Stock Update

Marksans Pharmaceuticals Ltd.

Feb 26, 2024

RETAILRESEARCH

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Marksans Pharmaceuticals Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 158	Buy in the band of Rs 158-161 & add more on dips to Rs 141	Rs 175	Rs 187.25	2-3 quarters

HDFC Scrip Code	MARPHAEQNR
BSE Code	524404
NSE Code	MARKSANS
Bloomberg	MRKS IN
CMP Feb 23, 2024	158
Equity Capital (Rs cr)	45.32
Face Value (Rs)	1
Equity Share O/S (cr)	45.32
Market Cap (Rs cr)	7158
Book Value (Rs)	43
Avg. 52 Wk Volumes	4147081
52 Week High	179
52 Week Low	64.4

Share holding Pattern % (Dec, 2023)	
Promoters	43.9
Institutions	20.3
Non Institutions	35.8
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 Pharmaceuticals Ltd. (Marksans)'s portfolio is skewed towards OTC segments and soft gel products mainly in the US and UK markets. Company derived ~74% of sales from OTC products in FY23 (59% contribution in FY21 and 69% in FY22). 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 and that would ensure strong margin profile. Company registered revenue CAGR of 15% over FY18-23, led by the shift to front-end distribution through its subsidiaries located in US, UK and Australia, product launches, market share gain in the 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. Company has portfolio of 300+ generic products across 10 therapeutic areas and has a pipeline of 70+ products. It has presence across 50+ countries with key being UK, US, Australia, and New Zealand. Management has guided for strong growth in Cough & Cold, Cardiac, Gastro-Intestinal segment led by new launches. Company is implementing capital expenditure on its existing facility upgradation and to increase capacity at Teva pharma India. Company has a pipeline of 34 products to be filed over the next two years in the UK while 32 products are planned (20 oral solids and 12 ointment and creams) in the US market. Company is also looking to expand its reach in European countries such as Germany, Eastern Europe etc.

Company has three manufacturing units – one each in India, US, and UK. All the manufacturing facilities are accredited by various health authorities of regulated market. Goa facility is accredited by US FDA, UK MHRA, Brazil ANVISA and Australia TGA, while US and UK facilities are accredited by US FDA and UK MHRA respectively. Company is expanding capacity at acquired Goa plant of Tevapharm India, which would increase the overall Indian capacity to 16 billion units (vs current 8.4 billion). Goa unit has capacity of 6 billion solid tablets and 2.4 billion softgel and hard gelatin capsules annually. US facility has capacity of 6 billion tablets and hard capsules per annum. UK facility has capacity of 2 billion bottles, 1 billion tubes and 1 billion sachets per annum. Marksans would continue to supply certain products to Teva's affiliates till the end of FY24.

On Nov 25, 2022, we had initially recommended a buy on Marksans Pharma in the band of Rs 56-57 and add on dips to Rs 50 for base case target of Rs 62.4 and bull case target of Rs 66.6 over the next two quarters. Since then, the stock has more than doubled in about 14 months. Strong quarterly numbers and other developments such as fund raising through preferential allotment to OrbiMed and Teva Pharma unit acquisition were some of the key positives for the company (Link).

We have increased revenue estimate by 3.5%/4.4% while EBITDA and net profit by 9%/11% and 5%/7.5% for FY24E/FY25E respectively and introduced FY26E numbers. Given fund raising, acquisition of Teva pharma India and scale up of this facilities, strong numbers in FY23 and 9MFY24 and better earnings visibility, we issue a stock update on Marksans Pharma with revised targets.

Valuation & Recommendation:

Marksans is concentrating on regulated markets of US and UK with focus on higher margin softgels and OTC products. Also, its strong cash rich balance sheet would support inorganic growth through acquisitions of ANDAs, and capacity expansion. With focus on backward integration, operating margin is expected to improve in the medium term.

For 9MFY24, the company reported strong revenue growth along with better operational performance. Going ahead, operating margin is expected to remain strong at about 22% led by i) normalisation of operating expenses, ii) balanced focus of both OTC and prescription segments and iii) backward integration (API filings). Company has a strong Balance sheet with cash & equivalents of Rs 688cr as on Dec-2023. We estimate 16% CAGR in revenue led by strong growth from UK and US market over FY23-26E. Strong revenue along with steady margin would drive 20.3% CAGR in net profit over the same period. We feel investors can buy the stock at in the band of Rs 158-161 and add more on declines to Rs 141 (13.75x FY26E EPS) for base case target of Rs 175 (17x FY26E EPS) and bull case target of Rs 187.25 (18.25x FY26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenues	586	480	22.2	531	10.3	1,134	1,376	1,491	1,852	2,185	2,524	2,890
EBITDA	133	77	73.9	114	16.8	192	340	259	339	478	568	665
Depreciation	22	13	73.2	18	25.7	27	36	45	52	76	85	95
Other Income	5	18	-72.9	19	-74.7	0	7	42	59	49	54	64
Interest Cost	3	2	31.9	2	93.8	9	8	8	9	10	8	4
Tax	30	17	75.7	30	-0.7	36	64	61	72	117	137	161
PAT	83	63	31.2	84	-0.4	121	236	185	266	321	388	464
EPS (Rs)						3.0	5.8	4.5	5.9	7.1	8.6	10.3
RoE (%)						20.5	31.0	17.7	18.1	17.0	17.6	18.1
P/E (x)						53.5	27.4	35.0	26.8	22.3	18.4	15.4
EV/EBITDA (x)						33.7	19.1	25.0	19.1	13.6	11.4	9.7

(Source: Company, HDFC sec)

Q3FY24 result update

Marksans reported strong numbers in the quarter. Revenue for the quarter grew 22.2% YoY at Rs 586cr. EBITDA margin expanded 670bps YoY at 22.7%. Gross margin improved 340bps YoY at 53.5%. Net profit was up 31.2% YoY at Rs 83.2cr. Other Income was down 73% YoY at Rs 4.8cr. It was due to MTM loss in foreign exchange fluctuations.

US business registered 18.7% YoY increase at Rs 257.5cr. Europe and UK business grew 34% YoY at Rs 251cr. Australia & New Zealand revenue remained flat at Rs 49cr.

R&D expenses were at Rs 29.4cr in 9MFY24 or 1.8% of consolidated revenue. In 9MFY24, the capex incurred was Rs 160.6cr. Capex investment was in line with plan for scaling the acquired manufacturing unit from Teva Pharma in Goa which is likely to drive growth.

The efforts toward building capabilities and capacity for the acquired Teva manufacturing facility remains on track and the company also started filing DMF for backward integration.

In 9MFY24, cash flow from operations stood at Rs 169cr. EPS for the quarter stood at Rs 1.84 and it stood at Rs 5.2 for 9MFY24.

Q3FY24 Concall Highlights

- Management said that pricing pressure has stabilized in the prescription (Rx) segment in the US.
- New launches and market share gains in the existing products led to strong growth in the US and Europe markets.
- Higher freight costs witnessed in Dec-2023, however its impact won’t be significant.
- Company filed first DMF during the quarter and second DMF planned to be filed in Q4FY24.
- Lower other income in the quarter was due to MTM forex loss in GBP. It was one-off exceptional items.
- Revenue to cross Rs 2000cr in FY24 as guided earlier, now management eyes Rs 3000cr revenue in FY26E.
- R&D expenses would increase gradually to 3% of sales in the next few years. In the UK, the company has planned 34 new filings over the next two years. 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. In Australia and New Zealand: 10 products are in the pipeline, they are expected to be launched over the next two years.
- As per the management Teva facility is likely to post Rs 500-600cr revenue in FY25 and Rs 1000cr revenue in FY27.
- Company has spent Rs 160cr in capital expenditure during 9MFY24 and out of that Rs 90cr was for Teva facility.
- Expansion at Teva Pharma facility is progressing well. Revenue increase to be aided from higher utilization from Teva Pharma unit.
- R&D expenditure still at around 2% of sales. There would be gradual scale up in R&D (likely to be 2-2.5% of sales) in the near term.
- Teva unit to add incremental revenue growth in FY25. It would breakeven in Q1FY25. As it scales up, overall margin should see improvement.
- Company hopes to maintain EBITDA margin though it also depends upon geography mix and Rx: OTC split. Currently, in the UK market OTC: Rx split stood at 60: 40 and in the US market it was at 75: 25.

- Company guides for 15-20 filings in EU and 4-6 products in the US market.
- In Europe, Rx business is more while overall OTC business is on the higher side. Overall split stood at 75% from OTC and 25% from Rx business.
- Marksans Pharma's new unit phase-I successfully undergone inspection from German health authorities. The Authorities have not found any critical/major observations but have recommendations/minor points which the company is committed to implementing immediately.
- Company announced that its subsidiary received the Establishment Inspection Report (EIR) from the US FDA with zero observations. Time-Cap Laboratories Inc., a wholly-owned subsidiary of Marksans Pharma, received an EIR from the US drug regulator after the audit conducted in Oct-2023. US FDA did not issue any Form 483 observations in its inspection report.

Key Highlights

- Operating margin is likely to see steady improvement (as already visible in the last 3-4 quarters) led by normalisation of operating expenses, a balanced focus on both over-the-counter and prescription segments along with a backward integration in its active pharmaceuticals ingredients (APIs) business.
- Strong market share gains coupled with new launches in the Europe market helped the company grow at faster pace.
- Acquisition of Teva would give meaningful revenue from FY25 onwards.
- 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 gradually over the next 24 months.
- Company has set aspirational target of margin at around 25% and it could be achievable in the next 4 years.
- Focus area is OTC/Cardiac/Gastro segments in Europe.
- R&D expenses was at Rs 30cr or 1.6% of sales for FY23. R&D to inch up gradually from FY24E. Management guided for 2-2.5% of sales in the medium term.
- Total of Rs 150-200cr capex planned each year for FY24/FY25.
- Management said that now the company is moving towards complex molecules, clinical studies. Cost per ANDA etc. to increase significantly in the years to come.
- Marksans also specializes in own label where it provides products to supermarkets, high street retailers, pharmacy chains and wholesalers.
- Company sees growth potential in OTC and Rx markets, especially the switch from Rx to OTC. Management remains confident about strong growth driven by increase in volume, market share gains, and new product launches. UK is one of the largest Rx-to-OTC switch markets in Europe.
- Management said that the portfolio is more of matured molecules/products and that's why price erosion is not significant.

- Company would file DMF on its name from third party facility and that could improve 200bps margin in the next 3 years.
- EBITDA margin in the OTC business is more stable and predictable while the same in the Rx business is market driven.
- Pain Management contribution would continue to be higher. Management guided for strong growth in Cough & Cold, Cardiac and Gastro-Intestinal segment led by new launches.
- India tax rate at 25-26%, US, UK and Australia tax rate at ~20%. So, cumulative tax rate lower. Company guided for ~26% tax rate for FY24.

Focus on regulated markets

Marksans has in house R&D centers, owned and outsourced manufacturing and wide spread supply chain and distribution set up through subsidiaries in the US, UK and Australia & NZ 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. A major portion of revenue in OTC is derived from manufacturing and selling store brands (private label manufacturing) for key retailers in key regions. The company's focus is to get into the liquids, creams, and ointments OTC category.

India and US facilities manufactures the Softgel products. 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. It develops own products through its R&D facility in OTC and Rx business segment across the geographies.

Company has three manufacturing units – one each in India, US and UK. All the manufacturing facilities are accredited by various health authorities of regulated market. Goa facility is accredited by US FDA, UK MHRA, Brazil ANVISA and Australia TGA, while US and UK facilities are accredited by US FDA and UK MHRA respectively. Company is expanding capacity at acquired Goa plant of Tevapharm India, which would augment increase in overall Indian capacity to 16 billion units from ~8 billion units. Marksans would continue to supply certain products to Teva's affiliates till the end of FY24.

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 has presence in therapeutic areas such as pain management, cough and cold, CNS, cardiac, which accounts for the large portion of revenue mix. Company has worked with major UK retailers to promote its goods, including AAH, Lloyds, NHS, Tesco, Asda, Morrisons, and Coop etc.

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 while 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, 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 caters to global needs.

Time-Cap Labs focuses on manufacturing high quality products in the both OTC and Rx market across pain management, cough & cold, gastro-intestinal, anti-diabetic, cardiac 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 30cr or ~2% of sales in R&D in FY22. It was at Rs 29.5cr or 1.6% of sales in FY23. R&D expenses would increase to ~3% of sales in the next few years.

Australia and New Zealand

Over the years, Marksans has strengthened its position in the Australia and New Zealand (NZ) pharmaceutical markets, which accounts for the third-largest share of overall revenue mix. Company has tied up with Australia's biggest retailers and pharmacies, including Woolworths Ltd., Coles Mayer Ltd., Aldis, Metcash etc.

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. It has 10 products in the pipeline which are expected to be launched over the next two years.

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. In the RoW markets, 124 products are approved, 120 products await approval and 108 products are in the pipeline.

Announced acquisition of capacity from Tevapharm India in Oct-2022

Marksans Pharma had entered into a Business Transfer Agreement with Tevapharm India Private Limited, to acquire its business relating to the manufacture and supply of bulk pharmaceutical formulations at Verna, Goa, as a going concern on a slump sale basis. The site has approvals to manufacture products from EU, Health Canada & Japanese Health Authority.

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 the year 2023 as part of the agreement, which can be extended further with mutual agreement.

The contract manufacturing agreement with Teva is to continue providing an uninterrupted supply of Teva's important medicines to customers and patients. Marksans has retained the transferring employees on terms materially similar to its current employment. Through the acquisition, the company plans to double the existing Indian capacity from 8 billion units per annum currently. It 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.

Recent approvals

- In Aug-2023, the company received final approval from the US FDA for its Abbreviated New Drug Application (ANDA) for Guaifenesin Extended-Release Tablets, 600 mg and 1200 mg (OTC). Guaifenesin Extended-Release Tablets, 600 mg and 1200 mg (OTC) are bioequivalent to the reference listed drug (RLD), Mucinex Extended-Release Tablets, 600 mg and 1200 mg, of RB Health (US) LLC. This would further strengthen Cough and Cold OTC portfolio in the US.
- In Oct-2023, the company received US FDA approval for Esomeprazole Magnesium Delayed-Release Capsules USP, 20 mg (OTC). This product is bioequivalent to the reference listed drug (RLD), Nexium 24 HR Delayed Release Capsules, 2.0mg (OTC), of AstraZeneca Pharmaceuticals LP. Esomeprazole is used to treat certain stomach and esophagus problems. Esomeprazole belongs to a class of drugs known as proton pump inhibitors (PPIs).
- Current US market for Esomeprazole Magnesium Delayed-Release Capsules estimated at approximately US$ 168 million, according to MAT Jul 2023, IQVIA/IMS Health.
- In Nov-2023, Marksans Pharma announced that its wholly owned subsidiary Relonchem Limited has received Marketing Authorisation for the product Cyanocobalamin 50mg film coated tablets from UK MHRA.

Key Risks

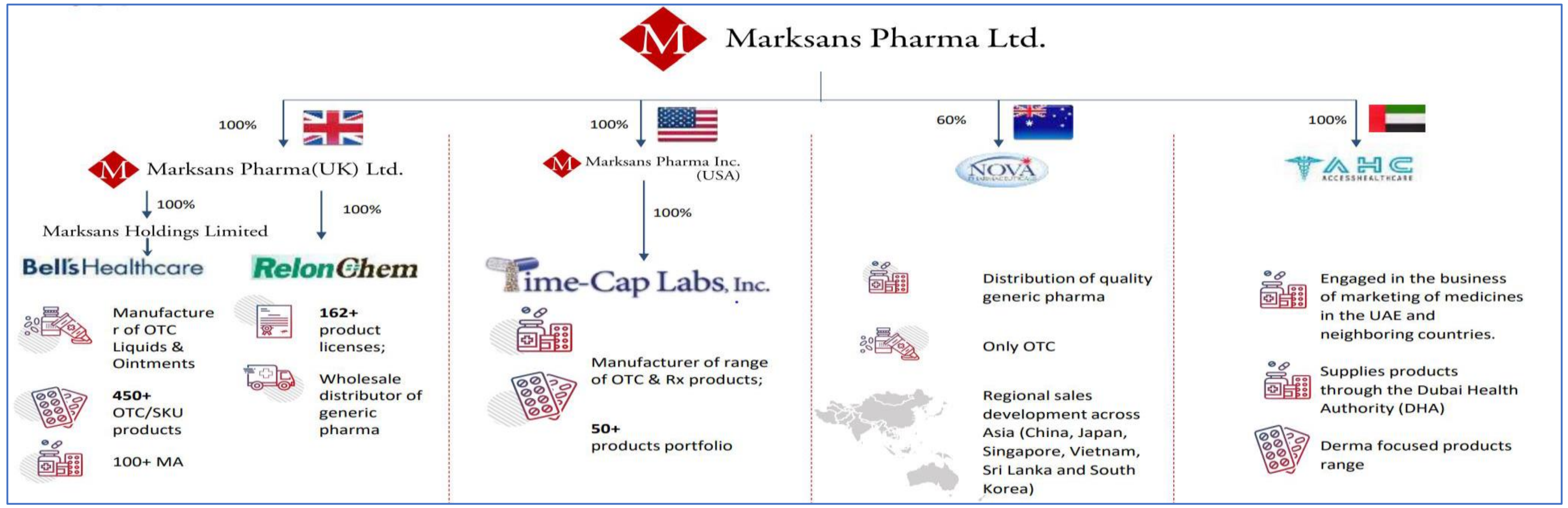
- Slower than expected ramp up in the EU business could impact growth prospects.
- Large part of revenue comes from exports and hence, the company faces risk of currency fluctuations. Depreciation of Euro/GBP could have an adverse impact on its revenue and profitability.
- Higher KSM/API prices impacted gross margin in the past few quarters. RM inflationary environment may lead to pressure in gross margin and EBITDA margin.
- Regulatory compliance remains the key risk for pharma companies. As the company derives all its revenue from regulated 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.

Company Background

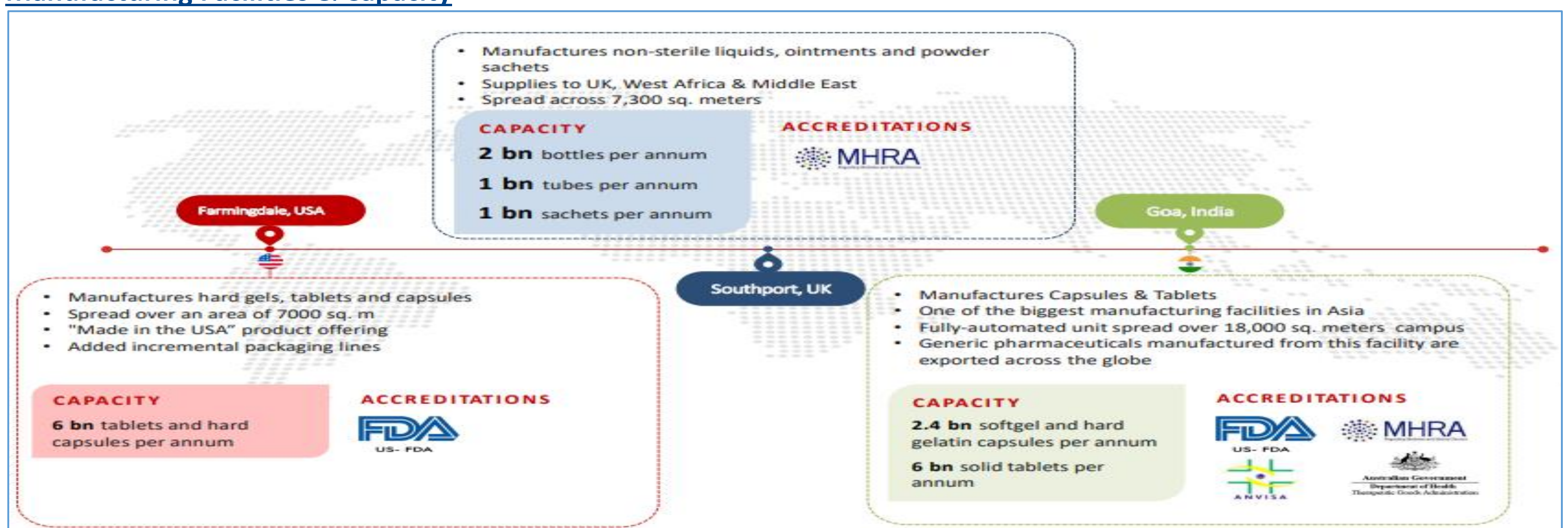
Marksans is the mid-sized pharmaceuticals company having large presence in US, UK, Australia and New Zealand markets and forward integrated business model. Company manufactures products across various therapeutic categories including Pain Management, Cough & Cold, Cardiac, Central Nervous System (CNS), Anti-Diabetic, Gastro-Intestinal, 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 derived 43% of revenue from the US, 41% from Europe & UK, 12% from Australia & New Zealand and the balance from RoW markets. Company has portfolio of 550+ products and 34 products are in pipeline. Company has three manufacturing units - one each in India, USA and UK. All the manufacturing facilities are accredited by various health authorities of regulated markets.

Goa facility is accredited by US FDA, UK MHRA, Brazil - ANVISA and Australia TGA, while US and UK facilities are accredited by US FDA and UK MHRA respectively. Marksans has 1400+ employees and 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 is likely to scale up R&D expenditure gradually in the coming years.

Company Structure



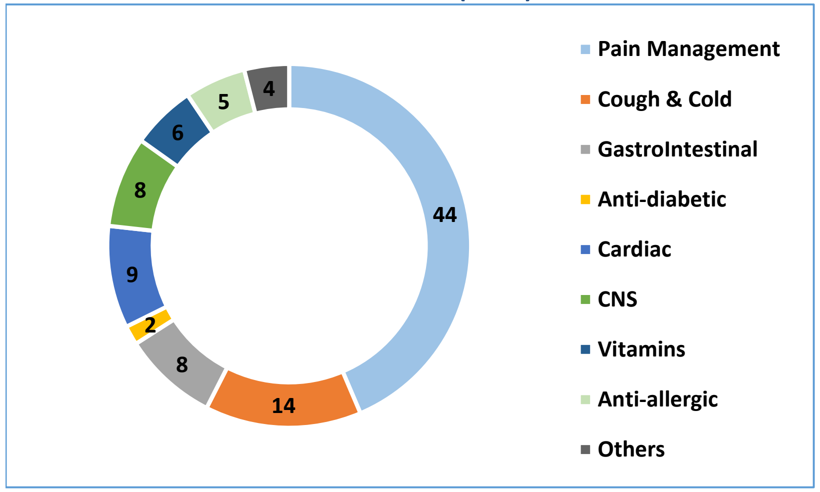
Manufacturing Facilities & Capacity



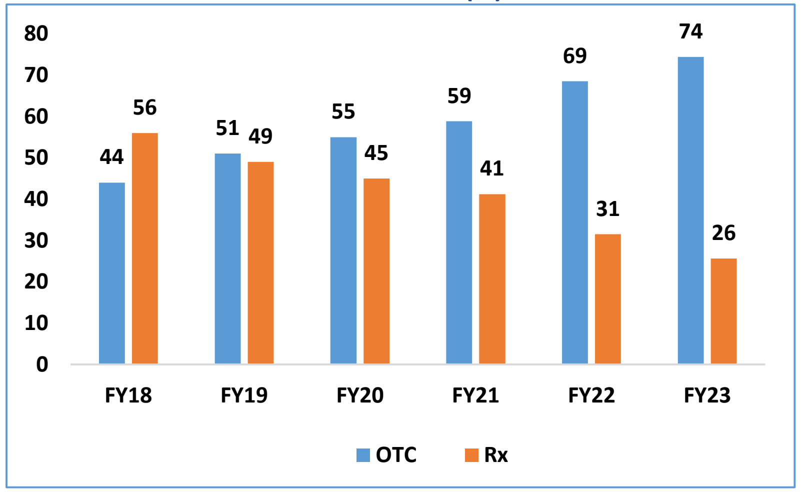
Note: Added new manufacturing facility (Acquisition of Teva Pharma Unit) in Goa, India in April 2023

Marksans Pharmaceuticals Ltd.

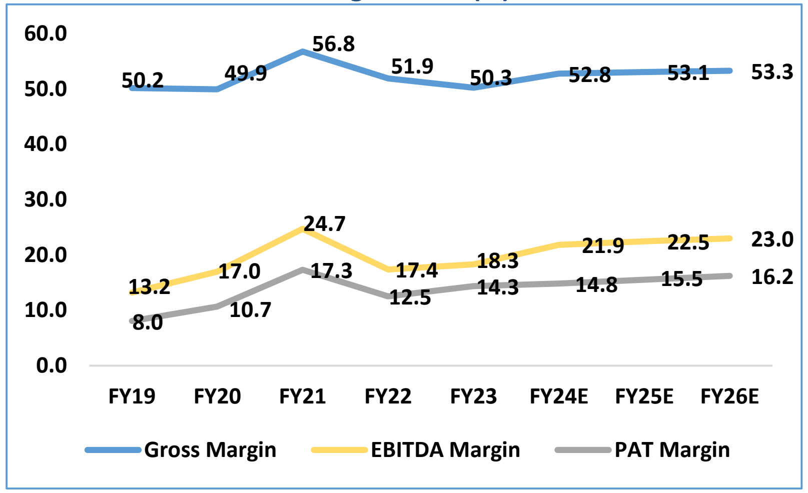
Revenue Mix (FY23)



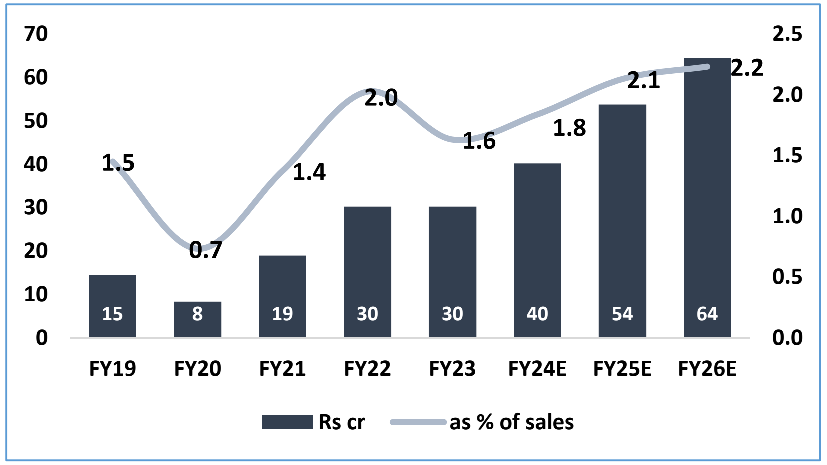
Revenue Mix (%)



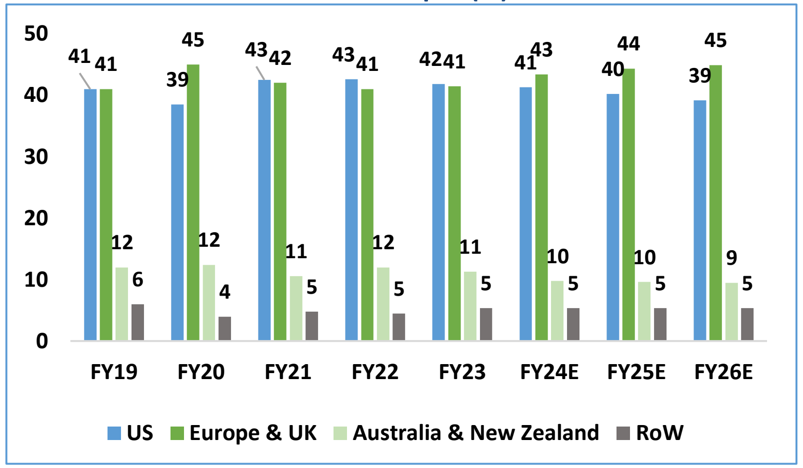
Margin Trend (%)



R&D Trend



Revenue Split (%)



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	**1376**	**1491**	**1852**	**2185**	**2524**	**2890**
Growth (%)	21.3	8.3	24.2	18	15.5	14.5
Operating Expenses	1036	1232	1513	1708	1956	2225
EBITDA	**340**	**259**	**339**	**478**	**568**	**665**
Growth (%)	76.7	-23.8	31.1	40.7	18.9	17.1
EBITDA Margin (%)	24.7	17.4	18.3	21.9	22.5	23
Depreciation	36	45	52	76	85	95
EBIT	304	214	288	401	483	570
Other Income	7	42	59	49	54	64
Interest expenses	8	8	9	10	8	4
PBT	302	248	338	440	529	630
Tax	64	61	72	117	137	161
RPAT	**236**	**185**	**266**	**321**	**388**	**464**
Growth (%)	95.4	-21.8	44.3	20.4	20.9	19.8
EPS	**5.8**	**4.5**	**5.9**	**7.1**	**8.6**	**10.3**

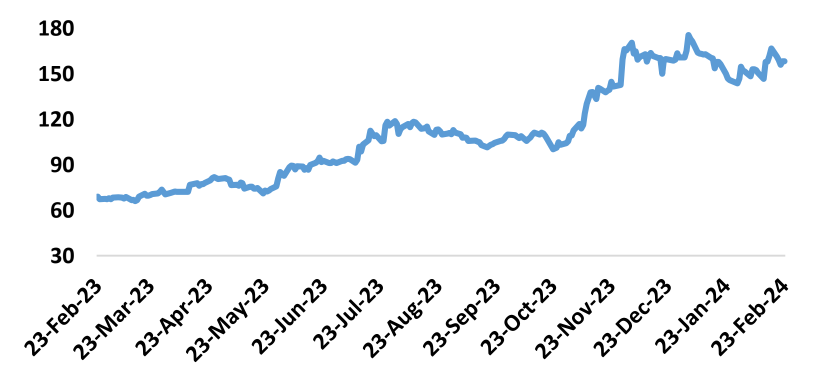
Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS						
Share Capital	40.9	40.9	45.3	45.3	45.3	45.3
Reserves	846	1161	1700	1988	2323	2721
Shareholders' Funds	**886**	**1202**	**1745**	**2034**	**2368**	**2766**
Net Deferred Taxes	7	14	15	15	15	15
Long Term Provs & Others	17	43	69	82	95	108
Minority Interest	19	21	20	20	20	20
Total Source of Funds	**929**	**1280**	**1849**	**2151**	**2499**	**2910**
APPLICATION OF FUNDS						
Net Block	254	342	386	528	544	549
Intangible Assets	61	87	107	104	98	93
Long Term Loans & Adv	10	6	22	25	29	37
Total Non Current Assets	**325**	**435**	**515**	**657**	**670**	**678**
Inventories	404	424	485	551	642	744
Trade Receivables	272	395	417	521	597	681
Cash & Equivalents	212	350	714	741	935	1169
Other Current Assets	14	32	59	66	84	119
Total Current Assets	**903**	**1201**	**1675**	**1879**	**2258**	**2713**
Short-Term Borrowings	19	41	42	37	27	13
Trade Payables	169	200	231	272	318	369
Other Current Liab & Provs	110	114	67	73	81	95
Short-Term Provisions	2	1	1	2	3	5
Total Current Liabilities	**299**	**356**	**341**	**385**	**429**	**482**
Net Current Assets	604	845	1334	1494	1829	2232
Total Application of Funds	**929**	**1280**	**1849**	**2151**	**2499**	**2910**

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	302	248	338	440	529	630
Non-operating & EO items	-7	-42	-59	-49	-54	-64
Interest Expenses	8	8	9	10	8	4
Depreciation	36	45	52	76	85	95
Working Capital Change	-113	-87	-39	-132	-141	-169
Tax Paid	-49	-73	-63	-117	-137	-161
OPERATING CASH FLOW (a)	**178**	**99**	**238**	**229**	**290**	**334**
Capex	-47	-46	-54	-215	-95	-95
Free Cash Flow	132	53	184	14	195	239
Investments	-5	-37	-265	-3	-4	-8
Non-operating income	7	42	59	49	54	64
INVESTING CASH FLOW (b)	**-45**	**-42**	**-259**	**-169**	**-45**	**-39**
Debt Issuance / (Repaid)	-9	97	-47	13	13	13
Interest Expenses	-8	-8	-9	-10	-8	-4
FCFE	115	141	128	16	200	248
Share Capital	6	2	4	0	0	0
Dividend/Buyback	-4	-11	-24	-35	-56	-71
FINANCING CASH FLOW (c)	**-15**	**80**	**198**	**-32**	**-51**	**-62**
NET CASH FLOW (a+b+c)	**118**	**137**	**177**	**27**	**193**	**234**

One Year Price Chart



Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profitability (%)						
Gross Margin	56.8	51.9	50.3	52.8	53.1	53.3
EBITDA Margin	24.7	17.4	18.3	21.9	22.5	23
EBIT Margin	22.1	14.4	15.5	18.4	19.1	19.7
PAT Margin	17.3	12.5	14.3	14.8	15.5	16.2
RoE	31	17.7	18.1	17	17.6	18.1
RoCE	32.7	16.7	15.6	18.7	19.3	19.6
Solvency Ratio (x)						
Net Debt/EBITDA	-0.6	-1.2	-2	-1.5	-1.6	-1.7
D/E	0.02	0.03	0.02	0.02	0.01	0
Net D/E	-0.2	-0.3	-0.4	-0.3	-0.4	-0.4
PER SHARE DATA (Rs)						
EPS	5.8	4.5	5.9	7.1	8.6	10.3
CEPS	6.7	5.6	7	8.8	10.4	12.4
BV	22	29	39	45	52	61
Dividend	0.3	0.3	0.5	0.8	1.2	1.5
Turnover Ratios						
Debtor days	72	97	82	87	86	86
Inventory days	86	101	90	92	93	94
Creditors days	81	82	75	79	80	81
VALUATION (x)						
P/E	27.4	35	26.8	22.3	18.4	15.4
P/BV	7.3	5.4	4.1	3.5	3	2.6
EV/EBITDA	19.1	25	19.1	13.6	11.4	9.7
EV / Revenues	4.7	4.3	3.5	3	2.6	2.2
Dividend Yield (%)	0.2	0.2	0.3	0.5	0.8	0.9
Dividend Payout (%)	4.3	5.5	8.5	10.6	14	14.6

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

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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.

Disclosure:

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