

Details of the Issue:

Shreni Shares **Lead Manager:**

Limited

Registrar: **Bigshare Services**

Pvt Ltd

Listing At: NSE SME

Promoters Shareholding Pattern:

Pre-Issue: 90.36 % Post-Issue: 65.82 %

Offer Structure:

Retail Shares 50% of the net offered: offer QIB shares 35% of the net offered: offer NII(HNI) Shares 15% of the net offered offer Issue Size: ₹43.16 Cr

Post Issue Paid

Up Capital: ₹16.38 Cr

Financial Summary (₹ in Lakhs):

Particulars	9M FY24	FY23		
Total Income:	6217.83	6186.60		
EBITDA:	1208.63	782.24		
PAT:	774.93	502.85		

Minimum Application:

#	Lots	Shares	Amount
Retail:	1	1200	1,16,400
HNI:	2	2400	2,32,800

Valuations (FY24):

Net Asset Value: Rs. 13.93 per

share

EPS*: ₹6.30

P/E*: 15.38x

EV/EBITDA: 2.12x

Enterprise value: ₹1662.21 Lakhs

*EPS and P/E ratio have been calculated on total 9MFY24 annualized earnings and post issue

16th May, 2024

Quest Laboratories Limited

RECOMMENDATION **MAY APPLY**

Lot Size: 1200 Price Band: ₹93 to ₹97 per share shares

IPO Date: 15th May to

17th May

INDUSTRY

PHARMACEUTICAL INDUSTRY

Company Overview

- Incorporated in 1998, Quest Laboratories Limited is a pharmaceutical company manufacturing a range of antibiotics, antimalarial, antispasmodics, anti-inflammatories, antiemetic's and many more.
- The company holds WHO Schedule M GMP and GLP certifications, adhering to the stringent guidelines set by the World Health Organization. Its commitment to quality is further demonstrated by its ISO 9001:2015 certification and ISO/IEC 17025:2017 accreditation.
- The company also possesses a Good Laboratory Practice (GLP) certificate issued by the Food & Drug Administration, Bhopal, Madhya Pradesh, indicating its commitment to maintaining high standards of quality and compliance in laboratory operations, particularly within the pharmaceutical sector.

Object of the Issue:

The fresh Issue includes a public Issue of 4,449,600 Equity Shares of the Company having Face value of ₹ 10 each at an Issue Price of ₹ 93 to ₹97 per Equity Share. The Net Proceeds from the Issue are proposed to be utilized by the Company for the following objects:

- Funding of capital expenditure towards purchase of plant and machineries for expansion at the existing manufacturing facility (~₹ 2600 Lakhs)
- Funding Working Capital Requirement (~₹ 1000 Lakhs)
- General Corporate Purpose

Valuation and Recommendation:

Evaluating the annualized FY24 earnings, the P/E ratio stands at 15.38x, and issue is fully priced. The company has demonstrated a consistent increase in its bottom line but minimal growth (%) in the revenue for the year 2023 and 9MFY24. Additionally, the company showcased a negative cash flow. However, expansion into new products and product categories may lead to inspecting and controlling quality, regulatory requirements which may strain the management and operational resources. Hence, we advise investors MAY **APPLY** to the issue.

Financials: (₹ in Lakhs)

Particulars	FY21	FY22	FY23	9MFY24
Revenue From	3,036.35	5,948.39	6,164.06	6,207.98
Operations				
Growth (in %)	-	95.91%	3.63%	0.71%
EBITDA	141.84	646.55	782.24	1208.63
EBITDA Margin (%)	4.67%	10.87%	12.69%	4.67%
PAT	65.50	410.50	502.85	774.93
ROE (%)	11.78%	51.69%	40.20%	34.03%
ROCE (%)	11.82%	44.65%	38.03%	41.86%
EPS	0.61	3.81	4.66	7.18

Source: RHP

Comparison of accounting ratios with peers:

Name of Company	Current Market Price (₹)	Face Value (Rs)	EPS (Rs)	PE (As on FY23)	RoNW (%)	NAV per share (Rs.)
Quest Laboratories Limited	97	10	4.66	23.03	33.47%	13.93
PEER GROUP						
Beta Drugs Limited	1300	10	19.57	66.43	19.55%	100.12
Alpa Laboratories Limited	93.95	10	5.90	15.62	8.59%	68.69
Zenith Drugs Limited	63	10	4.29	14.69	29.88%	14.37

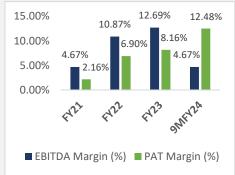
Revenue Bifurcation (Rs. In Lakhs)					
Particulars	9M FY24	FY23	FY 22	FY 21	
Government Institution	66.64%	61.93%	51.11%	18.05%	
Private Sector	33.36%	38.07%	48.89%	81.95%	
Total	100%	100%	100%	100%	



- Operating across diverse industries and regions, it strategically positions itself
 in the pharmaceutical sector, benefitting from its defensive nature
 optimistic industry outlook fuelled by initiatives promoting research and
 innovation. Despite its potential, this industry faces intense competition
 from organized and unorganized players.
- The pending appeal of **Mr. Anil Kumar Sabarwal's (Promoter)** imprisonment sentence introduces a significant risk to the company's reputation. In the event of an adverse decision, the company may face operational risk impacting its business performance.
- Being a Pharmaceutical manufacturing industry with high quality control issues poses a considerable threat to business operations. Any such problems will impact the company for delivering top-notch products, leading to potential litigation and liabilities.
- The company showcased notable profit surge despite declining revenue signals improved efficiency, yet negative cash flows indicate challenges in managing liquidity, potentially affecting the company's short-term financial stability and growth prospects
- Based on annualized FY24 earnings, the P/E ratio stands at 15.38x, and issue appears to be fully priced.







Profitability Ratios:



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