

CMP: INR 52

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)	2,120
52w H/L (INR)	78 / 39
Avg. Yearly Volume (in 000')	1,473

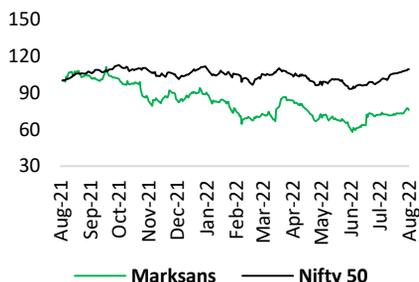
Shareholding Pattern %

(As on June, 2022)

Promoters	48.25
FII	4.04
DII	0.95
Public & Others	46.76

Stock Performance (%)	YTD	6M	1Y
Marksans Pharma	-16%	4.6%	-24%
Nifty 50	1.9%	4.4%	9.2%

Marksans Pharma Vs Nifty



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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 94% of the total revenues come from the regulated markets (Q1FY23).

Q1FY23 Result Highlights:

- Revenue from operations increased by 24.3% YoY / up 3.8% QoQ to INR 433.8 crores and came in above our estimates of INR 423 crores.
- US & North America revenues increased by 25.3% YoY / up 1.3% QoQ to INR 173.9 crores. Europe and UK revenues increased by 13.7% YoY / up 16.8% QoQ to INR 181 crores. Australia and New Zealand revenues increased by 37.7% YoY / down 26.0% QoQ to INR 52.6 crores. Rest of the World revenues increased by 99.2% YoY / up 28.9% QoQ to INR 26.3 crores.
- Gross Profit margin declined by 302 basis point YoY but expanded by 110 basis points QoQ to 50.5%. The gross profit margin declined on YoY basis due to raw material cost pressure but increased on QoQ basis, reflecting bottoming of gross profit margin.
- EBITDA declined by 5.8% YoY / up 14.5% QoQ to INR 72.9 crores and came in above our estimates of INR 68 crores.
- Operating margin compressed by 536 basis points YoY / expanded by 157 basis points QoQ to 16.8%. Other Expenses increased significantly by 48.4% YoY, which negatively impacted operating margins on YoY basis.
- Net Profit declined by 3.4% YoY / up 112% QoQ to INR 59.7 crores and came in above expectation of INR 49 crores. Net Profit margin compressed by 396 basis points YoY / up 704 basis points QoQ to 13.8%.
- 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.

Outlook & Valuations: The company has a good pipeline of new product launches in 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. It is also undertaking backward integration operations, which will facilitate expansion in operating margins. **We value Marksans Pharma on both the parameters EV/EBITDA (7x FY24E) and PE valuation of 10x of FY24E EPS and maintain our average target price of INR 80 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	405
EBITDA margin(%)	17.0%	24.7%	17.4%	21.0%	21.7%
PAT	121	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)	17.3	9.0	11.6	8.4	7.0
EV/EBITDA (x)	10.3	5.5	6.2	4.5	3.3

Source: Company, Arihant Research

Quarterly Result

INR in Cr.	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
Revenue	433.8	418.0	349.0	3.8%	24.3%
Cost of Raw Material Consumed	180.7	124.0	113.3	45.8%	59.5%
Purchase of stock In trade	34.2	103.4	6.3	-66.9%	441.0%
Change in inventories	-0.1	-15.9	42.6	-99.1%	-100.3%
COGS	214.8	211.5	162.3	1.6%	32.4%
Gross Profit	218.9	206.5	186.7	6.0%	17.3%
Gross Profit (%)	50.5%	49.4%	53.5%	107	-302
Employee Cost	56.6	60.4	49.0	-6.2%	15.4%
Other Expenses	89.5	82.4	60.3	8.5%	48.4%
EBITDA	72.9	63.7	77.3	14.4%	-5.8%
EBITDA Margin (%)	16.8%	15.2%	22.2%	156	-536
Depreciation	11.1	21.4	7.5	-48.0%	48.8%
EBIT	61.7	42.4	69.9	45.8%	-11.6%
Other Income	16.5	15.3	5.9	7.5%	180.4%
Finance Cost	1.8	5.0	1.0	-64.2%	86.3%
EBT and exceptional	76.4	52.7	74.8	45.1%	2.2%
Share of Profit of JV	0.0	0.0	0.0	NA	NA
Exceptional items	0.0	0.0	0.0	NA	NA
PBT	76.4	52.7	74.8	45.1%	2.2%
Tax Expense	16.3	22.9	12.2	-29.1%	33.5%
Effective tax rate %	21.27%	43.57%	16.29%	-2229	498
PAT	60.2	29.7	62.6	102.5%	-3.9%
Non-Controlling Interest	0.5	1.5	0.8	-69.6%	-37.8%
Net Profit	59.7	28.2	61.8	111.9%	-3.4%
PAT margin (%)	13.77%	6.74%	17.72%	702	-396
EPS (INR)	1.5	0.7	1.5	111.6%	-3.3%

Source: Company, Arianth Research

Conference Call Highlights

- The company faced margin pressure due to increase in raw material prices like solvent, key starting materials, etc.
- Leveraging the Research and Development (R&D) capabilities, it will launch new products in the next 2-3 years.
- Research & Development (R&D) expenses as a percentage of sales will increase to about 4%-4.5% of sales in the coming years.
- The company is targeting to increase its portfolio of complex products.
- There was pricing pressure in the US market in the high single digit. The condition remains the same, even in the current quarter.
- Prescription witnessed greater pricing erosion than OTC (Over-The-Counter) products.
- It has expanded its Goa facility, which helped to boost its revenues in the first quarter of FY23.
- The long-term target of the company is to increase its revenues to INR 2,000 crores.
- It will launch 2 new products in the next financial year.
- It carries about 3-4 months of inventory to offset any challenges due to volatility in raw material prices.
- It will incur capex of around INR 200 crores over two years for increasing the manufacturing capacities.

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	48.0%	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	405
EBITDA (%)	17.0%	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	157	303	248	325	388
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	157	303	248	325	388
Tax Expense	36	64	61	73	87
Tax Rate (%)	23.2%	21.1%	24.5%	22.5%	22.4%
PAT	121	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	-30	-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	1,161	1,315	1,616
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	27.0	33.1	40.5
Valuation (x)					
P/E	17.3	9.0	11.6	8.4	7.0
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%
EBITDA 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	0.0	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, Arianth Research

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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%

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