Initiating Coverage

Marksans Pharmaceuticals Ltd.

November 25, 2022

RETAILRESEARCH

Marksans Pharmaceuticals Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 56.2	Buy on dips at Rs 56-57 & add more on dips at Rs 50	Rs 62.4	Rs 66.6	2 quarters

HDFC Scrip Code	MARPHAEQNR
BSE Code	524404
NSE Code	MARKSANS
Bloomberg	MRKS IN
CMP Nov 24, 2022	56.2
Equity Capital (Rs cr)	40.6
Face Value (Rs)	1
Equity Share O/S (cr)	40.6
Market Cap (Rs cr)	2301
Book Value (Rs)	29
Avg. 52 Wk Volumes	2938562
52 Week High	64.9
52 Week Low	38.7

Share holding Pattern % (Sep, 2022)	
Promoters	48.6
Institutions	4.1
Non Institutions	47.3
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Marksans' portfolio is skewed towards OTC segments and soft gel products mainly in the US and UK markets. Given its front-end presence in these markets, it has been able to monetise opportunities optimally. OTC segment is likely to see a stable demand with low price erosion. Consolidated revenue grew at CAGR of 13% over FY18-22, led by the shift to front-end distribution through its subsidiaries located in US, UK and Australia, product launches, increased market share in existing products and increased capacities.

Marksans is primarily into exports of oral solid formulations with a special focus around OTC and soft gelatin/hard gelatin formulations. It generates majority of its revenues from the OTC business, (~70% of total revenues), while the balance from the Rx business. While the oral solid business is immensely competitive, it still sees opportunity to build on the base it has created by virtue of its diversified global presence and focused approach.

Marksans will incur capital expenditure on its existing facility upgradation. Management expects gross margin of 50-52% and EBITDA margin of ~17% in FY23. Marksans has portfolio of 300+ generic products across 10 therapeutic areas. It has 70+ products in pipeline as on Mar-2022. Company has presence across 50+ countries with key being UK, US, Australia and New Zealand etc. The acquisition of Access Healthcare, which also has presence in North African regions, will enable Marksans to use the former's front-end sales and marketing infrastructure for marketing its products manufactured in the India, UK, USA and MENA regions. Management guided for strong growth in Cough & Cold and Gastro-Intestinal segment led by new launches.

On Oct 11, 2022, Marksans entered into a Business Transfer Agreement with Tevapharm India Private Limited today, to acquire its business relating to the manufacture and supply of bulk pharmaceutical formulations in Verna, Goa, as a going concern on a slump sale basis. Through the acquisition, the company plans to double the existing Indian capacity from 8 billion units per annum currently. Company plans to acquire marketing licenses in Europe and USA to expand business operations in regulated markets. Company remains confident of achieving revenue of Rs. 2,000cr in FY24 along with improved profitability. As inflationary pressures and supply chain disruptions are expected to ease, overall margins could improve.

Valuation & Recommendation:

Marksans is concentrating on major regulated markets of US and UK with focus on higher margin softgels and OTC products. Also, its strong balance sheet is likely to support inorganic growth through acquisitions of ANDAs, product licenses and capacities. Company witnessed margin pressure in H2FY22 due to cost inflation. However, it is expected to stabilize around current levels. With focus on backward integration, operating margin is expected to improve in the coming quarters.

Consolidated EBITDA margin contracted to 17.4% in FY22 (FY21: 25%). It was due to product mix tilted towards OTC segment vis-a vis prescription segment, higher raw material costs, freight and packaging material costs. As per the management, the higher base effect of FY21 was due to COVID-19 driven panic buying. Freight costs have also more than doubled due to the container shortages and increase in crude oil prices. Margin is expected to improve led by i) normalisation of operating expenses, ii) balanced focus of both OTC and prescription segments and iii) backward integration (API business). Company has strong Balance Sheet with cash & equivalents of Rs 335cr as on Sept-2022. We estimate 16.7% CAGR in revenue led by strong growth from UK and Australia & New Zealand and healthy growth from US market over FY22-24E. We expect margin of around 17-18% over the next two years. We have factored into conversion of warrants from FY23E and thus increased equity from 40.9cr shares to ~46cr equity shares.

We feel investors can buy in the band of Rs 56-57 and add more on declines to Rs 50 (9x FY24E EPS) for base case target of Rs 62.4 (11.25x FY24E EPS) and bull case target of Rs 66.6 (12x FY24E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Revenues	453	361	25.3	434	4.3	1,000	1,134	1,376	1,491	1,782	2,031
EBITDA	80	60	33.4	73	10.2	132	192	340	259	312	359
Depreciation	14	7	90.5	11	28.2	23	27	36	45	56	63
Other Income	14	9	63.2	17	-13.9	5	0	7	42	45	52
Interest Cost	3	2	66.7	2	38.9	10	9	8	8	12	13
Tax	18	14	31.1	16	8.6	24	36	64	61	69	81
PAT	60	46	29.8	60	0.7	80	121	236	185	218	251
EPS (Rs)						2.0	3.0	5.8	4.5	4.8	5.5
RoE (%)						15.9	20.5	31.0	17.7	15.3	14.3
P/E (x)						28.6	19.0	9.7	12.5	11.7	10.1
EV/EBITDA (x)						15.0	10.3	5.8	7.7	6.4	5.5

(Source: Company, HDFC sec)

Q2FY23 result highlights

- Revenue grew 25% YoY at Rs 452.6cr. EBITDA margin improved 110bps YoY at 17.7%. Net profit increased 30% YoY at Rs 60.1cr. Other Income increased 63% YoY at Rs 14.2cr. Gross margin stood at 50.7%. R&D expenses were at Rs 9.8cr or 2.2% of sales.
- For H1FY23, total revenue grew 24.8% YoY at Rs 886cr. EBITDA margin slipped 210bps at 17.3%. Net profit increased 10.5% YoY at Rs 120.3cr. Other Income surged 113% YoY at Rs 30.7cr. R&D expenses were at Rs19cr or 2.1% of sales. Net cash stood at Rs 335cr as on Sep-2022.
- US business grew 13.7% YoY at Rs 190cr, despite the price erosion of high single digits, in the Generic Rx business. UK and Europe growth was at 32.6% YoY at Rs 194cr led by volume growth and market share gains in existing portfolio. Australia and NZ revenue grew by 39% YoY while Rest of World was up 56.4% YoY.
- R&D expenses would increase to 4-5% of sales in the next few years. In the UK, the company has planned 34 new filings over the next three years, of which 7 are planned in FY23. In addition, 16 products are already filed and awaiting approval. In the US, 32 products are in the pipeline, of which 20 are oral solids and 12 are ointments and creams. Within oral solids, 4 are softgels. In Australia and New Zealand: 10 products are in the pipeline and expected to be launched over the next two years.
- Company plans to file DMF by CDMO in May-Jun, 2023. Backward integration benefits could mostly reflect from Q4FY24E. It will be for captive consumption and guides for ~500bps expansion in gross margin and EBITDA margin.
- Access Health (UAE) reported revenue of 5mn AED (Rs 12cr) for the quarter.
- There is also competitive intensity in OTC segment. Many players have entered into it. However, price erosion is not as much as in Rx.
- Marksans has strong presence in the UK market. Company guides for strong growth in the UK in the coming quarters. US business is expected to see strong growth led by new launches in FY24. Freight and related expenses and RM prices are stabilizing/declining which should also benefit in margin.
- Management guided for sales of around Rs 1800cr for FY23 and Rs 2000cr+ for FY24. EBITDA margin should be ~17% for FY23 and 18-19% for FY24. Company endeavors to reach 20%+ operating margin over the next 2-3 years.
- The acquisition of capacity from Teva pharm India will provide further fillip to growth in the long term. The total cost including capital expenditure and acquisition of Teva unit would be around Rs 200cr. Capacity build up would happen over the next 24 months.
- Company is expected to double India capacity from current levels (˜8bn units per annum) led by recent acquisition of Tevapharm India thus overall capacity would increase to ˜26bn by next 18-24 months.

Focus on regulated markets

Marksans has presence across the pharma value chain. This includes in house R&D centers, owned and outsourced manufacturing and wide spread supply chain and distribution set up through subsidiaries in USA, UK and Australia which contributes to ~96% of total revenue. Company has three manufacturing facilities in India, UK and US and two R&D centers in Goa and Navi Mumbai.

Over the years, the company has spread its product portfolio across the key therapeutic areas. It has captured a large share of OTC and generic market via licensed products with reach within the distribution channels in UK and in the US.

The India and USA facilities manufactures the Softgel products. Company has observed shift in preference for softgel product mainly from regulated market. Company has global approvals in softgel business across UK, Australia, US, Canada, Russia.

Formulation business is growing and to meet increased demand, Marksans is in the process of capacity expansion and backward integration. The backward integration is primarily for captive consumption purpose.

Company has two R&D centers with 50+ experienced scientists to identify products in regulated and emerging markets. Company continued to focus on R&D investments leading to strong pipeline of new developed and under development products. Company develops own products through its R&D facility in OTC and Rx business segment across the geographies.

The UK and USA manufacturing facilities are approved by UK MHRA and US FDA respectively. Goa facility had passed through GMP audits by US FDA, UK MHRA and Australia, TGA Authorities. Company has planned expansion of existing capacities to meet increased demand and that would result in robust growth from FY24E onwards.

Marksans plans to backward integrate through manufacturing active pharma ingredients (API). Company is likely to spend ~Rs 100cr for API manufacturing. With the completion of proposed expansion/acquisition, the company aims to become an integrated player from API manufacturing, formulations to front-end marketing.

UK Business

Through its two subsidiaries, Bell (OTC portfolio) and Relonchem (high-end Rx portfolio), the company has a significant presence in the UK and is one of the top five Indian pharma businesses in the region. Marksans' presence in numerous therapeutic areas in the region, such as pain management, diabetes, cough and cold, neurology, cardiology, and hormonal treatment, accounts for the large portion of Marksans' revenue mix. Company has worked with major UK retailers to promote its goods, including AAH, Lyods, NHS, Tesco, Asda, Morrisons, Coop, Boots, and Superdrug, etc. Marksans is further developing a number of oral solid and liquid product portfolios in order to expand its market share in the generic and over-the-counter sectors, and has also invested in a manufacturing plant to produce oral liquid solutions.

Bell’s Healthcare specializes in own label products and provides to supermarkets, high street retailers, pharmacy chains and wholesalers. Private label allows customers to provide high quality own label in their own artwork. It has presence across therapeutic areas including analgesics, cough and cold, pain relief, gastrointestinal, ear care and skin care for the UK and Export markets.

Relonchem has over 160 product licenses. It supplies a broad range of own label healthcare pharmaceutical products across therapeutic areas including anti-diabetic, CNS, anticancer, anti-ulcerative, allergy, anti-viral and pain relief for the UK market.

Company has planned 34 new filings over the next three years, of which 7 are planned in FY23. In addition, 16 products are already filed and awaiting approval.

US Market

Time Cap Labs, Inc. has established itself as one of the premier generic pharmaceutical manufacturing companies in the United States. Time-Cap Labs offers Over The Counter (OTC) products. Company’s innovation has been widely recognized in its tablet coating processes, for which company holds several patents that have established industry standards. Company is growing its prescription product line as well. Time CapLabs, Inc. is specialized in new delayed and sustained release dosages and also manufacturing a wide range of solid oral dosage across a multiple of therapeutic categories in the form of Tablets, Hard Gelatin Capsules, Soft Gelatin Capsules, Softgels.

Time Cap Labs offers diverse OTC formulations including analgesics, dietary supplements, cough and cold medications, prescription drugs. Its manufacturing facility is certified with Good Manufacturing Practices (GMP) under stringent regulatory lab testing that cater to global needs.

Time-Cap Labs focuses on manufacturing high quality products in the both OTC and Rx market across pain management, anti-diabetic, cough & cold and CNS areas. Company sells them through large wholesalers and pharmacies in the US.

Company has customers like Target, Walmart, Walgreens and Kroger etc. in the US. It has 32 products in the pipeline, of which 20 are oral solids and 12 are ointments and creams. Within oral solids, 4 are softgels. Company spent Rs 30.2cr or ~2% of sales in R&D in FY22. R&D expenses would increase to 4-5% of sales in the next few years.

Key launches during FY22

Products	Therapeutic Area	Region
Losartan	Anti-diabetic	UK
Ondansetron	Gastro-Intestinal	UK
Carvedilol	Cardiac	UK
Tramadol	Pain Management	UK
Clopidogrel	Cardiac	UK
Prednisolone	Anti-allergic	UK
Rosuvastatin	Cardiac	UK
Bicalutamide	Anti-cancer	UK
Furosemide	Cardiac	UK
Liquids - Loratidine	Anti-diabetic	UK
Liquids - Ibuprofen	Pain Management	UK
Liquids - All in one solution	Cough & Cold	UK
Apap - ER	Pain Management	US
Cetrizine Tablets	Anti-allergic	US
Fluoxitine Capsules	CNS	US

Australia and NZ

Over the years, Marksans has strengthened its position in the Australian and New Zealand pharmaceutical markets, which now accounts for the third-largest share of Marksans' overall revenue mix. The Company's activities in the region are supported by Nova, a research-driven specialty pharmaceuticals firm purchased by Marksans in 2005. Nova possesses 30 MAs and is one of the region's largest generics and private label providers. Company has also tied up with Australia's biggest retailers and pharmacies, including Woolworths Ltd., Coles Mayer Ltd., Aldis, Metcash, and Fauldings.

Nova Pharmaceuticals has private label store brand manufacturing capabilities for a vast range of products. It is a prominent distributor to popular retail brands. Nova also supplies its products to major pharmacies in Australia.

Australia, New Zealand and RoW contributed to ~12% of total revenue. New product launches are aiding growth. It had reported one-off exceptional performance in Q4 FY22; revenue stood at Rs 71cr.

10 products are in the pipeline and expected to be launched over the next two years

RoW Markets

Company has expanded its geographical footprints across emerging nations and has marked its presence in South East Asia, Middle East, Africa and CIS countries. RoW business comprises of 10 countries, including CIS and MENA regions. The company is present in Ukraine with revenue contribution of ~Rs 7-8cr.

In Jun-2022, Marksans acquired 100% stake in Access Healthcare for Medical Products LLC, a Dubai-based front-marketing and promotion company. Access Healthcare provides innovative marketing and sales solutions in the MENA (Middle East & North Africa) region. Company supplies products in the UAE and other neighboring countries. In the UAE market, the company supplies products through the Dubai Health Authority (DHA). It has market authorizations by the UAE regulatory authorities for various products. For the year ended Dec-2021, Access Healthcare reported revenue of AED 12 mn (Rs 25cr) and PAT of AED 4.5 mn (Rs 9.4cr). Company has no debt on its books.

This acquisition will enable Marksans to use the front-end sales and marketing infrastructure of Access Healthcare for marketing its products manufactured in the India, UK, USA and MENA regions. Marksans will leverage Access Healthcare's knowledge of local business culture to bolster its presence in the Middle East and North African regions while also accessing a network of partners and distributors in those regions. Marksans will scale up the revenues of this company by exploiting its network and feeding its drugs there. It may also look to widen the presence to other parts of the Gulf region.

Preferential allotment to OrbiMed

In Jul-2021, Marksans Pharma issued of 10 lakh convertible warrants to Mr. Mark Saldanha (promoter) and 4.93cr convertible warrants to OrbiMed Asia IV Mauritius FVCI Limited at a price of Rs 74 per warrant on preferential basis. In terms of the issue of the warrants, the company has received 25% of the money Rs 93cr and the balance 75% will be received within 18 months from the date of allotment of warrants on conversion into equity shares (by Jan-2023). Company will raise Rs 372.4cr from the above preferential allotment.

The funds will be primarily used for further expansion in manufacturing and M&As. Post the equity infusion, the promoter shareholding would come down to ~43% from ~49%. OrbiMed would add value to Marksans by way of strategic direction, global connect etc.

OrbiMed has been investing globally for over 20 years across the healthcare industry: from early-stage private companies to large multinational corporations. It manages over US$ 18 billion across public and private company investments worldwide.

Buyback through open market route

On Jul 08, 2022, Marksans Pharma approved the proposal for buyback of equity shares not exceeding 1cr equity shares for an aggregate amount of Rs.60cr. It is at a maximum price of Rs.60 per share from open market route. The said buyback opened from Jul 15, 2022 and will close on Jan 14, 2023. Company has bought back ~63 lakh equity shares till Nov, 2022. This represents ~62% of total proposed buyback equity shares. Average buyback price is likely to be around Rs 50 per share and that means the company may end up spending Rs 50cr in the buyback.

Management Meet Highlights

- Marksans generated 60mn GBP revenue from UK and guides for 75mn GBP for FY23.
- As on Jun-2022, the company had cash & equivalents of Rs 339cr. Post the issuance of warrants, cash & equivalents would be close to Rs 600cr. It is expected to be received by Jan-2023.
- OrbiMed has a board member on the company, so they are quite involved into the company. It is adding value to Marksans by way of strategic direction, global connect etc.
- Company targets to double formulations facility in the medium to long term, and this would drive growth from H2FY24E. Company targets for Rs 3500cr revenue in the next 4-5 years.
- Company is looking for acquisition in the Europe region in the medium term. Marksans has put greenfield expansion plan on hold as it takes long period to build capacity and then ramp-up.
- Company guides that Pain Management contribution would continue to be higher. Management guided for strong growth in Cough & Cold and Gastro-Intestinal segment led by new launches.
- OTC business gives better margin to the company as there is relatively lesser price erosion. OTC business has seen strong 34% growth in the last two years to reach revenue of Rs 1000cr in FY22.
- Company hedges 50% of its currency exposure and the remaining is kept open.
- Management guided for Rs 1700-1800cr revenue along with 16-17% margin for FY23. Margin is witnessing pressure due to inflationary environment, higher logistics and related costs. RM prices are correcting and even container availability is also improving, this should support margin improvement.
- Company has identified CDMOs for DMF filings. Backward integration into APIs would help the company expand its gross margin.
- Company has guided for around 400-500bps expansion in gross margin in the next 3-4 years. Management guided for better margin from Q3FY23 onwards.
- India tax rate at 25-26%, US, UK and Australia tax rate at ~20%. So, cumulative tax rate lower. Company guided for 22-24% tax rate for FY23.
- RoW markets contribution to reach 10-12% of revenue over the next 3-5 years.

- Company has prepared a pipeline of new products for the UK and USA markets that are expected to contribute~15% of total revenues by FY25.
- Company plans to acquire manufacturing assets in India as well as marketing licenses in Europe and USA to expand business operations in regulated markets.
- Management plans to backward integrate into API manufacturing (for captive consumption) thereby having presence in the entire value chain (for top molecules).
- Price erosion in the company's generic Rx business is ~8-9%. Due to long-term contracts with the retailers, the company does not face price erosion in the OTC business, it is subject to revision every 12-24 months.
- Marksans had a high revenue base in the UK market in FY21, UK revenue grew by 5% during FY22. Management guided for 25% growth in sales in pound terms for FY23 (75 mn GBP). It is targeting for ~100 mn GBP revenue over the 2-3 years.
- Company has significantly improved gross margin as compared to FY18 levels due to better product mix. It does not expect gross margin falling below 50% and is eyeing for~55% gross margin once volatility in input cost subsides.
- Marksans has still very small market share in most of the markets where it is present. EBITDA margin in the OTC business is more stable and predictable while the same in the Rx business is market driven.
- Company spent Rs 30.2cr or 2% of sales in R&D in FY22. Total Research & Development (R&D) expenditure stood at about 2% of revenues and is expected to increase to ~4-5% over the next few years.
- Company remains confident of achieving organic revenue of Rs. 2,000cr in FY24 along with improved profitability. As inflationary pressures and supply chain disruptions are expected to ease, overall margin could improve.
- Company guides for 4 to 6 new products on an average every year in the United Kingdom and the US. In view of expanding business operations to global markets, it has adequate reserves to acquire manufacturing assets in India as well as marketing licenses in Europe and the US.

Marksans acquired capacity from Tevapharm India; Plans to double its manufacturing footprint to bolster the growth

Marksans Pharma has on Oct 11, 2022 entered into a Business Transfer Agreement with Tevapharm India Private Limited today, to acquire its business relating to the manufacture and supply of bulk pharmaceutical formulations in Verna, Goa, as a going concern on a slump sale basis. Marksans has agreed to retain the site employees with existing terms of employment. The manufacturing site is spread across 47,597 sq. mt. and has got approvals to manufacture products from EU, Health Canada & Japanese Health Authority. The transaction is in cash consideration and is expected to be finalized by April 1, 2023, subject to the usual closing conditions.

Teva's affiliate Watson Pharma Private Limited will continue to own and operate its other manufacturing site at Verna Industrial Estate, Goa, India. Marksans will continue to supply Teva's affiliates for certain products until the end of FY23 as part of the agreement, which can be extended further with mutual agreement.

Through the acquisition, the company plans to double the existing Indian capacity from 8 billion units per annum currently. Marksans plans to manufacture tablets, hard and soft gel capsules, ointments, gummies, creams, from the new capacity. It is a scalable capacity to manufacture oral solid dosage forms. The new capacity will be an addition to the three existing manufacturing sites in Southport (UK), Farmingdale (US) and Goa (India). Company is likely to spend Rs 200cr for the acquisition and said capex.

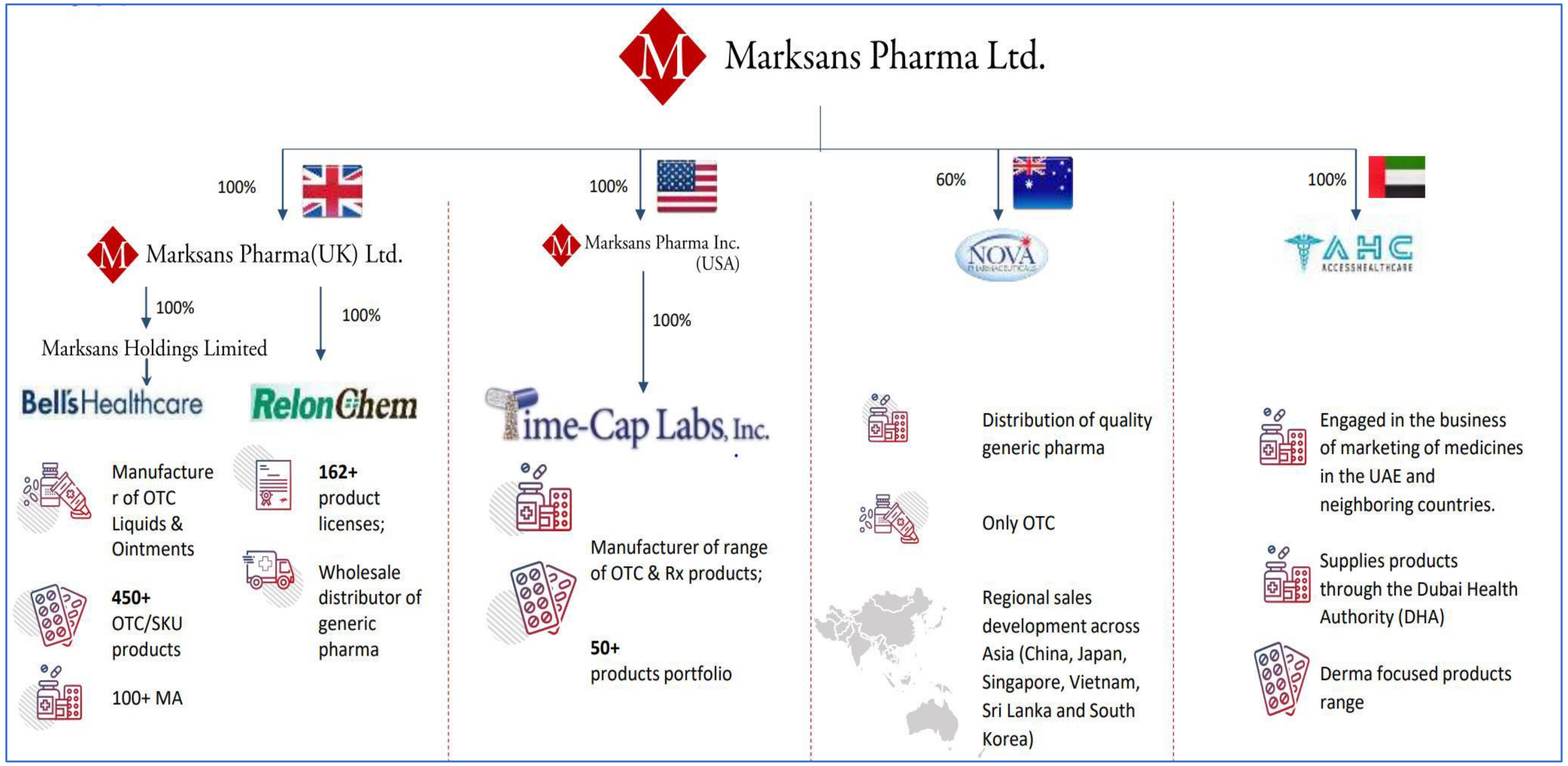
Global OTC Market Outlook

The worldwide impact of COVID-19 has been unprecedented and staggering with OTC drugs having witnessed strong demand across all regions amid the pandemic. The pandemic has also raised awareness of the value of self-care and sped up the rise of categories like vitamins, minerals, and nutritional supplements. The size now, of the OTC global market is anticipated to increase from US$ 157 billion in 2021 to US$ 233.6 billion in 2028. The growing availability of private label goods is anticipated to boost growth.

The key factor continually contributing to the growth of the OTC market is the increasing use of self-medications. Additionally, the affordability and accessibility of various OTC type of drugs in several retail stores across the globe is also expected to drive the OTC market growth in the coming years. In emerging and developed countries, the private sector is progressively investing in the improvement of the supply chain through a number of distribution outlets and retail stores.

Increasing disposable income, growing awareness about health, consumption of junk food, which majorly leads to lifestyle disorders help register better growth in over the counter (OTC) market segment. New channels of accessibility in the Emerging Markets in retail outlets and supermarkets are uplifting the growth of OTC segment.

Europe region is the second largest market in the global OTC drugs market. The major growth contributors in the region are UK, Germany, Italy, France and Spain.



Key Risks

- Slower than expected ramp up in the EU business could impact growth prospects.
- Large part of revenue comes from exports and hence, the company faces risk of currency fluctuations. Especially recent depreciation of Euro/GBP could have an adverse impact on its revenues.
- Higher KSM/API prices impacted gross margin in the past few quarters. RM inflationary environment may lead to pressure in gross margin and thus EBITDA margin.
- Regulatory compliance remains the key risk for pharma companies. As the company derives all of its revenue from international markets, it needs to get regulatory approval from various authorities.
- Any expensive deal/acquisition may lead to pressure on the company's financials.

- Marksans derives ~85% of revenue from UK and US markets, where the regulatory environment has been challenging as reflected by historical pricing pressure due to channel consolidation in the US and the US FDA's regulatory scrutiny of the company's manufacturing facilities.
- Recession in Europe/UK could impact the growth in demand for products of the company.

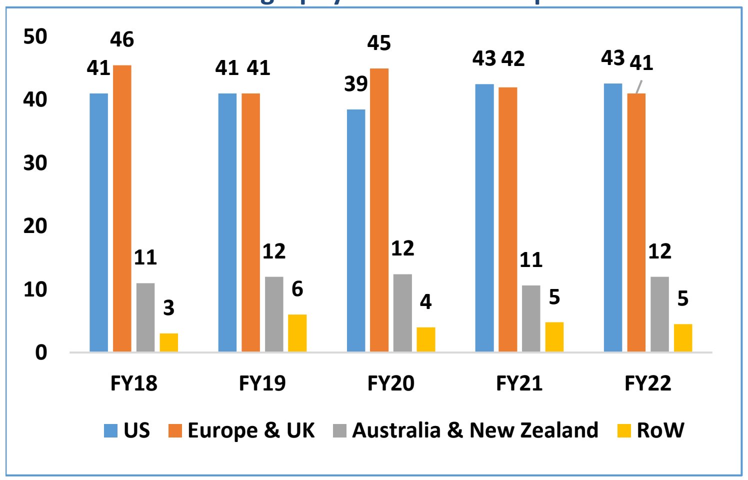
Company Background

Marksans is the mid-sized pharmaceuticals company having large presence in US, UK, Australia and New Zealand markets. forward integrated business model. Company manufactures products across various therapeutic categories including Pain Management, Cough & Cold, Cardiovascular & Central Nervous System, Anti-Diabetic, Gastrointestinal, Anti-Allergic among others. It has manufacturing facilities at Goa (India), Southport (UK) & New York (USA) equipped to deliver significant growth through maximizing its operational leverage. Company has approvals from various authorities including US FDA, UK MHRA, Australia TGA and others.

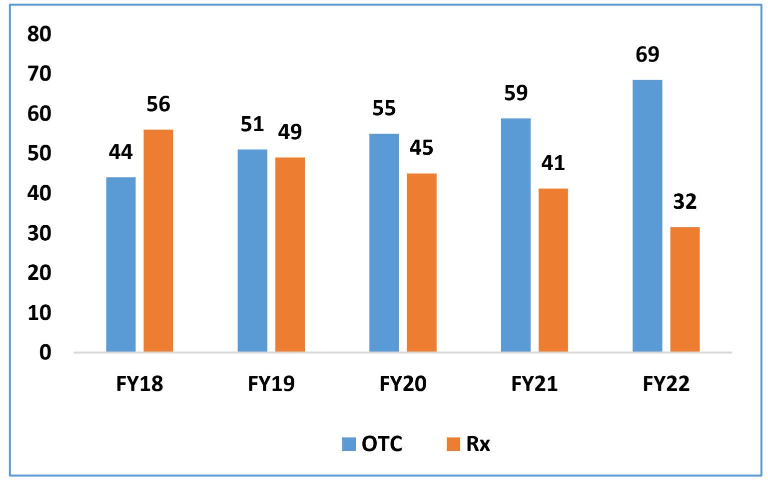
Marksans has established a strong, forward integrated business model focusing on OTC & prescription drugs with applications in diverse fields ranging from Oncology, CVS, CNS, Anti-diabetic, Gastroenterology ailments to Pain Management and Cough and Cold. Marksans Pharma has 1400 employees as on Mar-2022. It has presence across 50+ countries with key being UK, US, Australia and New Zealand etc. R&D capability of the Company includes dossier development service, formulation development and specified drug delivery system. Company's domestic formulation business is the specialty division, which mainly focuses on oncology and critical care therapy. Company has established their foothold in diverse therapeutic segments across US, Europe, Russia and CIS, Africa, Latin America, South East Asia and Australasia.

Marksans Pharmaceuticals Ltd.

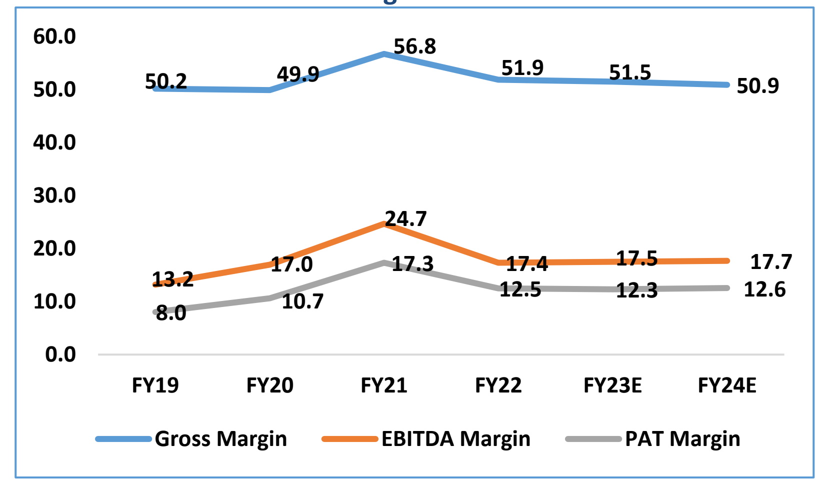
Geographywise Revenue Split



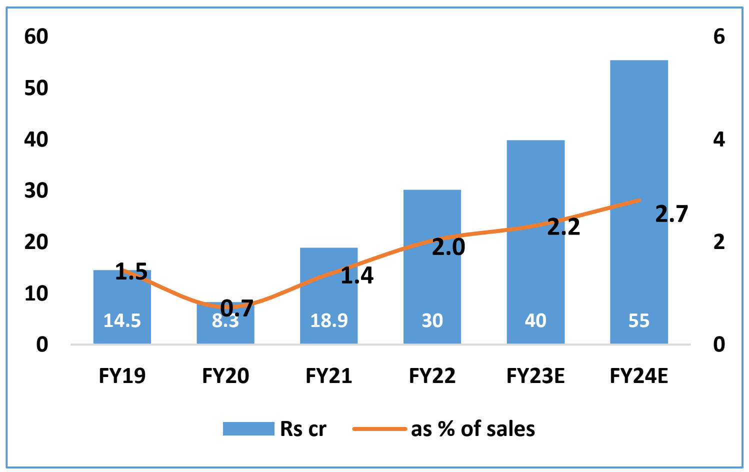
Revenue Mix



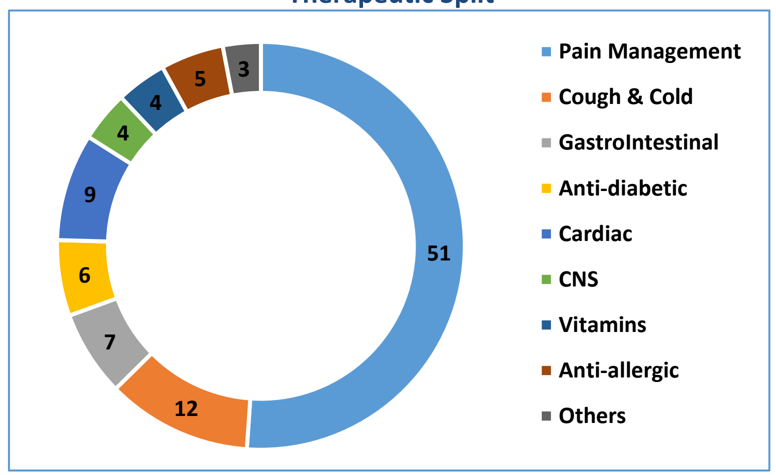
Margin Trend



R&D Trend



Therapeutic Split



Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	1134	1376	1491	1782	2031
Growth (%)	13.4	21.3	8.3	19.5	14
Operating Expenses	942	1036	1232	1469	1672
EBITDA	**192**	**340**	**259**	**312**	**359**
Growth (%)	45.6	76.7	-23.8	20.7	15
EBITDA Margin (%)	17	24.7	17.4	17.5	17.7
Depreciation	27	36	45	56	63
EBIT	166	304	214	257	296
Other Income	0	7	42	45	52
Interest expenses	9	8	8	12	13
PBT	157	302	248	289	335
Tax	36	64	61	69	81
RPAT	**121**	**236**	**185**	**218**	**251**
Growth (%)	50.2	95.4	-21.8	18	15.2
EPS	3	5.8	4.5	4.8	5.5

Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	40.9	40.9	40.9	45.3	45.3
Reserves	595	846	1161	1600	1827
Shareholders' Funds	**636**	**886**	**1202**	**1645**	**1872**
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	10	7	14	14	14
Long Term Provisions & Others	14	17	43	52	65
Minority Interest	13	19	21	24	28
Total Source of Funds	**673**	**929**	**1280**	**1735**	**1979**
APPLICATION OF FUNDS					
Net Block	230	254	342	462	548
Intangible Assets	73	61	87	104	104
Long Term Loans & Advances	6	10	6	9	13
Total Non-Current Assets	**309**	**325**	**435**	**575**	**666**
Current Investments	0	0	0	0	0
Inventories	242	404	424	469	523
Trade Receivables	243	272	395	454	507
Cash & Equivalents	94	212	350	605	684
Other Current Assets	15	14	32	41	53
Total Current Assets	**594**	**903**	**1201**	**1569**	**1766**
Short-Term Borrowings	19	19	41	48	43
Trade Payables	111	169	200	236	274
Other Current Liab & Provisions	71	110	114	123	134
Short-Term Provisions	29	2	1	2	2
Total Current Liabilities	**229**	**299**	**356**	**409**	**453**
Net Current Assets	365	604	845	1160	1313
Total Application of Funds	**673**	**929**	**1280**	**1735**	**1979**

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	157	302	248	289	335
Non-operating & EO items	0	-7	-42	-45	-52
Interest Expenses	9	8	8	12	13
Depreciation	27	36	45	56	63
Working Capital Change	66	-113	-87	-59	-76
Tax Paid	-25	-49	-73	-69	-81
OPERATING CASH FLOW (a)	**234**	**178**	**99**	**184**	**203**
Capex	-60	-47	-46	-167	-148
Free Cash Flow	174	132	53	17	55
Investments	0	-5	-37	-21	-4
Non-operating income	0	7	42	45	52
INVESTING CASH FLOW (b)	**-60**	**-45**	**-42**	**-143**	**-100**
Debt Issuance / (Repaid)	-75	-22	97	9	13
Interest Expenses	-9	-8	-8	-12	-13
FCFE	90	102	141	14	55
Share Capital/Issuance	0	6	2	277	4
Dividend/Buyback	-30	-4	-11	-19	-28
FINANCING CASH FLOW (c)	**-113**	**-28**	**80**	**255**	**-24**
NET CASH FLOW (a+b+c)	**60**	**105**	**137**	**296**	**79**

One Year Price Chart

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Gross Margin	49.9	56.8	51.9	51.5	50.9
EBITDA Margin	17	24.7	17.4	17.5	17.7
EBIT Margin	14.6	22.1	14.4	14.4	14.6
APAT Margin	10.7	17.3	12.5	12.3	12.6
RoE	20.5	31	17.7	15.3	14.3
RoCE	24.6	32.7	16.7	14.8	14.9
Solvency Ratio					
Net Debt/EBITDA (x)	-0.4	-0.6	-1.2	-1.8	-1.8
D/E	0.03	0.02	0.03	0.03	0.02
Net D/E	-0.1	-0.2	-0.3	-0.3	-0.3
PER SHARE DATA					
EPS	3	5.8	4.5	4.8	5.5
CEPS	3.6	6.7	5.6	6	6.9
BV	16	22	29	36	41
Dividend	0.1	0.3	0.3	0.4	0.6
Turnover Ratios (days)					
Debtor days	78	72	97	93	91
Inventory days	86	86	101	96	94
Creditors days	56	81	82	80	81
VALUATION					
P/E	19	9.7	12.5	11.7	10.1
P/BV	3.6	2.6	1.9	1.5	1.4
EV/EBITDA	10.3	5.8	7.7	6.4	5.5
EV / Revenues	1.8	1.4	1.3	1.1	1
Dividend Yield (%)	0.2	0.4	0.4	0.7	1.1
Dividend Payout	3.4	4.3	5.5	8.3	10.8

Source: Company, HDFC sec Research

KUSHAL MAHENDRA RUGHANI

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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