

CMP: INR 162

Rating: BUY

Target Price: INR 375

Stock Info

NSE	SAKAR
Bloomberg	SAKAR:IN
Sector	Pharmaceuticals
Face Value (INR)	10
Equity Capital (INR Cr)	17.1
Mkt Cap (INR Cr)	277
52w H/L (INR)	212 / 104
Avg. Yearly Volume (in 000')	329.5

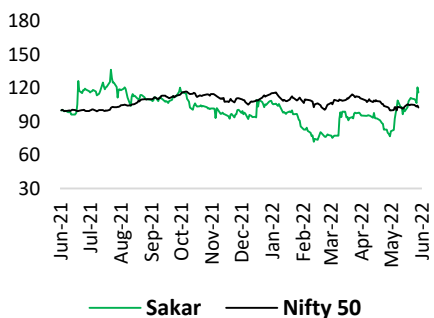
Shareholding Pattern %

(As on March, 2022)

Promoters	67.54
Public & Others	32.46

Stock Performance (%)	YTD	6M	1Y
Sakar Healthcare	13%	21%	24%
Nifty 50	-6%	-6%	5%

Sakar HealthCare vs. Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022 67114872

Yogesh Tiwari

yogesh.tiwari@arihantcapital.com
022 67114834

We visited the manufacturing facilities of Sakar Healthcare Ltd. at Ahmedabad, Gujarat. The company is in the manufacturing of pharmaceutical products including, oral liquids, oral solids, Cephalosporin tablets, capsules, dry powder injections, lyophilized injections and liquid injectables in ampoules and vials.

Production facilities: It has a production facility at Changodar, Ahmedabad. It comprises of four plants.

Plant 1: It is a Oral Liquid unit. The production process in this plant is suitable for both pet and glass bottles.

Plant 2: It is dedicated to Oral Solid products. This includes tablets, capsules, dry syrup and sachets.

Plant 3: Liquid injectables are manufactured in this unit. This includes both vials and ampoules.

Plant 4: This installed dedicated facility manufactures dry powder injectables in vial form.

In FY22, the company commissioned an oncology-dedicated facility at Bavla, Ahmedabad.

Key Highlights of the Plant Visit:

- Exports of formulation products contribute about 80% of total revenues. The remaining portion is attributed to domestic sales.
- Domestically, the company undertakes contract manufacturing for marquee pharmaceutical clients like Zydus, Ferring Pharmaceuticals, Torrent Pharmaceuticals, Merck, Intas Pharmaceuticals, and others.
- It also undertakes contract research and has completed one project with a major European client.
- There are few more contract research projects of similar value in the pipeline with international clients.
- It has strong presence in export markets of Africa, Asia and Rest of World.
- It has also started penetrating higher margin regulated markets. It recently received approval from the European Health regulator, which will facilitate its entry in these value-added geographies.
- In terms of supply chain, majority of raw materials are sourced locally from the states of Gujarat, Maharashtra and the Southern states.
- Some Active Pharmaceutical Ingredients (API) are sourced from China. However, the company is gradually reducing its dependency on China and have lined up other alternative suppliers from the domestic market.
- The base business will be driven by registration and launch of new products, contract research and manufacturing and penetration into newer markets.
- As part of their business expansion strategy, the company has commissioned a state-of-the-art oncology dedicated plant.
- The facility will manufacture oral solids, which includes tablets and capsules, along with injectables.
- The overall philosophy of entering into the oncology segment is to target businesses with high entry barriers and accretive margins.

Oncology – The future growth driver

- The oncology dedicated facility is located at Bavla, Ahmedabad near the existing manufacturing plant.
- It has invested about INR 170 crores for commissioning the plant and the source of funding included term loans from state-owned enterprises, promoter equity and strategic investment of ~INR 15 crores from Swiss based HBM Healthcare.
- The facility will manufacture oral solids and has dedicated production lines for tablets and capsules. Commercialization is expected to begin in June 2022.
- The next phase of production will include manufacturing of injectables. The project is nearing completion and the unit is expected to start commercialization in about 6 months.
- The unit has already got approvals and orders from domestic pharmaceutical companies for contract manufacturing. Also, it will export formulation products through its associated partners in the international market.
- The European Health regulator is scheduled to undertake an audit exercise of the oncology facility in June 2022. The company is confident of getting all clearances before end of 2022 to begin exports in the regulated markets from this facility.
- In the oral dosage facility, the company will begin with 5 high-value oncology products and will slowly ramp up to 10 products by 2022-end.
- It will manufacture 10 products in the injectable facility, starting from the second half of the current financial year.
- Apart from formulation products, it will also manufacture Active Pharmaceutical Ingredients (API) in the plant facility.
- Most of the in-house API manufactured products will be internally consumed, while the remaining will be sold in the open market.
- Thus, the facility is backward integrated with manufacturing of Active Pharmaceutical Ingredients (API) and formulations.
- Most of the suppliers are locally based to reduce the dependency on imports of raw materials and consumables.
- The overall revenue potential of the oncology facility is about INR 400-500 crores in the next 3-4 years, through exports and domestic sales, with major contribution from the international markets.
- The margins of the oncology products are higher than the margins of the products currently manufactured by the company and approximately in excess of 30% plus.

New Product Development:

- **Capecitabine:** It is a chemotherapy medication used to treat breast cancer, gastric cancer and colorectal cancer. The global market is expected to grow at a CAGR of 5.5% between 2020 and 2025 (Source: Mordor Intelligence). Pharmaceutical companies who are active in this space include Cipla, Teva Pharma, Dr. Reddy's Laboratories, etc.
- **Abiraterone:** It is a medication used to treat prostate cancer. The global prostate cancer market is likely to grow at a CAGR of 4.6% between 2020-2024 to reach USD 14.4 billion in 2024. Some of the active pharmaceutical companies include Hetero, Mylan, Sun Pharmaceuticals, Avalon Pharma, etc.
- **Imatinib:** It is an oral chemotherapy medication used to treat cancer. The global drug market is expected to grow at a CAGR of 3% between 2020 and 2025. Some of the active players in this space include Novartis, Sun Pharmaceuticals, Mylan, Dr. Reddy's Laboratories, etc.
- **Gefitinib:** It is used for certain breast, lung and other cancers.
- **Erlotinib:** It is a medication used to treat non-small cell lung cancer and pancreatic cancer. The global pancreatic cancer drugs market is estimated to grow at a CAGR of 6.25% between 2021 and 2026. Pharmaceutical companies in this segment include Natco Pharma, Shilpa Medicare, SuanFarma, HEC Pharm, etc.

The company has introduced the Active Pharmaceutical Ingredients (API) and the Finished Dosages (FD) of the above 5 drug molecules. Apart from the above, 5 other oral solid dosage and 10 oncology injectables are under pipeline.

Order traction from marquee clientele:

The company has received technology transfer for 22 oral solid oncology products from one of the largest domestic pharmaceutical company. Sakar Healthcare has also obtained the license to manufacture these products. As a result, 25% of the overall oral solid capacity of the company will be allocated for the production of 22 products of the client.

Outlook and Valuation:

The company has strong clientele and approvals in the base business of oral solids, liquids and injectables. It will continue to grow through contract manufacturing, registration and launch of new products and penetration into newer markets. The base business is expected to grow at a CAGR of 10% in the next 3-4 years. The newly commissioned oncology facility will provide the major impetus to the growth of the company. It will contribute about INR 80-90 crores in FY23 and INR 140-150 crores in FY24, mainly through exports. Due to nature of products and exposure to high value international markets, the margins of the oncology facility will be higher. With the actual ramp up of the oncology plant in H2FY23 and FY24, the company is expected to increase its revenues and profit by 2.5x – 2.7x from its current levels in the next two years. It is likely to generate revenues of ~INR 305 crores and PAT of 43-45 crores in FY24. Also, the increase in operating profit will boost its cashflow, which will facilitate reduction in loan term borrowings. Given its growth drivers, we remain positive on the company. At CMP, the shares are trading at an attractive valuation of P/E multiple of 6.5x based on FY24E EPS. Factoring in robust CAGR of 55% in revenues and 70% in net profit in the next two years, we value the company at 15x its FY24E EPS of INR 24.9 and arrive at a Target Price of INR 375 per share. Accordingly, we recommend a BUY Rating on the shares of Sakar Healthcare Ltd.

Financials:

INR in Cr	FY21	FY22	FY23E	FY24E
Consolidated Revenue from operations (including Oncology Facility)	95	128	219	304
Earnings before Interest, Tax, Depreciation and Amortization	24	31	59	82
EBITDA margin(%)	25.1%	24.6%	26.9%	27.0%
Net Profit After Tax	11	15	27	43
Net Profit Margin (%)	11.3%	11.8%	12.3%	14.0%
Earnings Per Share (in INR)	6.9	8.7	15.8	24.9
Price/Earnings Multiple (x)	26.1	20.5	11.3	7.2

Source: Arianth Capital Markets Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6, Lad Colony, Y.N. Road, Indore - 452001, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880