

CMP: INR 46

Rating: BUY

Target Price: INR 80

Stock Info

BSE	524404
NSE	MARKSANS
Bloomberg	MRKS:IN
Reuters	MARK.BO
Sector	Pharmaceuticals
Face Value (INR)	1
Equity Capital (INR Cr)	41
Mkt Cap (INR Cr)	1,924
52w H/L (INR)	97 / 44
Avg. Yearly Volume (in 000')	2,548

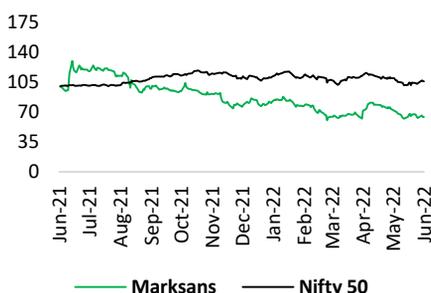
Shareholding Pattern %

(As on March, 2022)

Promoters	48.25
FII	3.46
DII	0.46
Public & Others	47.83

Stock Performance (%)	YTD	6M	1Y
Marksans Pharma	-24%	-17%	-35%
Nifty 50	-6%	-5%	6%

Marksans Pharma Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022 67114872

Yogesh Tiwari

yogesh.tiwari@arihantcapital.com
022 67114834

Marksans Pharma Ltd. is engaged in Research, Manufacturing & Marketing of generic pharmaceutical formulations. Its key focus area includes Over-the-Counter (OTC) and prescription (Rx) drugs. In FY22, OTC contributed 68.6% and Prescription contributed 31.4% of the total revenues. The company manufactures tablets (plain, enteric coated and film coated), hard and soft gelatin capsule, oral liquids and ointments. Its manufacturing facilities are situated at Goa, UK and USA and are accredited by USFDA, UKMHRA and Australian TGA. About 95% of the total revenues come from the regulated markets (FY22).

Q4FY22 Result Highlights:

- Revenues increased by 27% YoY/up 15% QoQ to INR 418 Cr, and came in above estimates of INR 375 Cr.
- Gross Profit margin compressed by 673 bps YoY/ up 240 bps QoQ to 53.8%. The decline in Gross Profit margin on YoY basis was due to increase in raw material cost.
- EBITDA declined by 33% YoY but increased by 10% QoQ to INR 63.6 Cr. Operating margin contracted by 1,366 bps YoY/down 72 bps QoQ to 15.2%. The compression in EBITDA margin was due to impact of raw material cost inflation.
- Depreciation and Amortization expenses also increased significantly by 1,502% YoY/ up by 150% QoQ to INR 21.4 Cr.
- Effective tax rate was higher in Q4FY22 and stood at 44% versus 20% in Q3FY22 and 18% in Q4FY21.
- As a result, PAT declined by 63% YoY/down 39% QoQ to INR 29.6 Cr and came in below our expectation of INR 44 crores.
- The Board of Directors recommended a final dividend of INR 0.25 per equity share of face value of INR 1 each for the financial year ending 31st March 2022, subject to approval from shareholders.
- As of 31st March 2022, cash and cash equivalents stood at INR 349 Cr.
- The company incurred capital expenditure of INR 46.3 Cr. Total Research & Development (R&D) spend constituted about 2% of revenues and is expected to increase to ~4-5% over the next few years.

Outlook & Valuations: The company is concentrating on major regulated markets of US and UK with focus on higher margin soft gels and OTC products. Also, its strong balance sheet will support inorganic growth through acquisitions of ANDAs, product licenses and capacity expansion. There was margin pressure in the latter half of FY22 due to cost inflation. However, it is expected to stabilize around current levels. With focus on backward integration, operating margins can expand going forward. **We value Marksans Pharma on both the parameters EV/EBITDA (7x FY24E) and PE valuation of 10x of FY24E EPS and reduce our Target Price to INR 80 per share (earlier TP: INR 86 per share). Accordingly, we maintain our BUY rating on the stock.**

Financial Highlights

INR in Cr	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,134	1,376	1,491	1,618	1,861
EBITDA	192	340	259	339	404
EBITDA margin(%)	16.9%	24.7%	17.4%	21.0%	21.7%
PAT	120	239	187	252	301
PATM (%)	10.6%	17.4%	12.5%	15.6%	16.2%
EPS (in INR)	3.0	5.8	4.5	6.2	7.4
PE (x)	15.7	8.2	10.4	7.6	6.4
EV/EBITDA (x)	10.3	5.5	6.2	4.5	3.3
ROE(%)	19.4%	26.7%	19.7%	18.6%	18.2%

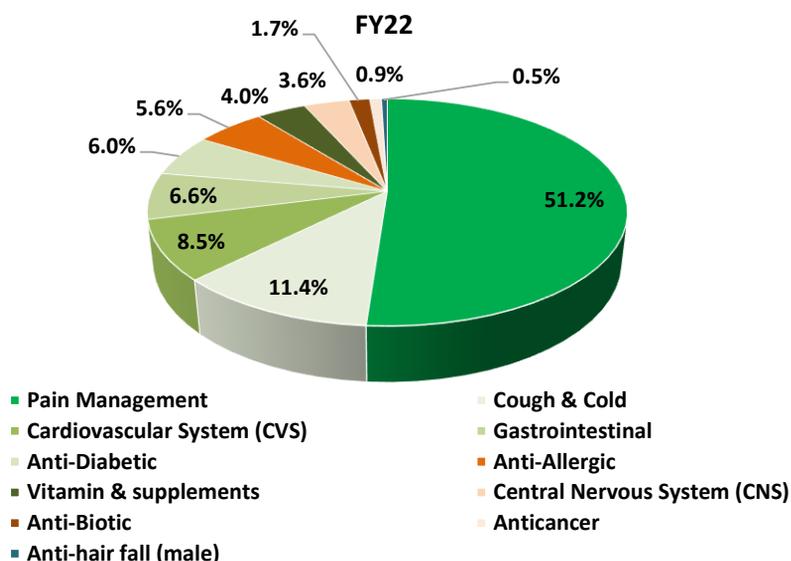
Source: Company, Arihant Research

Quarterly Result

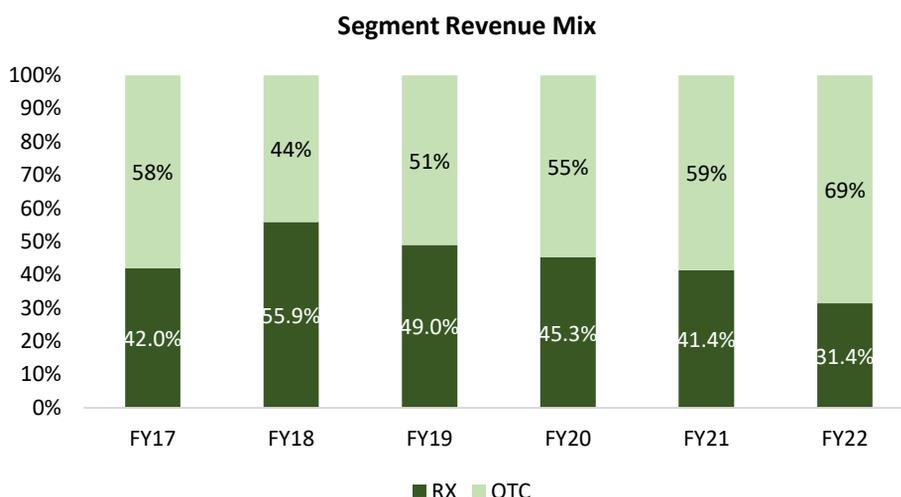
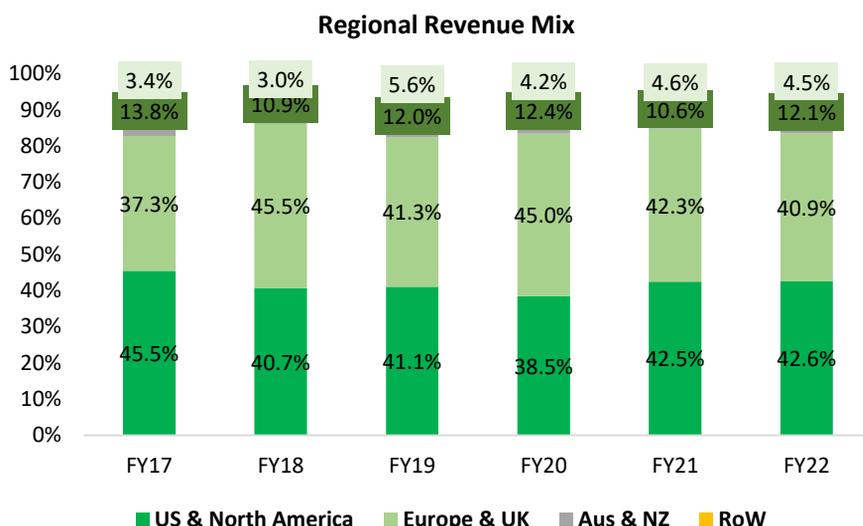
INR in Cr.	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY
Revenue	418.0	362.6	330.2	15%	27%
Cost of Raw Material Consumed	124.0	133.1	75.0	-7%	65%
Purchase of stock In trade	103.4	20.5	148.7	403%	-30%
Change in inventories	-15.9	13.9	-97.0	-214%	-84%
COGS	211.6	167.5	126.7	26%	67%
Gross Profit	206.4	195.1	203.5	6%	1%
Gross Profit (%)	49.4%	53.8%	61.6%	-442	-1224
Employee Cost	60.4	56.1	62.9	8%	-4%
Other Expenses	82.4	81.2	45.2	2%	82%
EBITDA	63.6	57.8	95.4	10%	-33%
EBITDA Margin (%)	15.2%	15.9%	28.9%	-72	-1366
Other Income	15.3	12.1	6.0	27%	155%
Depreciation	21.4	8.6	1.3	150%	1502%
EBIT	57.6	61.3	100.1	-6%	-42%
Finance Cost	5.0	1.0	2.8	429%	78%
EBT and exceptional	52.6	60.4	97.2	-13%	-46%
Share of Profit of JV	0.0	0.0	0.0		
Exceptional items	0.0	0.0	0.0		
PBT	52.6	60.4	97.2	-13%	-46%
Tax Expense	22.9	12.1	17.7	90%	29%
Effective tax rate %	43.6%	20.0%	18.2%	118%	139%
PAT	29.7	48.3	79.5	-39%	-63%
PAT margin (%)	7.1%	13.3%	24.1%	-622	-1698
EPS (INR)	0.69	1.2	1.93	-43%	-64%

Source: Company, Arihant Research

Therapeutic Segment-Wise Distribution



Source: Company, Arihant Research



Source: Company, Arihant Research

Conference Call Highlights

- There was increased input cost inflation during the quarter, which negatively affected the operating margins of the company.
- It was not able to pass on the complete increase in input cost to clients and is in discussion with them on the pass-through.
- The effective tax rate was higher during the quarter due to deferred tax component.
- However, the effective tax rate will normalize going forward in the range of 22%-25%.
- The US business witnessed price erosion in the high single digit, which was in-line with the industry trend.
- It will launch new products in the US market to offset the price erosion. It is targeting launch of about 4 products in the US market.
- Debtors days increased during FY22 due to some credit period given to certain customers. It will normalize around similar levels going forward.
- It is investing to set-up facilities for backward integration so as to reduce pressure of input cost and secure raw material availability.
- The company acquired Access Healthcare for Medical Products L.L.C. It is a Dubai based front-marketing and promotion company. The cash consideration for the acquisition was AED 13 million, which translates to around INR 27-28 Cr.
- Access Healthcare had revenues of around AED 14 million in 2021 and Marksans Pharma will target to double its revenues in the next 2 years after taking charge of the company.

Key Financials

Income Statement

Y/E March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Revenues	1,134	1,376	1,491	1,618	1,861
Change (%)	13.4%	21.3%	8.3%	8.5%	15.0%
Cost of Goods Sold	545	595	717	732	838
% Sales	48.1%	43.2%	48.1%	45.2%	45.0%
Employee costs	168	197	220	235	265
Other expenses	229	244	295	312	354
EBITDA	192	340	259	339	404
EBITDA (%)	16.9%	24.7%	17.4%	21.0%	21.7%
Other Income	0	7	42	26	26
Depreciation	27	36	45	35	37
Interest	9	8	8	5	5
PBT	156	303	248	325	388
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	156	303	248	325	388
Tax Expense	36	64	61	73	87
Tax Rate (%)	23.1%	21.1%	24.5%	22.5%	22.4%
PAT	120	239	187	252	301
PAT (%)	10.6%	17.4%	12.5%	15.6%	16.2%
EPS	3.0	5.8	4.5	6.2	7.4

Cash Flow Statement

Y/E March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
PBT	157	302	248	325	388
Depreciation	27	36	45	35	37
Interest & others	9	8	8	5	5
Other	7	31	0	0	0
CF before WC changes	199	377	301	365	430
(Inc)/dec in working capital	59	-150	-20	-48	-86
CF after WC changes	258	227	281	317	344
Less: Taxes	-25	-49	-55	-54	-86
Operating cash flow	233	178	226	263	258
(Inc)/dec in F.A + CWIP	-60	-46	-59	-77	-47
Cash flow from investing	-60	-46	-59	-77	-47
Free cash flow (FCF)	173	133	175	168	211
Borrowings	-81	0	0	0	0
Finance cost paid	0	0	-5	5	-5
Dividend	-29.5	-4	-41	-41	-41
Other financing	-2	-10	17	33	30
Cash flow from financing	-113	-14	-29	-3	-16
Net inc /(dec) in cash	61	118	138	183	195
Opening balance of cash	33	94	212	350	533
Closing balance of cash	94	212	350	533	728

Balance Sheet

Y/E March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share Capital	41	41	41	41	41
Reserves & Surplus	595	846	1161	1315	1616
Net Worth + Non Controlling	649	905	1,223	1,375	1,676
Total Debt	19	14	41	19	19
Deferred Tax liabilities	11	8	18	8	8
Other non-current liab.	17	2	2	15	15
Current liabilities	201	299	356	288	313
Total Liabilities	897	1,228	1,640	1,705	2,031
Application of Funds					
Net Block	220	248	409	200	178
Capital Work in Progress	0	6	1	0	0
Intangible Assets	83	67	38	81	81
Other non-current assets	4	8	3	126	167
Debtors	243	271	395	310	357
Inventories	242	404	424	437	500
Cash & bank balance	94	212	350	533	728
Other Current Assets	11	13	21	18	20
Total Assets	897	1,228	1,640	1,705	2,031

Key Ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E
Per share (INR)					
EPS	3.0	5.8	4.5	6.2	7.4
BVPS	15.5	21.7	27	33.1	40.5
Valuation (x)					
P/E	15.7	8.2	10.4	7.6	6.4
P/BV	3.2	2.3	1.9	1.5	1.2
EV/EBITDA	10.3	5.5	6.2	4.5	3.3
Return Ratios (%)					
Gross Margin	48.1%	43.2%	48.1%	45.2%	45.0%
EBIDTA Margin	16.9%	24.7%	17.4%	21.0%	21.7%
PAT Margin	10.6%	17.4%	12.5%	15.6%	16.2%
ROE	19.4%	26.7%	19.7%	18.6%	18.2%
ROCE	23.8%	32.0%	20.6%	21.5%	21.4%
Leverage Ratio (%)					
Total D/E	0	0	0	0	0
Turnover Ratios					
Asset Turnover (x)	3.2	3.4	3.5	3.7	4.1
Inventory Days	179	198	215	218	218
Receivable Days	68	68	70	70	70
Payable days	70	84	85	88	88

Source: Company, Arihant Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

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

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

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

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

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