



# Quest Laboratories Limited

## Details of the Issue:

Lead Manager:	Shreni Shares 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 offered:	50% of the net offer
QIB shares offered:	35% of the net offer
NII(HNI) Shares offered	15% of the net 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

## RECOMMENDATION

## MAY APPLY

Price Band: ₹93 to ₹97 per share

Lot Size: 1200 shares

IPO Date: 15<sup>th</sup> May to 17<sup>th</sup> 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 Operations	3,036.35	5,948.39	6,164.06	6,207.98
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

16<sup>th</sup> May, 2024

IPO DETAILS

SME IPO NOTE

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%

Investment Rationale:

- 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.

**FINANCIAL HIGHLIGHTS:**

**Revenue from Operations (in ₹ Lakhs)**

**Revenue from Operation**

Period	Revenue from Operation (₹ Lakhs)
FY21	3,036.35
FY22	5,948.39
FY23	6,164.06
9MFY24	6,207.98

■ Revenue from Operation

**EBITDA and Net Profit Margin:**

Period	EBITDA Margin (%)	PAT Margin (%)
FY21	4.67%	2.16%
FY22	10.87%	6.90%
FY23	12.69%	8.16%
9MFY24	12.48%	4.67%

■ EBITDA Margin (%) ■ PAT Margin (%)

**Profitability Ratios:**

**Profitability Ratio**

Period	ROE (%)	ROCE (%)
FY21	10.00%	10.00%
FY22	25.00%	25.00%
FY23	20.00%	20.00%
9MFY24	20.00%	20.00%

— ROE (%) — ROCE (%)

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