

THE DYNAMICS OF INITIAL PUBLIC OFFERINGS (IPOS) IN THE INDIAN PHARMACEUTICAL SECTOR

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ABSTRACT: The pharmaceutical sector in India has witnessed a surge in Initial Public Offerings (IPOs), underscoring their significance in driving industry growth and innovation. IPOs provide pharmaceutical companies with essential capital, allowing them to enhance research and development efforts, expand manufacturing capabilities, and increase their global market presence. In 2024 alone, two major pharmaceutical companies, Akums Drugs and Pharmaceuticals Ltd. and Emcure Pharmaceuticals Ltd., went public, demonstrating strong investor interest and delivering substantial returns. Beyond fundraising, IPOs also improve governance, transparency, and compliance with regulatory standards, essential for maintaining credibility in this highly regulated sector. These offerings have attracted retail and institutional investors alike, with the pharmaceutical sector seen as resilient due to rising global healthcare demands. Regulatory bodies like the Securities and Exchange Board of India (SEBI) ensure a robust and transparent process for IPOs, aligning Indian market practices with international standards. The capital raised from these offerings supports the industry's capacity to meet global demand for innovative and generic medicines, contributing to overall economic growth. This article examines the performance of recent pharmaceutical IPOs and their broader impact on the capital market and industry development.

Keywords: Pharmaceutical sector, IPO, capital market, SEBI, governance, healthcare industry, investors, global markets, innovation.

1. INTRODUCTION

“If you can get an IPO, don't buy it. Only buy IPOs you can't get.”¹

An Initial Public Offering showcases a company's vitality and growth alongside reflecting upon the country's economic standpoint as well. An Initial Public Offering (IPO) serves as a company's first introduction of its shares to the public, allowing individuals outside the initial circle of founders, family, and early investors to own a stake in the business. Prior to an IPO, the company operates privately, with its ownership limited to a select few. The primary function of an IPO is to enable the general public to purchase shares and participate in the company's growth. This transition, known as "going public," not only diversifies the ownership but also raises capital for the company. The process is typically managed by an investment bank, which helps structure the offering and determine the initial share price.²

The trends in Initial Public Offerings (IPOs) in India have garnered significant attention in academic research, with scholars often focusing on factors that impact their timing, pricing, and subscription levels. The decision to issue an IPO is heavily shaped by prevailing market conditions, which can dictate the optimal time to go public. Investor sentiment also plays a critical role, as positive market sentiment can lead to higher demand and better pricing for the IPO. Additionally, broader economic factors such as interest rates, economic growth, and regulatory policies further influence the IPO process, making it a complex decision dependent on multiple dynamic variables.³

Pharmaceutical companies seeking to raise capital have various options for accessing global financial markets, with one of the most prominent being an Initial Public Offering (IPO). By going public, these companies can list their shares either in their home country or internationally, opening the door to major financial centres around the world. For biotech and pharma firms, this provides access to a broad and diverse pool of investors, allowing them to

¹FORBES QUOTES,

<https://www.forbes.com/quotes/11228/#:~:text=If%20you%20can%20get%20an%20IPO%2C%20don't%20buy%20it,IPOs%20you%20can't%20get>. (last visited Sep. 27, 2024).

² CFI Team, Initial Public Offering (IPO), Corporate Finance Institute (Sep. 27, 2024, 3:54 PM),

<https://corporatefinanceinstitute.com/resources/valuation/ipo-initial-public-offering/#:~:text=Reasons%20Why%20Companies%20Go%20Through%20an%20IPO,-Companies%20that%20are&text=The%20biggest%20advantage%20of%20an,or%20pay%20off%20existing%20debt>.

³Jyothi Seepani, K. V. R. Murthy, Initial Public Offerings In India – A Structural Review, European Journal of Economic and Financial Research, (Sep. 27, 2024, 4:27 PM)

<https://oapub.org/soc/index.php/EJEFR/article/view/1581>

secure substantial capital for research, development, and expansion. An IPO offers these companies not only funding but also increased visibility and credibility in the global market.

Although no two initial public offerings (IPOs) are ever the same, the broad outline of the duties that must be completed and their position in the IPO schedule is shown below: –

| Task Profile | Time Taken | Overview of Task |
|-----------------|------------|--|
| Preparation | 3-4 months | <ul style="list-style-type: none"> • Initiation and Structuring • Due Diligence • Prospectus and Roadshow materials • Pre-marketing • Vetting by regulators |
| Execution | 2-3 weeks | <ul style="list-style-type: none"> • Marketing/roadshow • Book building • Pricing |
| Settlement | 3 days | <ul style="list-style-type: none"> • Closing • Delivery and payment • Listing |
| Post-completion | 30 days | <ul style="list-style-type: none"> • Stabilization • Lock up undertakings • Continuing obligations |

This research paper focuses on analysing the Initial Public Offerings (IPOs) of pharmaceutical companies in India that have gone public in 2024, covering the period up until September. The study aims to provide insights into the trends, timing, and factors influencing these IPOs within the pharmaceutical sector during the first three quarters of the year. By examining the companies that have listed during this time, the paper seeks to understand the market dynamics, investor response, and the broader economic and regulatory environment that have shaped these public offerings. Additionally, the analysis will highlight the significance of these IPOs in the context of the Indian pharmaceutical industry's growth and its increasing prominence in the global market.

2. INITIAL PUBLIC OFFERINGS (IPO)

Initial Public Offering, popularly known by its abbreviation IPO has become a very lucrative investment arena in India. It is eagerly looked upon by not only Retail investors, but by big players of the market too, such as institutional investors.

The capital market consists of the primary and secondary markets, which are interdependent. The primary market allows companies to raise capital through IPOs, rights issues, or private placements, while the secondary market provides liquidity for investors by enabling them to trade existing securities.

An IPO is a key method for businesses to raise long-term capital, providing access to public funds, increasing credibility, and facilitating expansion. In an IPO, the company receives funds directly from investors as share capital, enabling the creation of fixed assets. Investors can later exit via the secondary market.⁴

Securities and Exchange Board of India being the supreme regulator of Capital Market in India is the regulatory body for Initial Public Offerings. According to SEBI, “initial public offer” means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer⁵.

When talking about the significance of IPOs in the Indian Pharmaceutical Sector, they play a crucial role in driving industry growth and development. These IPOs provide essential capital for companies to invest in research and development, which is vital for creating innovative drugs and ensuring long-term sustainability. With access to public funds⁶, pharmaceutical companies can expand their production capacities, enter new markets, and enhance their global reach, particularly as India is a leading supplier of generic medicines worldwide. In Furtherance, IPOs boost investor confidence, as the pharmaceutical sector is seen as resilient and stable due to the consistent and rising demand for healthcare products. A thriving IPO market in this sector also signals the industry's overall health, fostering competition, improving drug availability, and contributing to economic growth, this is evident with the fact that in the year 2024, for 2 consecutive months, i.e., July and August, two major Pharma IPOs were

⁴National Stock Exchange, <https://www.nseindia.com/products-services/about-initial-public-offerings> (last visited Sep. 28, 2024)

⁵ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, Regulation 2(w), 2018

⁶ Baker McKenzie, Guide to IPOs for Biotech and Pharma Companies, Backer McKenzie (Sep. 28, 2024, 5:21 PM), <https://www.bakermckenzie.com/en/insight/publications/guides/guide-to-ipo-for-biotech-and-pharma-companies>

introduced. Additionally, going public enhances governance and transparency, which is critical in a highly regulated industry like pharmaceuticals, ensuring compliance with stringent regulatory standards and strengthening the company's reputation.

3. CAPITAL MARKET TRENDS IN THE PRESENCE OF PHARMACEUTICAL SECTOR IPOs

As of in the Year 2024 (till the month of September), there have been two mainline (i.e., not from the SME category) IPOs, coming from the pharmaceutical sector, the details are as follows:

| SL. No. | Company Name | Listing Date | Issue Price | Listing Day Price (Closing) | Current Price (As of 28/09/2024) | Issue Size |
|---------|--------------------------------------|--------------|-------------|-----------------------------|----------------------------------|-------------|
| 1 | Akums Drugs and Pharmaceuticals Ltd. | 06/08/2024 | ₹679.00 | ₹796.35 | ₹832.55 | ₹1856.74 Cr |
| 2 | Emcure Pharmaceuticals Ltd. | 10/07/2024 | ₹1008.00 | ₹1358.85 | ₹1454.95 | ₹1952.03 Cr |

Note: 'Listing Day Price' & 'Current Price' are on the basis of the data from Bombay Stock Exchange (BSE) only. With deviation of approximately \pm ₹0.60 in the National Stock Exchange (NSE).

3.1. Akum Drugs and Pharmaceuticals Ltd.

The Promoters of Akum Drugs and Pharmaceuticals are Sanjeev Jain, Sandeep Jain, and Akums Master Trust⁷. The organization is a pharmaceutical contract development and manufacturing company that offers a comprehensive range of pharmaceutical products and services both in India and overseas. It is also involved in the sale of branded pharmaceutical formulations and the manufacturing of active pharmaceutical ingredients. Additional services

⁷Akums Drugs And Pharmaceuticals Limited, Red Herring Prospectus, Pg. No. 25, 2024, https://www.sebi.gov.in/filings/public-issues/jul-2024/akums-drugs-and-pharmaceuticals-limited-rhp_84970.html

provided include formulation research and development, preparation and filing of regulatory dossiers for the Indian and global markets, as well as various testing services. Several of its manufacturing units have been accredited by global regulatory agencies, such as the European Good Manufacturing Practice, the World Health Organization Good Manufacturing Practice, and the United States National Sanitation Foundation⁸.

As stated earlier, Akums Drugs and Pharmaceuticals operates as a contract development and manufacturing organization (CDMO), offering product development and manufacturing solutions to its clients. Its services encompass formulation research and development (R&D), preparation and filing of regulatory dossiers for both Indian and international markets, along with various testing services. Beyond its core CDMO operations, Akums also markets its own branded pharmaceutical formulations both domestically and globally through its subsidiaries, Akumentis and Unosource. Akumentis focuses on therapeutic areas such as gynaecology, cardiology, orthopaedics, and paediatrics, while Unosource specializes in anti-infectives, analgesics, the central nervous system, and gynaecology. Akums has established a presence in 65 countries, working with international clients such as Allegens in Vietnam, Ambica International in the Philippines, Caferma SAC in Peru, JDS and Pharma Apex in Myanmar, Master Pharma in Cambodia, Olainfarm in Latvia, Planet Pharmaceutical in Tanzania, and Unisel in Kenya, among others. Additionally, the company markets trade generic and private label products across India through various distributors and alternative channels.

3.1.1. Performance of Akum Drugs IPO

Akums Drugs and Pharmaceuticals launched an IPO of ₹1,856.74 crores, consisting of a fresh issue of 1 crore shares worth ₹680 crores and an offer for sale of 1.73 crore shares worth ₹1,176.74 crores. The bidding took place from July 30 to August 1, 2024, with the allotment finalized on August 2, 2024. The shares were listed on BSE and NSE on August 6, 2024. The IPO price band was set between ₹646 and ₹679 per share. The minimum investment for retail investors was ₹14,938 for 22 shares, while Small Non-Institutional Investors (sNII) and Big Non-Institutional Investors (bNII) required a minimum of ₹209,132 (14 lots) and ₹1,000,846 (67 lots), respectively.

When performance of this IPO in the market, it has overall been quite beneficial for the investors and the company at large too. It is clear from the table above that the share has

⁸ *Supra* note 7

delivered a return of 14.84% (as of 28/09/2024) from its listing date. Within 2 months, the IPO has proven to be performing strongly as compared to the market trends, on top of that, the capital that the company has raised through the IPO will help the company to grow even further and with the pharmaceutical sector ever-expanding globally, this trend is only bound to rise more in the future.

3.2.Emcure Pharmaceuticals Ltd.

Founded in 1981, Emcure Pharmaceuticals Ltd. is an Indian pharmaceutical firm focused on developing, manufacturing, and globally marketing a wide range of pharmaceutical products across several major therapeutic areas. It is research and development-driven, offering a differentiated product portfolio that includes orals, injectables, and biotherapeutics. This approach has enabled the company to reach target markets in over 70 countries, with a strong presence in India, Europe, and Canada. In India, it operates across both acute and chronic therapeutic areas, with key focus areas including gynaecology, cardiovascular, vitamins, minerals and nutrients, human immunodeficiency virus (HIV) antivirals, blood-related therapies, and oncology/anti-neoplastic treatments. Satish Ramanlal Mehta, Sunil Rajanikant Mehta, Namita Vikas Thapar and Samit Satish Mehta are the Promoters of this company.

The Emcure Pharmaceuticals IPO was quite a Hyped IPO among the Retail Investors of our country due to direct link of the company with the judge of popular Indian TV show, 'SHARK TANK', Mrs. Namita Vikas Thapar⁹. This led to the IPO being a very lucrative offering and being oversubscribed. Moreover, Non-institutional investors drove the oversubscription of Emcure Pharma's IPO on the third day of the bidding process. BSE data showed that the Emcure Pharmaceuticals IPO was subscribed 67.87 times.¹⁰

3.2.1. Performance of Emcure Pharmaceuticals IPO

Emcure Pharma launched a ₹1,952.03 crore IPO, consisting of a fresh issue of 0.79 crore shares worth ₹800 crore and an offer for sale of 1.14 crore shares worth ₹1,152.03 crore. The bidding took place from July 3 to July 5, 2024, with allotment finalized on July 8, 2024. Shares were listed on BSE and NSE on July 10, 2024. The IPO price band was set at ₹960 to ₹1,008 per share. Retail investors needed a minimum investment of ₹14,112 for 14 shares, while Small

⁹Jagriti Kumari, Emcure Pharma IPO: Namita Thapar's investment could soar 293 times, People Matters (Sep. 28, 2024, 5:50 PM), <https://www.peoplesmatters.in/news/business/namita-thapar-may-earn-a-whopping-293-times-the-initial-investment-through-emcure-pharma-ipo-41892>

¹⁰ Jagriti, *supra* note 9

Non-Institutional Investors (sNII) and Big Non-Institutional Investors (bNII) required ₹211,680 (15 lots) and ₹1,001,952 (71 lots), respectively. The issue included a reservation of up to 108,900 shares for employees at a ₹90 discount¹¹.

With reference to the above table, the IPO has given a total return of 9.90% (as of 28/09/2024). Within a span of mere 3 months, this is a very strong return. The fundamentals of the company are strong and the company has consecutively reported profits as well, as reported in their Prospectus.

Although, As of September 30, 2023, the company and its subsidiaries had total outstanding borrowings of ₹2,012.87 crore. The company has started to repay these borrowings, with stable rise in revenue as well.

4. REGULATORY AND COMPLIANCE REQUIREMENT OF PHARMACEUTICAL SECTOR IPOs

The Companies Act, 2013 mandates that the Securities and Exchange Board of India (SEBI), a statutory body established under the SEBI Act of 1992, oversees the IPO process in India. The shares of companies going public are listed and traded on major stock exchanges, primarily the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), which serve as electronic platforms accessible to the public. These exchanges operate under their own sets of rules and regulations that must be adhered to by all market participants. In the IPO process, several self-regulatory organizations, recognized by SEBI, play a crucial role. Registrars, Escrow Collection Banks, Advertising Agencies, Syndicate Members, and Book Running Lead Managers (BRLMs) are a few of them. SEBI has established a comprehensive framework of rules, regulations, and guidelines to govern the activities of these entities. All of these organizations operate interdependently, ensuring a seamless IPO process from initiation to completion.

Contemporarily speaking the Government's several initiatives has made the market as stable as it can be envisaged hence, increasing stability and investor confidence in the stock exchanges which has enhanced market demand inevitably. This has attracted more stakeholders in the financial market to go public and reap the advantages of being a listed entity, even if it means that they need to adhere to stricter governance practices.

¹¹Chittorgarh, <https://www.chittorgarh.com/ipo/emcure-pharma-ipo/1766/> (last visited Sep. 28, 2024)

Since 2022, the top sectoral performances have been the Manufacturing, notably the Pharmaceutical and Chemical industries, and the Fast-Moving Consumer Goods (FMCG) business. As of September, 2024, the current year has seen two Pharmaceutical Companies go public, that is Akums Drugs and Pharmaceuticals Limited IPO and Emcure Pharmaceutical Limited IPO listed on August 6th, 2024 and July 10th, 2024 respectively.¹² Speaking of stringent regulations, we shall be observing and analysing what are the compliances that they had to and still are liable to adhere by. We can bifurcate the legislations in play via the following manner:

Statutory Regulations applicable **BEFORE** and **DURING** the IPO:

1. Companies Act, 2013
2. Securities Contracts (Regulation) Act, 1956
3. SEBI ICDR Regulations
4. SEBI (Merchant Bankers) Regulations, 1992
5. SEBI (Research Analyst) Regulations, 2014
6. SEBI (Bankers to an issue) Regulations, 1994

Statutory Regulations applicable **AFTER** the IPO:

1. Companies Act, 2013
2. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
3. SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
4. SEBI (Prohibition of Insider Trading) Regulations, 2015

Key Documents requirement in IPO Process:

1. Issue Agreement
2. Escrow Agreement
3. Syndicate Agreement
4. Underwriting Agreement
5. Registrar Agreement
6. Service Provider/Advertising Agency Agreement
7. DRHP/Draft Offer Letter
8. Red Herring Prospectus/Offer Letter

¹² Chittorgarh, <https://www.chittorgarh.com/report/sector-wise-ipo-list-in-india/96/98/> (last visited Sep 27, 2024)

5. GLOBAL PERSPECTIVE

5.1. International And Supranational Regulatory Regimes Or Bodies

Securities and Exchange Board of India (SEBI) is a member of International Organization of Securities Commissions (IOSCO), which is a leading international policy forum for securities regulators and recognised as the global standard setter for securities regulation.¹³ When bringing in governance legislation in India, SEBI follows the guidelines provided by IOSCO.¹⁴ As per the compliances under “Risk Management Practises and Regulatory Capital”¹⁵ it is advised for nation states to include as a mandate under doctrine of incorporation the provision of “equalisation”. The aim of the equalisation provision is to equalise fluctuations in the loss pater if incurred. Some nations incorporate similar provisions like product liability in the pharmaceutical industry or property and liability risks associated with atomic incidences. Often, in these cases, the supervisory authority mandates the valuation techniques.

5.2. Important Market Practices That Affect The Way India Conducts Initial Public Offerings

The global market dynamics, especially from regions like the US and UK, have a growing influence on the Indian pharmaceutical sector, particularly in the context of Initial Public Offerings (IPOs).¹⁶ The grey market premium (GMP), a common indicator of IPO demand, operates unofficially and reflects investor sentiment in unregulated markets before a company's public listing.¹⁷ Although widely used by investors to gauge market interest, this phenomenon remains outside the purview of Indian regulations.

With the rise of pharmaceutical startups launching IPOs, the Securities and Exchange Board of India (SEBI) has become increasingly vigilant about share valuations. SEBI has recently mandated companies to audit non-financial aspects and key performance indicators to justify their valuations. Additionally, SEBI is aligning Indian market practices with international standards by considering policies like relaxing foreign investment limits, adjusting floor prices

¹³ SEBI, Office of International Affairs (OIA), SEBI (Sep. 27, 2024, 5:35 PM), <https://www.sebi.gov.in/department/office-of-international-affairs-36/oia-iosco.html#>

¹⁴ SEBI, *Supra*, Note 13

¹⁵ International Organization of Securities Commissions (IOSCO), <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD122.pdf> (last visited Sep. 27, 2024)

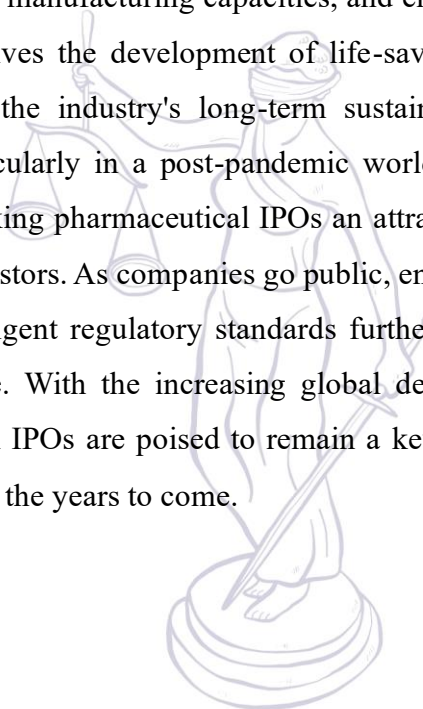
¹⁶ Matthew Spiegel, Heather Tookes, Identifying An IPO's Impact on Rival Firms, *Stern* (Sep. 27, 2024, 6:24 PM), <https://www.stern.nyu.edu/sites/default/files/assets/documents/Yale%20-%20Spiegel%20Tookes-%20IPO%20rivals.pdf>

¹⁷ Vijay Prajapati, IPO GMP Today Latest IPO Grey Market Premium, *IPO Watch* (Sep. 27, 2024, 7:15 PM), <https://ipowatch.in/ipo-grey-market-premium-latest-ipo-gmp/>

in IPOs, and adopting the greenshoe option, a feature commonly seen in the US and UK. SEBI's continuous monitoring of global regulatory bodies such as the US Securities and Exchange Commission (SEC) and the UK's Financial Conduct Authority (FCA) ensures that India's pharmaceutical IPO landscape remains competitive on a global scale.

6. CONCLUSION

In conclusion, pharmaceutical sector IPOs play a pivotal role in fuelling the growth and innovation within the industry, both in India and globally. By providing companies with much-needed capital, IPOs enable pharmaceutical firms to invest in cutting-edge research and development, expand their manufacturing capacities, and enhance their global footprint. This influx of public funds drives the development of life-saving medicines, facilitates market expansion, and supports the industry's long-term sustainability. The robust demand for healthcare products, particularly in a post-pandemic world, underscores the resilience and stability of the sector, making pharmaceutical IPOs an attractive investment avenue for both institutional and retail investors. As companies go public, enhanced governance, transparency, and compliance with stringent regulatory standards further strengthen their credibility and foster investor confidence. With the increasing global demand for generics and specialty medicines, pharmaceutical IPOs are poised to remain a key driver of economic growth and healthcare advancement in the years to come.



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