



IPO Note

Akum Drugs and Pharmaceuticals Limited

Recommendation: **AVOID!**

Company Background -

- Akum Drugs and Pharmaceuticals Limited was established on April 19, 2004. The registered office is located at Saraswati Vihar, Delhi.
- The Company is offering Contract Development and Manufacturing Organization (CDMO), Research & Development (R&D) and Active Pharmaceutical ingredients (API) services.
- As of March 31, 2024, the key clients of the company include Alembic Pharmaceuticals, Alkem Laboratories, Blue Cross Laboratories, Cipla, Dabur India, Dr. Reddy's Laboratories etc.
- The company had 7,388 permanent employees and 8,739 on contractual basis as of March 31, 2024.

Objects of the Issue -

- Repayment/ prepayment of indebtedness of the company and its subsidiaries.
- Funding incremental working capital requirements of the company
- Pursuing inorganic growth initiatives through acquisitions
- General Corporate Expenses.

Promoters Name -

Sanjeev Jain, Sandeep Jain and Akums Master Trust

Rationale for recommendation -

- ✓ The bottom line and profitability margins have decreased in FY 2024 due to put option liabilities.
- ✓ The company has a negative P/E of 13,525.93 times due to put option liability on Post IPO basis compared to Industry P/E of 49.14 times.
- ✓ The company has a negative EPS of -0.28 for FY 2024 as the total comprehensive income is negative.
- ✓ The company's performance is low compared to its peers.
- ✓ The management overview is decent.

IPO Details

Opening Date	July 30, 2024
Closing Date	Aug 01, 2024
Allotment Date	Aug 02, 2024
Listing Date	Aug 06, 2024
Stock Exchange	BSE, NSE
Lot Size	22 Shares
Issue Price Per Share	₹646 to ₹679
Issue Size	1,856.74 Cr.
Fresh Issue	680.00 Cr.
Offer for Sale	1,176.74 Cr
	₹ 14,938 -
Application Amt	₹ 1,94,194 (22 to 286 shares)

	KPIs (In Cr)		
KPI's	FY 22	FY 23	FY 24
Revenue	3,671.89	3,654.82	4,178.18
EBITDA	-91.52	337.75	122.98
Net Profit	-250.87	97.82	0.79
RoCE	-10.36%	11.24%	-0.12%
ROE	-40.13%	13.52%	0.11%
P/E	-38.47	102.41	-2,425.00

Promoter Share Holding Pattern

Pre-Issue	Post Issue
82.44%	66.18%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	-0.28	0.05
BVPS	48.89	86.48
P/E	-2,425.00	13,525.94
P/BV	13.89	7.85
Mkt Cap (In Cr)	10,005.49	10,685.49

Lead Managers -

ICICI Securities Limited

Axis Capital Limited

Citigroup Global Markets India Private Limited

Ambit Private Limited

Registrar -

Link Intime India Private Limited

Business Overview -

Akum Drugs and Pharmaceuticals Limited was established on April 19, 2004. The company is a contract development and manufacturing organization (“CDMO”) offering a comprehensive range of pharmaceutical products and services in India and overseas. Their 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. They are also engaged in the manufacturing and sale of branded pharmaceutical formulations and active pharmaceutical ingredients (“APIs”).

They have manufactured 4,146 commercialised formulations across over 60 dosage forms. During the FY 2024, they manufactured formulations for 26 of the leading 30 pharmaceutical companies in terms of sales in India. For CDMO business, they operate 10 manufacturing units, with a cumulative formulations manufacturing capacity of 49.23 billion units annually, as of March 31, 2024.

As of March 31, 2024, their key clients for CDMO business include Alembic Pharmaceuticals, Alkem Laboratories, Blue Cross Laboratories, Cipla, Dabur India, Dr. Reddy’s Laboratories, Hetero Healthcare, Ipca Laboratories, Mankind Pharma, MedPlus Health Services, Micro Labs, Mylan Pharmaceuticals, Natco Pharma, Sun Pharmaceutical Industries, UCB, and Amishi Consumer Technologies (The Mom’s Co), among others.

Capacity Utilization -

The company has 10 manufacturing units located at Haridwar, Uttarakhand to produce range of dosage forms. The average capacity utilization for FY 2022, 2023 and 2024 remained at 32.23%, 27.29% and 32.12% respectively. They also have 3 manufacturing units located at Punjab for APIs. The average capacity utilization for these remained at 10.34%, 21.75% and 17.96% for FY 2022, 2023 and 2024 respectively.

Products offered as a part of CDMO operations -

- **Oral Solids** – This includes tablets, capsules, powders, ready mix, gummies, soup etc.
- **Oral Liquids** – This includes oral spray, syrups, oral solutions, liquid shots, oral jellies etc.
- **Sterile** – This includes injections, ear drops, eye drops, pre-filled syringes, dry powder injections etc.
- **Topicals** – This includes creams, ointments, gels, lotions, oils, shampoo, facewash, balm, toothpaste, mouthwash etc.



Subsidiaries -

1. Pure and Cure Healthcare Private Limited (PCHL)
2. Maxcure Nutravedics Limited (MNL)
3. Malik Lifesciences Private Limited (MLPL)
4. Akumentis Healthcare Limited (AHL)
5. Unosource Pharma Limited (UPL)
6. Plenteous Pharmaceuticals Limited (PPL)
7. Nicholas Healthcare Limited (NHL)
8. Akums Healthcare Limited (AHCL)
9. Sarvagunaushdhi Private Limited (SPL)
10. Medibox Pharma Private Limited (MPPL)
11. Qualymed Pharma Private Limited (QPPL)

Revenue Bifurcation service wise -

(Amt in Crores)

Particulars	FY 2022	FY 2023	FY 2024
CDMO Business	2,661.10	2,723.01	3,266.35
Branded and Generic Formulation Business	901.48	754.56	699.32
API Business	109.32	177.25	212.52
Total	3,671.89	3,654.82	4,178.18

Competition -

- As a CDMO, the company faces competitive from full-service pharmaceuticals outsourcing or CDMO companies, contract manufacturers offering limited number of dosage forms and capable of offering multiple dosage forms.
- In the branded and generic formulation business, they face competition from companies operating on a pan-India scale, MNCs, and regional pharmaceutical companies as well.
- In the API business, they primarily compete with API manufacturers engaged in the development and production of APIs with crucial components.
- **Barriers to entry:** Moderate barriers to entry, as establishing manufacturing facility requires significant capital investment. The company has high threat of substitutes.
- **Bargaining Power of Suppliers:** The bargaining power is high with the suppliers.
- **Bargaining Power of Buyers:** The bargaining power is high with the customers.

Business Strategies -

Leverage leadership position to continue to increase market share and consolidate position in the CDMO market: The company is focused on the expansion of both existing and new dosage forms and formulations. and synergistic approach to product categories, clients, and manufacturing capabilities.

Sustaining R&D for product development across therapies and dosage forms: The company is focusing on developing formulations that align with their “Patient First” philosophy aimed at enhancing clinical outcomes through differentiated formulations.

Scale API business: The company aims to develop a comprehensive portfolio of complex APIs for both captive consumption and sales to other formulation manufacturers within and outside India and offer APIs into semi-regulated and regulated markets and explore contract manufacturing of APIs for overseas markets.

Risk Factors -

The company has 41 outstanding cases against it for tax, statutory, and civil matters amounting to Rs. 16.96 Cr.

There are 22 outstanding cases filed by the company for criminal matter and 6 cases for civil matters amounting to Rs. 24.34 Cr.

The company has contingent liabilities amounting to Rs. 88.62 Cr for FY 2023-24.

The company had incurred loss of Rs. 250.88 Cr in FY 2022.

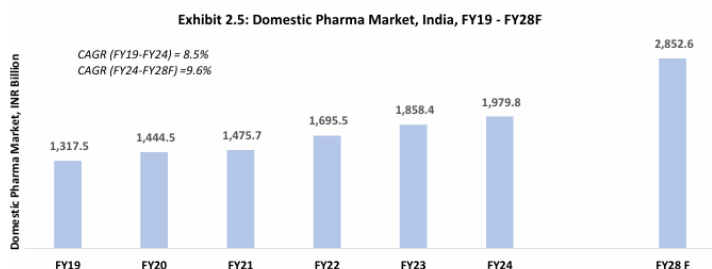
The company has put option liabilities amounting to Rs. 494.18 Cr.

PEER ANALYSIS

Particulars	Akum Drugs and Pharmaceuticals Limited			Divi's Laboratories Limited			Suven Pharmaceuticals Limited			Gland Pharma Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	-7%	3%	-	33%	23%	20%	31%	31%	29%	26%	20%	13%
EBITDA Margin	-2%	9%	3%	44%	35%	32%	49%	46%	44%	37%	31%	26%
RoCE	-5%	11%	-	30%	18%	15%	42%	32%	19%	22%	13%	13%
ROE	-40%	14%	-	25%	14%	12%	30%	24%	15%	17%	10%	9%
EPS (INR)	-17.65	6.63	-0.28	111.52	68.71	60.27	17.83	16.16	11.80	73.91	47.48	46.90
P/E	-38.47	102.41	-2425.00	39.27	41.09	57.16	33.95	29.23	57.38	45.23	26.71	39.34

Indian Pharmaceutical Industry -

Indian pharmaceutical market is among the fastest-growing pharmaceutical markets in the world, witnessing a value increase from INR 1,317.5 billion (USD 19.0 billion) in FY19 to INR 2,852.6 billion (USD 34.2 billion) in FY28. With a contribution of nearly 1.3% to India's GDP, IPM registered a 9.0% CAGR in the last five years and a forecast of 9.6% for the next five years.



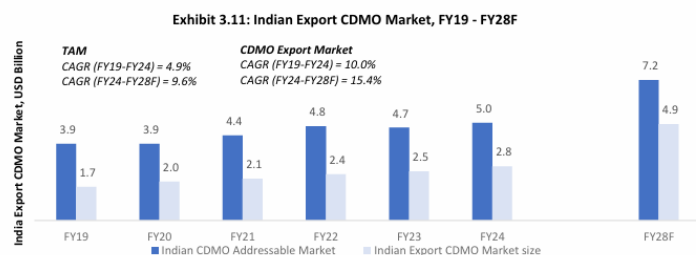
(Source: RHP)

Indian API Industry -

India is the 12th largest exporter of pharmaceutical formulations by value. Formulation exports from India have grown from USD 12.6 billion in 2017 to USD 20.9 billion in 2023 and are expected to grow to USD 33.2 billion by 2027 at a CAGR of 12.3% from 2023 to 2027. While FDF exports have grown by nearly 9% between 2017 and 2023, with strong growth in regulated markets, APIs have grown at 5% on the back of semi-regulated/ unregulated markets.

Indian CDMO Industry -

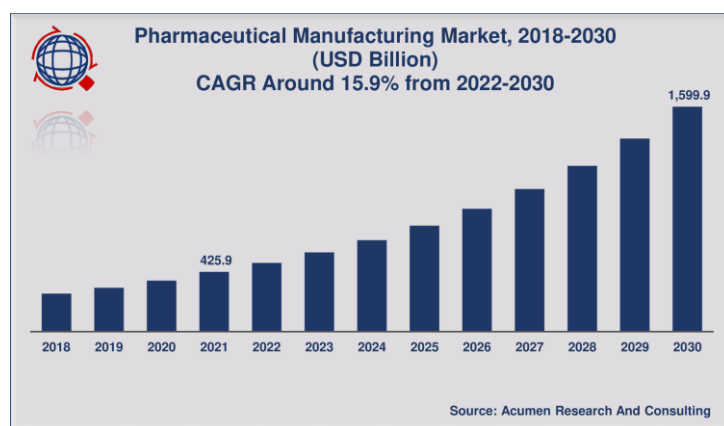
The Indian CDMO industry accounted for 4.9% of the global small molecule CDMO market in FY24. Expansion of Indian pharma companies will allow the Indian export CDMO market to jump from USD 2.8 billion to USD 4.9 billion between FY24 and FY28, growing at a CAGR of 15.4%.



(Source: RHP)

Global Pharmaceutical Industry-

The pharmaceutical market is valued at USD 1,634.8 billion in 2023, the market is projected to reach USD 2,119.0 billion by 2027, with a CAGR of 6.7% from 2023 to 2027. The global market is forecasted to grow 8.0% year-on-year from 2023 to reach USD 1,765.0 billion in 2024. However, as COVID-19 cases decline, other therapeutic areas such as Oncology, Alimentary Tract and Metabolism (including diabetes), and Cardiovascular (CVS) will drive future growth. Globally, the pharmaceutical market for chronic therapy areas like oncology and alimentary tract & metabolism are forecasted to grow at a CAGR of 9.8% and 4.9%, respectively, between 2023 and 2027.



Source: Acumen Research And Consulting

Global API Industry -

The growth in the formulations market also translates into corresponding growth in the API market. In contrast, the global API market is expected to grow at a CAGR of 7.7% between 2023-2027, and the Indian API market is expected to grow at 13.9% in the same period.

Global CDMO & Small Molecule CDMO Industry -

CDMOs are increasingly participating in larger parts of the pharma value chain, from drug discovery to commercialization across multiple geographies. Small molecules dominated the global pharma market with 69.4% market share in 2023, 69.1% of USFDA approvals, and 58.7% of the clinical pipeline in the same year, ensuring the segment's long-term growth. The small molecules CDMO market is forecasted to grow from USD 93.9 billion in 2023 to USD 122.4 billion in 2027. Moreover, with growing outsourcing penetration, the CDMO market is forecasted to grow at a CAGR of 6.8% from 2023 to 2027.

Key Management -



Key Management Persons Name -	Sanjeev Jain
Age	58
Designation and No. of years of experience	Promoter and Managing Director, 38+ Years of experience
Qualification	Completed matriculation
Roles and Responsibility	-
Other Directorships	Akums Foundation and Welcure Pharmaceuticals Private Limited

Key Management Persons Name -	Sandeep Jain
Age	56
Designation and No. of years of experience	Promoter and Managing Director, 36+ years of experience
Qualification	Bachelor's degree in commerce
Roles and Responsibility	-
Other Directorships	Akums Foundation and Welcure Pharmaceuticals Private Limited

Key Management Persons Name -	Sanjay Sinha
Age	65
Designation and No. of years of experience	Whole-Time Director and President (Operations)
Qualification	Bachelor's degree in pharmaceuticals sciences, master's degree in pharmacy
Roles and Responsibility	-
Previous Associations	Ipca Laboratories Limited as the President, Operations (Formulations) and Ahmedabad Plant of Famy Care Limited

Key Management Persons Name -	Sunil Kumar Thakur
Age	46
Designation and No. of years of experience	Non-Executive Director and nominee of Ruby QC Investment Holdings Pte. Ltd., 21+ years of experience
Qualification	BBA and master's degree in international business
Roles and Responsibility	-
Other Directorships	Health Care at Home India Private Limited, Healthquad Advisors Private Limited, Healthquad Capital Advisors Private Limited etc.

Key Management Persons Name -	Kewal Kundanlal Handa
Age	71
Designation and No. of years of experience	Independent Director
Qualification	Qualified management accountant and company secretary, master's degree in commerce, attended the senior management programme for management development
Roles and Responsibility	-
Other Directorships	Borosil Limited, Borosil Scientific Limited, Conexus Social Responsibility Services Private Limited etc.

Key Management Persons Name -	Satwinder Singh
Age	60
Designation and No. of years of experience	Independent Director
Qualification	Bachelor of Commerce and bachelor's degree in law, member of ICSI
Roles and Responsibility	-
Other Directorships	DS (Assam) Hospitality Limited and Seven R Hotels Private Limited

Key Management Persons Name -	Matangi Gowrishankar
Age	66
Designation and No. of years of experience	Independent Director
Qualification	Bachelor's in arts, Honors diploma in industrial relations and welfare
Roles and Responsibility	-
Other Directorships	Anudip Foundation for Social Welfare, Cyient Limited and Gabriel India Limited etc.

Key Management Persons Name -	Nand Lal Kalra
Age	74
Designation and No. of years of experience	Independent Director, 36+ years of experience
Qualification	Master's degree in science (Physics), bachelor's degree in law
Roles and Responsibility	-
Other Directorships	PCHL

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	3,671.89	3,654.82	4,178.18
Other Income	22.63	46.105	34.025
Total Income	3,694.52	3,700.93	4,212.21
Expenses			
Cost of Material Consumed	2,038.59	2,028.09	2,278.37
Purchase of stock-in-trade	394.20	221.78	259.52
Changes in Inventories of WIP, Finished Goods & Stock in Trade	-87.74	24.03	12.34
Employee benefits	507.75	590.13	646.86
Finance Cost	16.65	46.24	50.61
Depreciation and Amortization expense	94.67	112.80	125.64
Fair value changes to financial instruments	494.17	-43.96	357.77
Other expenses	416.62	496.79	500.32
Total Expenses	3,874.95	3,475.93	4,231.45
EBITDA	-91.52	337.75	122.98
EBITDA Margin	-2.49%	9.24%	2.94%
Share of Profit of associates	0.203	-0.203	-
Profit/(Loss) before exceptional items and tax	-180.22	224.80	-19.24
Exceptional Items	12.97	74.50	26.03
Profit/(Loss) before tax	-193.20	150.30	-45.28
Tax Expense			
Current tax	69.04	78.13	74.02
Deferred Tax Charges/(reversal)	-6.04	-27.25	16.66
Tax for earlier years	-5.32	1.60	1.51
Adjustment on account of merger			
Income-tax for earlier years	-	-	-18.29
Deferred Tax Charges/(reversal)	-	-	-119.98
Total Tax Expense	57.68	52.48	-46.07
Profit/(Loss) for the year	-250.87	97.82	0.79
Net Profit Margin	-6.79%	2.64%	0.02%

Statement of Assets and Liabilities

Amt in Crores

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	14.30	28.61	28.61
Other Equity	607.66	688.57	680.88
Non-Controlling Interest	3.19	6.18	10.98
Total Equity	625.17	723.37	720.49
2. Non-current liabilities			
Financial Liabilities			
(i) Borrowings	13.33	115.49	78.29
(i) Lease Liabilities	30.40	74.88	67.90
(iii) Other financial liabilities	1,064.48	1,035.68	1,395.94
Provisions	23.93	26.22	31.02
Deferred tax liabilities	39.29	25.30	12.15
Total Non-current liabilities	1,171.46	1,277.59	1,585.33

Particulars	FY 22	FY 23	FY 24
3. Current liabilities			
Financial Liabilities			
(i) Borrowings	344.62	421.47	413.25
(ii) Lease Liabilities	6.62	7.24	5.76
(iii) Trade Payables			
(a) Outstanding Dues to MSME	33.18	44.21	47.22
(b) Outstanding Dues to other than MSME	556.47	522.92	484.90
(iv) Other Financial Liabilities	70.20	62.81	158.13
Other current liabilities	154.57	142.19	43.22
Provisions	58.92	45.93	56.59
Current Tax Liabilities	47.80	18.76	1.43
Total Current liabilities	1,272.42	1,265.57	1,210.55
Total Liabilities	2,443.88	2,543.15	2,795.88
Total Equity and Liabilities	3,069.05	3,266.53	3,516.37
ASSETS			
1. Non-current assets			
Property, Plant and Equipment	932.02	963.15	1064.90
Rights-of-use assets	81.05	126.35	117.19
Capital Work-in-progress	30.81	102.99	195.13
Goodwill	2.06	2.06	2.06
Other Intangible Assets	5.38	5.73	6.60
Intangible assets under development	0.25	0.16	0.28
Financial Assets			
(i) Investments	0.38	0.14	0.14
(ii) Loans	5.5	-	-
(iii) Other financial assets	39.40	34.42	31.40
Non-Current Investments	36.04	12.26	10.02
Deferred Tax Assets (Net)	18.85	31.51	123.06
Other non-current assets	25.63	63.56	24.66
Total Non-Current assets	1,177.43	1,342.37	1,575.48
2. Current assets			
Inventories	722.44	729.79	630.42
Financial Assets	-	-	-
(i) Trade receivables	884.31	845.08	833.81
(ii) Cash and cash equivalents	55.13	51.60	111.05
(iii) Bank balances other than cash and cash equivalents	47.70	98.38	166.00
(iv) Loans	-	7.373	-
(v) Other financial assets	20.80	15.23	23.31
Current Tax Assets (net)	-	11.40	-
Other Current Assets	133.65	119.99	176.17
Total Current assets	1,864.06	1,878.87	1,940.78
Assets classified as held for sale	27.55	45.28	0.10
Total Assets	3,069.05	3,266.53	3,516.37

Cash Flow Statement

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	318.54	1,766.31	4,982.59
Net Cash Flow from Investing Activities	-2,348.22	-3,047.02	-3,304.15
Net Cash Flow from Financing Activities	2,360.40	1,245.40	-1,080.21

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	-17.65	6.63	-0.28	EV/EBITDA	-9.62	3.29	7.60
BV per share	42.43	49.09	48.89	Market Cap / Sales	2.91	2.92	2.56
Operating Ratios				P/E	-38.47	102.41	-2,425.00
EBITDA Margins	-2.49%	9.24%	2.94%	Price to Book Value	16.00	13.83	13.89
PAT Margins	-6.79%	2.64%	0.02%	Solvency Ratios			
Inventory days	71.81	72.88	55.07	Debt / Equity	0.57	0.74	0.68
Debtor days	87.90	84.40	72.84	Current Ratio	1.46	1.48	1.60
Creditor days	88.47	92.01	76.53	Quick Ratio	0.90	0.91	1.08
Return Ratios				Asset Turnover	1.20	1.12	1.19
RoCE	-10.36%	11.24%	-0.12%	Interest Coverage Ratio	-11.18	4.19	0.22
RoE	-40.13%	13.52%	0.11%				

LEAD MANAGER TRACK RECORD -

The lead managers to the issue are ICICI Securities Limited, Axis Capital Limited, Citigroup Global Markets India Private Limited and Ambit Private Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Managers in recent times –

ICICI Securities Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Allied Blenders and Distillers Limited	1,500.00	281.00	July 02, 2024	311.00
2.	Stanley Lifestyles Limited	537.02	369.00	June 28, 2024	582.40
3.	Awfis Space Solutions Limited	598.93	383.00	May 30, 2024	641.45

The company has handled 44 mandates in the past three years (including the current year).

Axis Bank Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Bharat Highways Infrastructure Investment Trust	2,500.00	100.00	Mar 12, 2024	106.48
2.	Medi Assist Healthcare Services Limited	1,171.58	418.00	Jan 23, 2024	566.80
3.	Yes Bank Limited	15,000.00	12.00	July 27, 2020	24.62

The company has handled 36 mandates in the past three years (including the current year).

Citigroup Global Markets India Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Aadhar Housing Finance Limited	3,000.00	315.00	May 15, 2024	447.25
2.	Indegene Limited	1,841.76	452.00	May 13, 2024	619.55
3.	India Shelter Finance Corporation Limited	1,200.00	493.00	Dec 20, 2023	723.60

The company has handled 9 mandates in the past three years (including the current year).

Ambit Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	India Shelter Finance Corporation Limited	1,200.00	493.00	Dec 20, 2023	723.60
2.	Yatharth Hospital and Trauma Care Services Limited	686.55	300.00	Aug 07, 2023	447.65
3.	Senco Gold Limited	405.00	317.00	July 14, 2023	937.60

The company has handled 3 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 26th July 2024.

As per the offer document, from the above-mentioned mandates all have opened at a premium on the listing day.

Recommendation -

The company has been in the industry since 2004 and has vast experience in the industry. The management overview of the company is decent.

The P/E on a post-IPO and annualised basis is 13,525.94 due to put option liability which makes it very highly priced by looking at the performance of the company and sector. Once the liability is paid off, the PE will improve significantly. The Sector P/E is 49.14 times.

Though the company has seen an increase in the top line for FY 2024, the bottom line has seen significant decrease for FY 2024 which is majorly because of changes in fair value of financial instruments (put option liabilities). Due to the same the profitability margins have decreased for FY 2024. The company had loss for FY 2022. Also, the company has not performed well compared to its peers.

The scenario might change in the future once the put option liability is settled, so one can wait for the company's next financial results. Thus, knowledgeable investors can **AVOID** this IPO.

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