

Stock Update

Marksans Pharmaceuticals Ltd.

Mar 13, 2023





Marksans Pharmaceuticals Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 68.8	Buy in the band of Rs 68.8-69.5 & add more on dips at Rs 59.5	Rs 75.5	Rs 83.6	2-3 quarters

HDFC Scrip Code	MARPHAEQNR
BSE Code	524404
NSE Code	MARKSANS
Bloomberg	MRKS IN
CMP Mar 10, 2023	68.8
Equity Capital (Rs cr)	45.32
Face Value (Rs)	1
Equity Share O/S (cr)	45.32
Market Cap (Rs cr)	3118
Book Value (Rs)	37
Avg. 52 Wk Volumes	3248273
52 Week High	72.2
52 Week Low	38.8

Share holding Pattern % (Jan, 2023)	
Promoters	43.8
Institutions	15.7
Non Institutions	40.5
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. Marksans has portfolio of 300+ generic products across 10 therapeutic areas and has a pipeline of 70+ products. 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 to use 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. Marksans will incur capital expenditure on its existing facility upgradation. Management guided for revenue of Rs 1800cr, gross margin of 50-51% and EBITDA margin of ~17% in FY23.

On Nov 25, 2022, we had recommended to buy 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. The stock had achieved bull case target on Jan 11, 2023. ([Link](#)) We have increased revenue/net profit estimate by 2%/9% for FY23E, net profit by 4% for FY24E and introduce FY25 estimates. Given recent fund raising, healthy numbers in 9MFY23 and better earning visibility, we now issue a stock update on Marksans Pharma.

Valuation & Recommendation:

Marksans is concentrating on 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. With focus on backward integration, operating margin is expected to improve in the coming quarters.

Consolidated EBITDA margin contracted to 17.4% in FY22 (EBITDA margin of 24.7% in FY21). For 9M FY23, EBITDA margin slipped 140bps at 16.8%. It was due to product mix tilted towards OTC segment vis-a-vis prescription segment, higher raw material costs, freight and packaging material costs. FY21 base was high due to COVID-19 driven by panic buying. Freight costs 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 417cr as on Dec-2022 and including money received of warrants it would be around Rs 696cr. We estimate 17% CAGR in revenue led by strong growth from UK and Australia & New Zealand and healthy growth from US market over FY22-25E. 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 45.3cr equity shares. We feel investors can buy in the band of Rs 68.8-69.5 and add more on declines to Rs 59.5 (9.25x Dec-24E EPS) for base case target of Rs 75.5 (11.75x Dec-24E EPS) and bull case target of Rs 83.6 (13x Dec-24E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenues	480	363	32.3	453	6.0	1,000	1,134	1,376	1,491	1,819	2,037	2,389
EBITDA	77	58	32.5	80	-4.6	132	192	340	259	308	355	423
Depreciation	13	9	46.0	14	-9.9	23	27	36	45	49	56	68
Other Income	18	12	45.1	14	24.6	5	0	7	42	58	59	64
Interest Cost	2	1	118.2	3	-4.0	10	9	8	8	10	7	9
Tax	17	12	40.5	18	-4.0	24	36	64	61	69	86	104
APAT	63	49	29.1	61	3.4	80	121	236	185	238	261	301
EPS (Rs)						2.0	3.0	5.8	4.5	5.3	5.8	6.6
RoE (%)						15.9	20.5	31.0	17.7	16.6	14.7	14.8
P/E (x)						35	23.3	11.9	15.2	13.1	11.9	10.3
EV/EBITDA (x)						18.7	12.8	7.3	9.5	8.0	7.0	5.8

(Source: Company, HDFC sec)

Q3FY23 result update

- Revenue came in better than expectations while margin was below estimates. Revenue grew 32.4% YoY at Rs 480cr as against estimate of Rs 448cr. Gross margin slipped 370bps YoY at 50.1% due to continued pricing pressure in the US and higher input costs.
- EBITDA margin remained flat YoY at 16%, as compared to expectation of 17%. Other Income was up 46% YoY at Rs 17.7cr. Net profit increased 29% YoY at Rs 63.4cr.
- US business increased 38.2% YoY at Rs 217cr. Europe & UK revenue grew 25.5% YoY at Rs 187cr. Australia & New Zealand revenue increased 28% YoY at Rs 50cr.
- Free cash flow was at Rs 145cr for 9MFY23. Total R&D expenses stood at Rs 24.5cr, or 1.8% of revenue for 9MFY23. Net cash and investments stood at Rs 417cr as on Dec-2022.



- For 9MFY23, operating revenue stood at Rs. 1,366.2 crores, up 27.3% year-on-year. Gross margin was at 50.4%. EBITDA increased 17.7% YoY to Rs. 229.8 crores; however, EBITDA margin slipped 140bps to 16.8%. Cash generated from operations was Rs 208.6cr. Net profit was up 18% YoY at Rs 184.4 crores.
- Company would add 10-12 new products in UK and US every year.
- Marksans concluded buyback of 64.7 lakh equity shares through open market route and spent Rs 32cr.

Conference call highlights

- Company sees growth potential in OTC and Rx markets, especially the switch from Rx to OTC. Management remains confident for 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.
- Company has cash & investments of Rs 417cr and further Rs 279cr received from issuance of warrants. So, the total amount would be Rs 696cr.
- OrbiMed's representative, Dr. Sunny Sharma has joined on the Marksans' Board. Company has MSKA & Associates, affiliates of BDO International, as auditors. BDO is the fifth-largest global auditing firm. It is adding value to Marksans by way of strategic direction, global connect etc.
- Lower freight costs to help in margin expansion. Around 80-100bps margin may improve due to normalized costs.
- Management said that RM prices have stabled and that would help improve margins.
- Teva plant would contribute significantly 12-15 months down the line.
- About Rs 200cr would be total investment including capex for the acquisition of Teva unit.
- Management said that the portfolio is more of matured molecules/products and that's why price erosion not significant.
- Company would file DMF on its name from third party facility and that would improve 200-300bps margin in the next 3 years.
- 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 company guides for ~500bps expansion in EBITDA margin due to better gross margin.
- Access Health (UAE) reported revenue of Rs 27cr for the past six months.
- 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 margins.
- 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.
- Marksans received UK MHRA approval for Fluoxetine 20mg/5ml Oral Solution. It is for treatment of depressive illness and other mental/mood disorders (CNS). The product will be manufactured at the plant of Bell, Sons & Co. (Druggists) Ltd. at Gifford House, Slaidburn Crescent, Southport, UK.
- 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.
- 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.
- EBITDA margin in the OTC business is more stable and predictable while the same in the Rx business is market driven.
- 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.

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 develops own products through its R&D facility in OTC and Rx business segment across the geographies.

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.

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 30cr or ~2% of sales in R&D in FY22. R&D expenses would increase to ~4% of sales in the next few years.

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 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. 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.



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.

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 had received 25% of the money Rs 93cr and the balance 75% or Rs 279cr has been received on Jan 20, 2023 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 has come down to 43.8% from 49%. OrbiMed would add value to Marksans by way of strategic direction, global connect etc. The company received Rs 93.1 crores in July 2021 and with the conversion, the balance amount of Rs. 279.3 crores have also been received by the company in January-2023. OrbiMed Asia IV Mauritius FVCI Limited now owns 10.88% stake in the company and the promoter stake stood at 43.8% as on Jan-2023.

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.

Completed 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 closed on Jan 14, 2023. Company said that it has bought back 64.74 lakh equity shares at average price of Rs 49.6 per share. This represents 64.7% of total proposed buyback equity shares. The highest price at which the equity shares were bought at Rs 59.8 and lowest price at which the equity shares were bought at Rs 46.25 per share. Company spent Rs 32.1cr in the said buyback. Company has paid Rs. 7.33cr towards tax on the buyback consideration pay out.



Announced acquisition of capacity from Tevapharm India in Oct-2022

Marksans Pharma has on Oct 11, 2022 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 in 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 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.

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 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 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.
- 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 derived 43% of revenue from the US, 41% from Europe & UK, 12% from Australia & New Zealand and the rest from RoW markets. Company



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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.

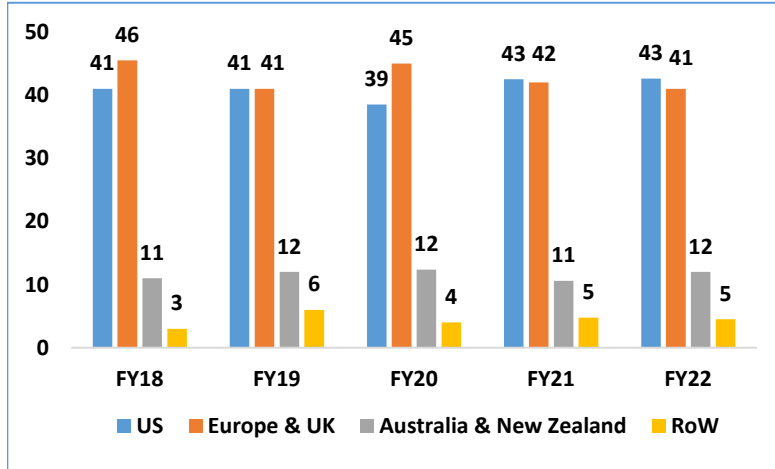
Marksans has established a strong, forward integrated business model focusing on OTC & prescription drugs with applications in diverse fields ranging from Oncology, CVS, CNS, Anti-diabetic, Gastroenterology ailments to Pain Management and Cough and Cold. Marksans Pharma has 1400 employees as on Mar-2022. 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.



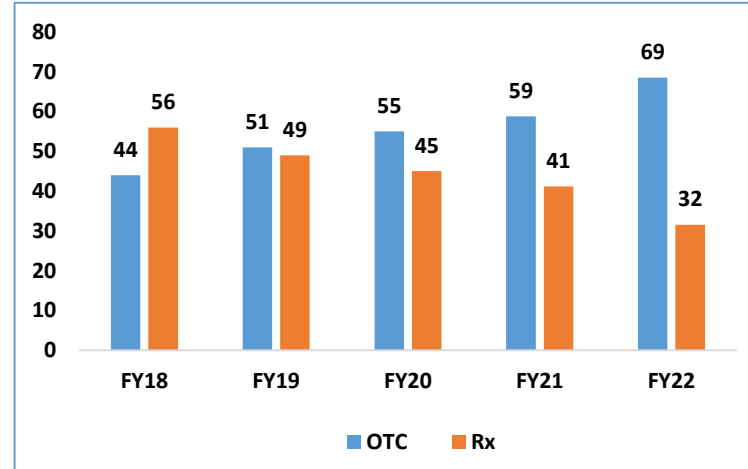


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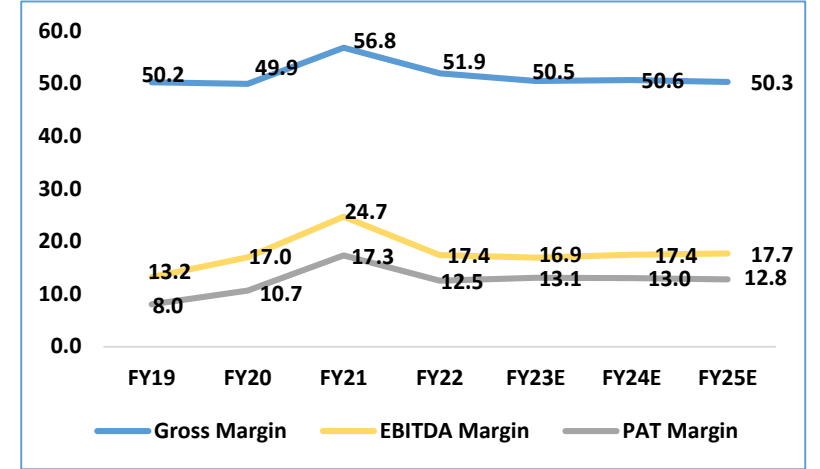
Geographywise Revenue Split



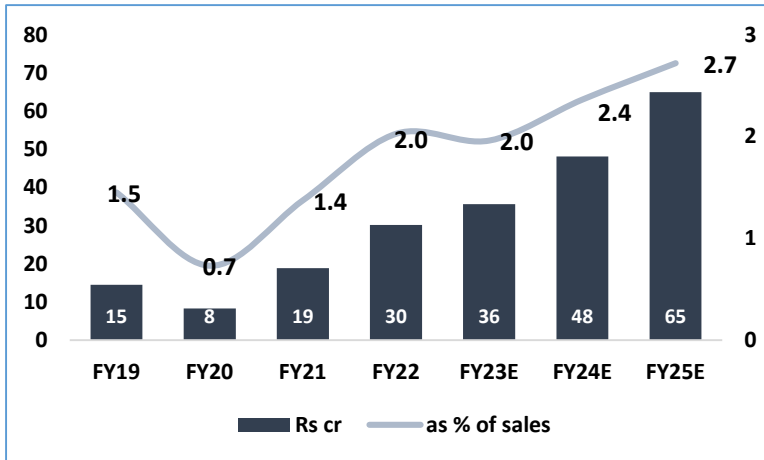
Revenue Mix



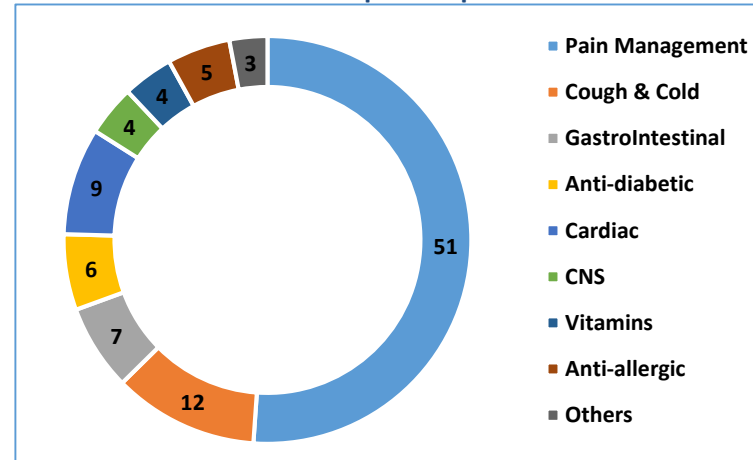
Margin Trend



R&D Trend



Therapeutic Split





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Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	1134	1376	1491	1819	2037	2389
Growth (%)	13.4	21.3	8.3	22	12	17.3
Operating Expenses	942	1036	1232	1511	1682	1967
EBITDA	192	340	259	308	355	423
Growth (%)	45.6	76.7	-23.8	18.9	15.4	19
EBITDA Margin (%)	17	24.7	17.4	16.9	17.4	17.7
Depreciation	27	36	45	49	56	68
EBIT	166	304	214	259	299	355
Other Income	0	7	42	58	59	64
Interest expenses	9	8	8	10	7	9
PBT	157	302	248	307	351	410
Tax	36	64	61	69	86	104
RPAT	121	236	185	238	261	301
Growth (%)	50.2	95.4	-21.8	29	9.8	15.1
EPS	3	5.8	4.5	5.3	5.8	6.6

Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	40.9	40.9	40.9	45.3	45.3	45.3
Reserves	595	846	1161	1620	1854	2117
Shareholders' Funds	636	886	1202	1665	1899	2162
Net Deferred Taxes	10	7	14	14	14	14
Long Term Provisions & Others	14	17	43	52	65	78
Minority Interest	13	19	21	24	28	32
Total Source of Funds	673	929	1280	1755	2006	2286
APPLICATION OF FUNDS						
Net Block	230	254	342	376	537	566
Intangible Assets	73	61	87	104	104	104
Long Term Loans & Advances	6	10	6	9	13	17
Total Non-Current Assets	309	325	435	489	654	687
Current Investments	0	0	0	0	0	0
Inventories	242	404	424	482	525	614
Trade Receivables	243	272	395	468	509	604
Cash & Equivalents	94	212	350	691	723	837
Other Current Assets	15	14	32	41	52	69
Total Current Assets	594	903	1201	1683	1808	2121
Short-Term Borrowings	19	19	41	48	43	48
Trade Payables	111	169	200	245	276	324
Other Current Liab & Provisions	71	110	114	123	134	147
Short-Term Provisions	29	2	1	2	2	4
Total Current Liabilities	229	299	356	418	455	523
Net Current Assets	365	604	845	1265	1352	1599
Total Application of Funds	673	929	1280	1755	2006	2286

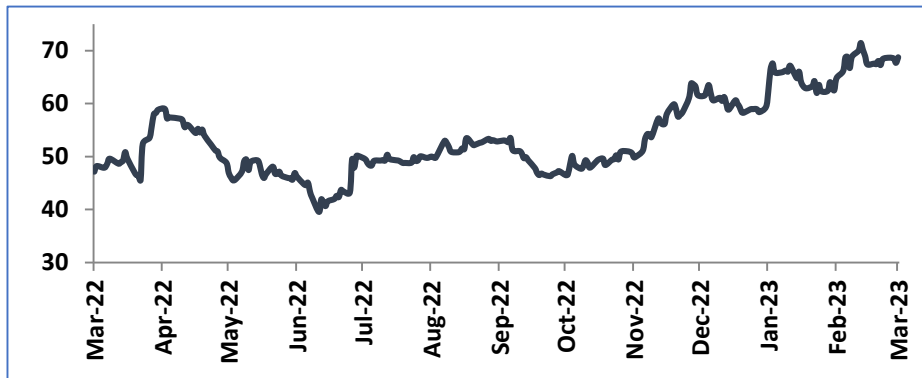


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Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	157	302	248	307	351	410
Non-operating & EO items	0	-7	-42	-58	-59	-64
Interest Expenses	9	8	8	10	7	9
Depreciation	27	36	45	49	56	68
Working Capital Change	66	-113	-87	-78	-56	-134
Tax Paid	-25	-49	-73	-69	-86	-104
OPERATING CASH FLOW (a)	234	178	99	160	213	184
Capex	-60	-47	-46	-75	-215	-95
Free Cash Flow	174	132	53	85	-2	89
Investments	0	-5	-37	-21	-4	-4
Non-operating income	0	7	42	58	59	64
INVESTING CASH FLOW (b)	-60	-45	-42	-38	-160	-35
Debt Issuance / (Repaid)	-75	-22	97	9	13	13
Interest Expenses	-9	-8	-8	-10	-7	-9
FCFE	90	102	141	85	4	93
Share Capital	0	6	2	238	4	4
Dividend/Buyback	-30	-4	-11	-19	-30	-43
FINANCING CASH FLOW (c)	-113	-28	80	219	-21	-35
NET CASH FLOW (a+b+c)	60	105	137	341	33	114

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability (%)						
Gross Margin	49.9	56.8	51.9	50.5	50.6	50.3
EBITDA Margin	17	24.7	17.4	16.9	17.4	17.7
EBIT Margin	14.6	22.1	14.4	14.2	14.7	14.9
APAT Margin	10.7	17.3	12.5	13.1	13	12.8
RoE	20.5	31	17.7	16.6	14.7	14.8
RoCE	24.6	32.7	16.7	14.7	14.9	15.5
Solvency Ratio						
Net Debt/EBITDA (x)	-0.4	-0.6	-1.2	-2.1	-1.9	-1.9
D/E	0.03	0.02	0.03	0.03	0.02	0.02
Net D/E	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4
PER SHARE DATA						
EPS	3	5.8	4.5	5.3	5.8	6.6
CEPS	3.6	6.7	5.6	6.3	7	8.1
BV	16	22	29	37	42	48
Dividend	0.1	0.3	0.3	0.4	0.7	0.9
Turnover Ratios (days)						
Debtor days	78	72	97	94	91	92
Inventory days	86	86	101	97	94	94
Creditors days	56	81	82	80	81	80
VALUATION						
P/E	23.3	11.9	15.2	13.1	11.9	10.3
P/BV	4.4	3.2	2.3	1.9	1.6	1.4
EV/EBITDA	12.8	7.3	9.5	8	7	5.8
EV / Revenues	2.2	1.8	1.7	1.4	1.2	1
Dividend Payout	3.4	4.3	5.5	7.6	11.3	13.5



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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.

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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 cyclicity 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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