3.	General Corporate Purposes.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,07,86,900	90.36%
Public	11,50,700	9.64%

Promoter of the Company	
1.	Mr. Anil Kumar Sabarwal
2.	Ms. Tejaswini Sabarwal

Competitive Strengths	
1.	Multi-product capability.
2.	Revenue from Government institutions.
3.	Diverse and well-balanced product portfolio.
4.	Research and Development.
5.	Quality assurance.
6.	Experienced Promoter and management team.
7.	Supply Chain Efficiency.

Company Background	
○	Incorporated in June 1998, Quest Laboratories Limited is a pharmaceutical company manufacturing a range of antibiotics, antimalarials, antispasmodics, anti-inflammatories, antiemetics, respiratory medications, diabetes treatments, antidepressants, and more. It has its registered office in Dhar, Madhya Pradesh.
○	The company operates in the domestic market across twelve (12) states and two (2) union territories. These include Uttar Pradesh, Madhya Pradesh, Maharashtra, Delhi, Jharkhand, Assam, Karnataka, Jammu & Kashmir, Rajasthan, West Bengal, Gujarat, Telangana, Haryana, and Bihar.
○	The manufacturing unit of the company is located in Dhar, Madhya Pradesh.
○	The company holds WHO Schedule M, GMP (Good Management Practice) and GLP (Good Laboratory Practice) certifications.
○	As of December 31, 2023, the company had a total of 83 employees on its payroll.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 116	₹ 159

Financial Summary (In Lacs.)				
For the Period Ended	Mar-21	Mar-22	Mar-23	Dec-23
<b>Total Assets</b>	1,839.63	3,479.86	4,664.72	5,869.09
<b>Net Assets</b>	744.39	1,185.41	1,783.32	2,855.65
<b>Total Borrowing</b>	304.03	312.54	409.69	460.66
<b>Total Revenue</b>	3,043.55	5,954.20	6,186.60	6,217.83
<b>Profit After Tax</b>	65.51	410.50	502.85	774.93

Tentative Timeline	
<b>Opening Date</b>	May 15, 2024
<b>Closing Date</b>	May 17, 2024
<b>Basis of Allotment</b>	May 21, 2024
<b>Initiation of Refunds</b>	May 22, 2024
<b>Credit of Shares to Demat</b>	May 22, 2024
<b>Listing Date</b>	May 23, 2024

## Company Background and Analysis

Quest Laboratories Limited was originally incorporated under the name “Quest Laboratories Private Limited” under the provisions of the Companies Act, 1956. Company is engaged in the business of manufacturing of pharmaceutical formulations. The company produces a variety of products, comprising ethical drugs, generic drugs, and over the-counter drugs (OTC).

These products are available in various forms such as tablets, liquid orals, oral dry powders, oral powders (ORS), ointments, and external liquids. This comprehensive approach allows Company to address a wide range of medical needs and preferences among patients. Company also received various subsidies under different schemes of government.

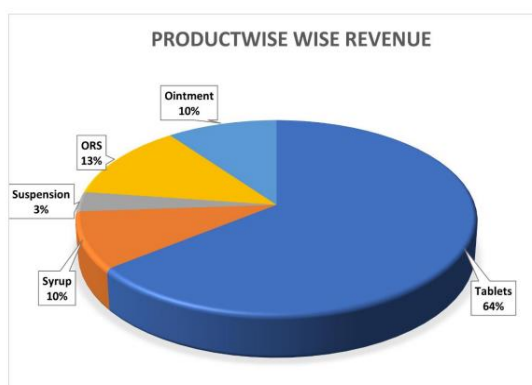
Company also possesses Good Laboratory Practice (GLP) certificate issued by Food & Drug Administration. Company has successfully bid for government tender contracts over the past few years, collaborating with major state and central government institutions and corporations. Company is consistently expanding its product portfolio through research and development of new pharmaceutical formulations.

Quest Laboratories Limited portfolio consists -

1. Tablets
2. Dry Syrup
3. Suspension
4. Oral Rehydration Solution (ORS)
5. Ointment

(Amount in Lacs)

Particulars	Mar-21		Mar-22		Mar-23		Dec-23	
	Amt	%	Amt	%	Amt	%	Amt	%
Tablets	2,494.80	82.16	4,367.55	73.42	4,906.20	79.59	3,996.62	64.38
Dry Syrup	390.72	12.87	1,376.77	23.15	862.90	14.00	591.57	9.53
Suspension	50.83	1.67	86.45	1.45	170.38	2.76	203.25	3.27
ORS	38.99	1.28	9.51	0.16	38.13	0.62	786.71	12.67
Ointment	61.01	2.02	108.10	1.82	186.46	3.02	629.81	10.15
<b>Total</b>	<b>3,036.35</b>	<b>100.00</b>	<b>5,948.39</b>	<b>100.00</b>	<b>6,164.06</b>	<b>100.00</b>	<b>6,207.98</b>	<b>100.00</b>



Product Wise Revenue, December 31, 2023.



Manufacturing Unit - Dhar

To conclude, the company currently has manufacturing facility located at Pithampur Industrial Area, Dhar, Madhya Pradesh, India. The total area of the facility is approximately 4,065 square meters. Facilities are well equipped with the required facilities including machinery, other handling equipment's to facilitate smooth manufacturing process and easy logistics. Company also have been receiving sales orders from the private sector & government institutions on regular basis. This collaborative approach offers benefits to the purchasers, including cost efficiency through bulk production, capacity scaling, regulatory compliance, reduced lead times, risk mitigation.

## **Business Strategies**

### **1. Expansion and upgradation of the manufacturing facility-**

Company intends to expand and upgrade manufacturing capacities for existing formulations and new formulations that are currently in development and commercialization stages. Their plan involves increasing production capacity by installing new plants and machinery at existing manufacturing facility. Their objective is to establish an injectable section comprising liquid vials and ampoules, as well as dry injections, including a lyophilizer line, to ensure efficient production processes.

### **2. Expand Geographical Presence-**

The Company intends to focus on diversifying their customer base across both domestic and global markets. Their broad strategic initiatives for international markets include offering a wide product portfolio with a well-established pipeline to support growth in existing markets, developing a comprehensive market penetration strategy, implementing territory-specific marketing, and establishing presence in developed markets.

### **3. Widen product portfolio-**

Company aims to expand and diversify the product portfolio by increasing its product base and introducing new range of product lines. Their plan is to continue expanding manufacturing capabilities in order to capture future growth trends. The company intends to explore opportunities to expand their operations by developing new products and services within existing lines of business.

### **4. Continue to improve operating efficiencies through technology enhancements-**

Company is a technology-driven organization supported by extensive R&D department, coupled with well-equipped laboratories and the technical officials in the industry. Emphasis is placed on upgrading process technology, reducing costs, conducting pilot plant research, improving quality, optimizing resource utilization, and developing new products. In essence, improving the quality of formulations and developing newer and innovative dosage forms are ongoing tasks of the R&D department

## Competitive Scenario and Peer Mapping

### Competition

The company operates in the chemical and pharmaceutical sector, which faces competition from both domestic and international players, including organized and unorganized sectors, and private and public companies. The primary competitive factors consist of quality, technology, prompt delivery, price, size of product portfolio, and customer service. Bargaining power with suppliers is decent as competitors are ready to pay more as per their financial position to capture the market. Moreover, as the company seeks to diversify into new geographical areas globally, the company can face competition from local companies, multinational corporations, and companies from other emerging markets operating in such markets.

### Peer Analysis-

**The comparison of the key performance indicators of the listed peers as of Mar-23 is given below –**

Particulars	Quest Laboratories Ltd	Zenith Drugs Ltd	Alpa Laboratories Ltd	Beta Drugs Ltd
	31st Mar 2023	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	8%	4%	12%	13%
EBITDA Margin	13%	10%	17%	24%
Return on Capital Employed	41%	38%	12%	32%
Return on Equity	33%	30%	9%	25%
EPS (INR)	4.66	129.00	5.98	31.94

**The comparison of the key performance indicators of the listed peers as of Mar-22 is given below –**

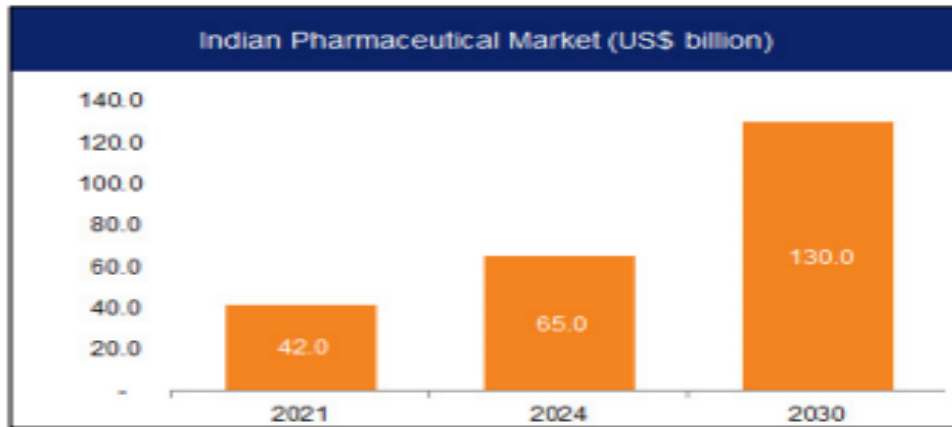
Particulars	Quest Laboratories Ltd	Zenith Drugs Ltd	Alpa Laboratories Ltd	Beta Drugs Ltd
	31st Mar 2022	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	7%	3%	11%	13%
EBITDA Margin	11%	9%	17%	24%
Return on Capital Employed	51%	30%	16%	33%
Return on Equity	41%	26%	12%	27%
EPS (INR)	3%	78%	6%	25%

**The comparison of the key performance indicators of the listed peers as of Mar-21 is given below –**

Particulars	Quest Laboratories Ltd	Zenith Drugs Ltd	Alpa Laboratories Ltd	Beta Drugs Ltd
	31st Mar 2021	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	2%	7%	7%	10.0%
EBITDA Margin	5%	3%	12%	21.6%
Return on Capital Employed	14%	5%	10%	21.8%
Return on Equity	11%	58%	7%	17.2%
EPS (INR)	0.61	75.73	3.44	12.19

## Industry Overview

### Exhibit 1: Indian Pharmaceutical Market



(Source: Prospectus)

## PHARMACEUTICAL INDUSTRY –

India is the largest provider of generic drugs globally and is known for its affordable vaccines and generic medications. The Indian Pharmaceutical industry is currently ranked third in pharmaceutical production by volume after evolving over time into a thriving industry growing at a CAGR of 9.43% since the past nine years. Generic drugs, over-the-counter medications, bulk drugs, vaccines, contract research & manufacturing, biosimilars, and biologics are some of the major segments of the Indian pharma industry. India has the greatest number of pharmaceutical manufacturing facilities that are in compliance with the US Food and Drug Administration (USFDA) and has 500 API producers that make for around 8% of the worldwide API market. 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.

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. India is rightfully known as the "pharmacy of the world" due to the low cost and high quality of its medicines. Indian pharmaceutical industry is known for its generic medicines and low-cost vaccines globally. Transformed over the years as a vibrant sector, presently Indian Pharma ranks third in pharmaceutical production by volume. The Pharmaceutical industry in India is the third largest in the world in terms of volume and 14th largest in terms of value.

The Pharma sector currently contributes to around 1.72% of the country's GDP. According to a recent EY FICCI report, as there has been a growing consensus over providing new innovative therapies to patients, Indian pharmaceutical market is estimated to touch US\$ 130 billion in value by the end of 2030. Meanwhile, the global market size of pharmaceutical products is estimated to cross over the US\$ 1 trillion mark in 2023.

Source: Prospectus

### Key Managerial Personnel

**Anil Kumar Sabarwal**, aged 56 years, is one of the Promoters, Chairman and Managing Director of the Company. He holds Secondary School Examination Certificate from Kendriya Vidyalaya Sriganga Nagar, Cantt Raj School, in the year 1985. He is responsible for crafting and implementing the overall strategy of the company. He has been instrumental in managing & leading the operations of the company. He has over 25 years of experience in same company.

**Tejaswini Sabarwal**, aged 28 years, is one of the Promoters and Whole Time Director of the Company. She has completed her Bachelor of Pharmacy from Swami Vivekanand College of Pharmacy, Indore in the year 2017. She has an experience of around 5 Years in the Company. She looks after the day-to-day development and planning of the Quality Control section of the Company.

**Rahul Dangi**, aged 27 years, is the Whole Time Director of the Company. He holds a degree of bachelor's in pharmacy from Vedic Institute of Pharmaceutical Education & Research, Sagar in the year 2017. He has an experience of around 4 years in the Company. He is responsible for handling Production Department of the Company.

**Gautam Kothari**, aged 70 years, is the Non-Executive Independent Director of the Company. He holds master's degree in commerce from Ravishankar Vishwavidyalaya in the year 1975. He holds master's degree in arts, Sociology from University of Indore in the year 1983. He holds bachelor's degree in law from Law College, Rajnandgaon from Ravishankar Vishwavidyalaya, Raipur in the year 1979. He was admitted as Fellow Chartered Accountant in The Institute of Chartered Accountants of India in the year 1986. He has around more than 44 years of experience in Accounting and Finance.

**Amit Ramesh Chandak**, aged 40 years, is the Non-Executive Independent Director of the Company. He holds Degree in Bachelor of Commerce from Amravati University in the year 2004. He was admitted as Fellow Chartered Accountant in The Institute of Chartered Accountants of India in the year 2015. He is having 14 years of experience in the field of Taxation and Statutory Compliances and representations, Financial Reporting, Debts Syndication, Strategic Financial and Investment Consultancy and Regulatory Compliances.

**Basant Lal Menghwani**, aged 69 years, is the Non-Executive Independent Director of the Company. He has completed his Bachelor of Pharmacy from University of Indore in the year 1977. He has around 30 years of experience in pharmaceutical industry.

To conclude, the company has 1 managing director, and he has vast experience in the field. The Remaining Directors of the company also have good knowledge and experience in their respective fields which helps in the overall growth of the company.

**Financial Snapshot**

<b>Profit and Loss Statement</b>		<b>(In Lacs)</b>			
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 24</b>	
Revenue from Operations	3,036.35	5,948.39	6,164.06	6,207.98	
Other Income	7.20	5.81	22.54	9.85	
<b>Total Income</b>	<b>3,043.55</b>	<b>5,954.20</b>	<b>6,186.60</b>	<b>6,217.83</b>	
Expenses					
Cost of Material Consumed	2,443.19	4,427.41	4,173.79	3,996.13	
Changes in Inventories of WIP, Finished Goods & Stock in Trade	3.28	21.97	7.77	-9.65	
Employee benefits expense	253.08	346.44	356.79	329.96	
Finance costs	30.71	29.65	53.84	62.50	
Depreciation and Amortization expense	39.38	46.03	54.98	41.61	
Other expenses	194.95	506.02	843.47	682.91	
<b>Total Expenses</b>	<b>2,964.59</b>	<b>5,377.52</b>	<b>5,490.64</b>	<b>5,103.46</b>	
Earnings Before Interest, Taxes, Depreciation & Amortization	141.85	646.55	782.24	1,208.63	
EBITDA Margin	5%	11%	13%	19%	
Profit/(Loss) before tax	78.96	576.68	695.96	1,114.37	
Tax Expense					
Current Tax	14.74	155.39	179.16	325.36	
Deferred Tax	-1.29	10.79	13.95	14.08	
<b>Total Tax Expense</b>	<b>13.45</b>	<b>166.18</b>	<b>193.11</b>	<b>339.44</b>	
Profit/(Loss) for the year	65.51	410.50	502.85	774.93	
Net Profit Margin	2%	7%	8%	12%	

<b>Balance Sheet</b>		<b>(In Lacs)</b>			
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Dec-23</b>	
<b>EQUITY AND LIABILITIES</b>					
1. Shareholders' funds					
Share Capital	107.88	107.88	107.88	1,078.76	
Reserves and surplus	480.96	891.50	1,394.33	1,198.39	
<b>Total Equity</b>	<b>588.84</b>	<b>999.38</b>	<b>1,502.21</b>	<b>2,277.15</b>	
Share application money pending allotment	-	-	-	345.00	
2. Non-current liabilities					
Long Term Borrowings	115.42	133.48	212.69	148.76	
Deferred tax liability/ (Assets) (Net)	35.10	45.89	59.84	73.93	
Long term Provisions	5.03	6.66	8.58	10.81	
<b>Total Non-current liabilities</b>	<b>155.55</b>	<b>186.03</b>	<b>281.11</b>	<b>233.50</b>	
3. Current liabilities					
Short-term borrowings	188.61	179.06	197.00	311.90	
Trade payables					
(ii) Other than MSME	796.67	1,704.71	2,460.24	2,294.66	
Other current liabilities	103.50	277.82	73.14	79.51	
Short-term provisions	6.46	132.86	151.02	327.37	
<b>Total Current liabilities</b>	<b>1,095.24</b>	<b>2,294.45</b>	<b>2,881.40</b>	<b>3,013.44</b>	
<b>Total Liabilities</b>	<b>1,250.79</b>	<b>2,480.48</b>	<b>3,162.51</b>	<b>3,246.94</b>	
<b>Total Equity and Liabilities</b>	<b>1,839.63</b>	<b>3,479.86</b>	<b>4,664.72</b>	<b>5,869.09</b>	
<b>ASSETS</b>					
1. Non-current assets					
(a) Property, plant, and equipment	593.63	737.55	983.94	988.50	
(b) Non-Current Investments	8.75	8.75	8.75	8.75	

<b>Balance Sheet</b>					<b>(In Lacs)</b>
c) Long-term loans and advances	29.26	49.52	66.16	603.29	
Total Non-Current assets	631.64	795.82	1,058.85	1,600.54	
<b>2. Current assets</b>					
Inventories	82.80	108.72	1,115.72	1,157.33	
Trade receivables	915.47	2,206.19	1,993.80	2,966.52	
Cash and cash equivalents	41.64	156.91	249.69	4.54	
Short-term loans and advances	152.28	206.97	241.35	134.84	
Other Current Assets	15.80	5.25	5.31	5.32	
Total Current assets	1,207.99	2,684.04	3,605.87	4,268.55	
Total Assets	1,839.63	3,479.86	4,664.72	5,869.09	

<b>Cash Flow Statement</b>					<b>(In Lacs)</b>
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Dec-23</b>	
Net Cash Flow from Operating Activities	104.72	345.51	363.07	0.39	
Net Cash Flow from Investing Activities	-119.67	-188.82	-296.97	-41.88	
Net Cash Flow from Financing Activities	3.83	-41.4	26.67	-203.66	

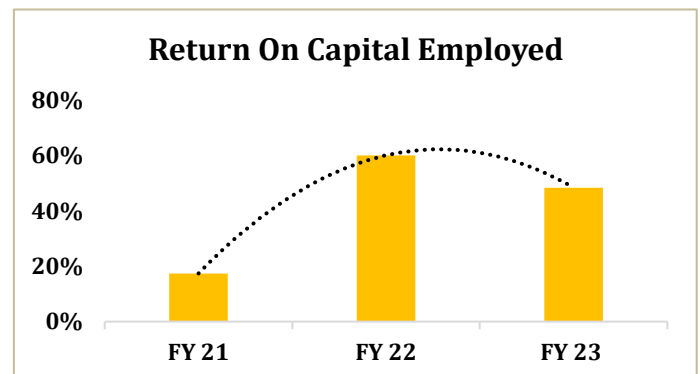
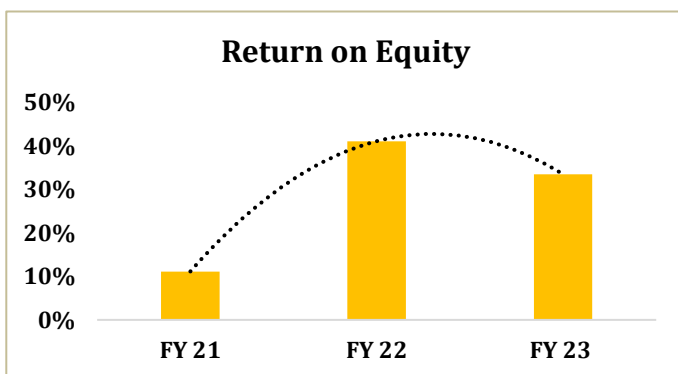
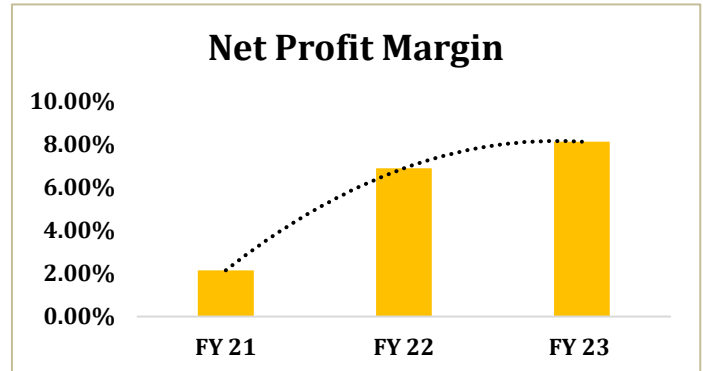
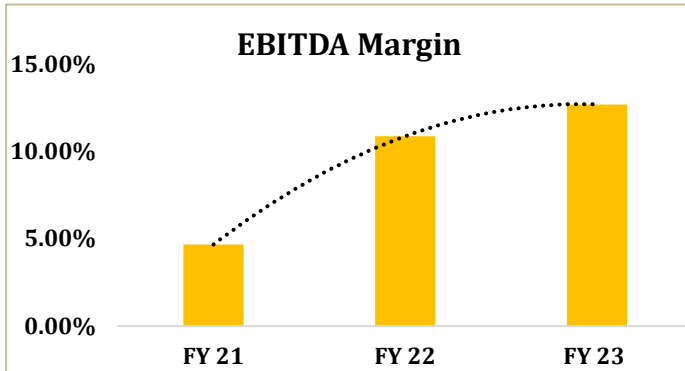
<b>Ratio Sheet</b>				
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Dec-23*</b>
<b>Per Share Data</b>				
Diluted EPS	0.61	3.81	4.66	6.77
BV per share	3.59	6.10	9.17	42.28
<b>Operating Ratios</b>				
EBITDA Margins	4.67%	10.87%	12.69%	19.47%
PAT Margins	2.15%	6.89%	8.13%	13.41%
Inventory days	9.95	6.67	66.07	51.27
Debtor days	110.05	135.37	118.06	131.41
Creditor days	138.12	139.03	173.07	156.66
<b>Return Ratios</b>				
RoCE	17%	60%	48%	22%
RoE	11%	41%	33%	16%
<b>Valuation Ratios (x)*</b>				
EV/EBITDA	6.00	1.79	2.12	4.58
Market Cap / Sales	5.24	2.67	2.58	1.92
P/E	159.02	25.46	20.82	14.32
Price to Book Value	26.99	15.91	10.58	2.29
<b>Solvency Ratios</b>				
Debt / Equity	0.52	0.31	0.27	0.20
Current Ratio	1.10	1.17	1.25	1.42
Quick Ratio	1.03	1.12	0.86	1.03
Asset Turnover	1.65	1.71	1.32	1.06
Interest Coverage Ratio	3.34	20.25	13.51	18.67

\*Annualized Figures

\*Valuation Ratios are calculated using the current Issue Price.



## Financial Charts



## Key Risk Factors

1. Company's promoter Mr. Anil Kumar Sabarwal has in one of the matters against him, been sentenced for imprisonment and he has filed an appeal against the said order in the higher court. The matter pertains to manufacturing of Not of Standard Quality (NSQ) Drugs, wherein he has been sentenced for an imprisonment of 1 (One) year and a fine of Rs. 20,000.
2. Company has contingent liabilities of 768.98 lakhs as on December 31, 2023, and its financial condition could be adversely affected if any of these contingent liabilities materializes.
3. Company derives a significant part of revenue from their top 10 customers, and they do not have long term contracts with these customers. If one or more of such customers choose not to source their requirements from company then company's business, financial condition and results of operations may be adversely affected.
4. Company has certain outstanding litigation in which there are cases of taxation matters amounting to 197.83 lakhs on company, an adverse outcome of which may hamper their business, reputation, and results of operations. Outstanding matters includes civil and criminal proceedings, tax proceedings, statutory and regulatory actions and other material pending litigation involving company, Directors, Promoters and Group Company.
5. Company has not entered into long-term agreements with its suppliers for supply of raw materials. In the event company will be unable to procure adequate amounts of raw materials, at competitive prices and hence their business, results of operations and financial condition may be adversely affected.
6. Company's existing manufacturing facility are concentrated in a single region i.e., Pithampur, Indore, Madhya Pradesh, and the inability to operate and grow business in this particular region may have an adverse effect on their business, financial condition, results of operations, cash flows and future business prospects.

**Track Record of Lead Manager**

The lead manager to the issue is Shreni Shares Limited. A table has been set below highlighting the details of the IPO of the last 10 companies handled by the Lead Manager in recent times –

**Shreni Shares Limited –**

Sr. No.	Company Name	Issue Size (in Cr)	Issue Price (In INR)	Listing Date	CMP* (INR)
1.	Silkflex Polymers (India) Limited	18.11	52	May 15,2024	59.2
2	Refractory Shapes Limited	18.60	31	May 14, 2024	78.75
3	Yash Optics & Lens Limited	53.15	81	Apr 08, 2024	98.25
4	Gabriel Pet Straps Limited	8.06	101	Feb 07.2024	137.50
5.	DelaPlex Limited	46.08	192	Feb 02, 2024	232.15
6.	AIK Pipes And Polymers Limited	15.02	89	Jan 02, 2024	119.00
7.	Net Avenue Technologies Limited	10.25	18	Dec 08, 2023	17.95
8.	Swashthik Plascon Limited	40.76	86	Dec 05, 2023	76.45
9.	KK Shah Hospitals Limited	8.78	45	Nov 06, 2023	52.00
10.	Marco Cables & Conductors Limited	18.73	36	Sep 28, 2023	46.15

The company has had 26 mandates in the past three years including the current Year.

\*CMP for the above-mentioned companies is taken as of 15<sup>th</sup> May 2024.

As per the offer document, from the above-mentioned mandates, all mandates have opened at premiums on the listing date.

## Recommendation

The company is in the industry since 1998 and thus has very vast experience. The company has seen a stable increase in the top line and bottom line of the financials. The company's management overview is satisfactory.

The P/E on Post IPO and annualised basis at around 14.32 times which makes it fairly priced by looking at the performance of the company and its peers. The company's sector P/E is 20.5 times.

The company has seen a stable increase in the top line of its financials which look sustainable going forward. The company is utilizing its net proceeds for expansion of manufacturing facilities which will yield good growth for the business. The major concerning factor for the company is the case filed against the main promoter for Not of Standard Quality Drugs which may drastically affect the company. We recommend **Risk Averse - Should Wait Risk Seekers - Should Apply** to this IPO.

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