

**CMP: INR 59**

**Rating: BUY**

**Target Price: INR 86**

**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)	2,433
52w H/L (INR)	97 / 48
Avg. Yearly Volume (in 000')	3,994

**Shareholding Pattern %**

(As on September, 2021)

Promoters	48.25
FII	3.14
DII	0.56
Public & Others	48.05

Stock Performance (%)	3m	6m	12m
Marksans Pharma	-24%	-21%	21%
Nifty 50	11%	23%	43%

**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 FY21, OTC contributed 58.6% and Prescription contributed 41.4% of the total revenues. The company manufactures tablets (plain, enteric coated and film coated), hard and soft gelatin capsule, oral liquids and ointments. As of FY21, it had approximately 300 products. 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.

**Q2FY22 Result Highlights:**

- Revenues increased by 1.2% YoY/up 3.4% QoQ to INR 361 Cr, but missed estimates of 4.6% YoY/6.8% QoQ on the revenue growth front. In H1FY22, revenues increased by 3.3% YoY to INR 710 Cr.
- US, North America was the highest contributor at INR 306 Cr and witnessed 1.2% YoY in H1FY22.
- EU, UK formulations market recorded growth of 6.7% YoY at INR 305 Cr in H1FY22.
- Australia, NZ formulation markets recorded 0.5% YoY growth at INR 69.8 Cr in H1FY22.
- Growth in Rest of World was flat with sales of INR 29.1 Cr in H1FY22.
- Gross Profit margin compressed by 267 bps YoY/ down 212 bps QoQ to 51.4%. The decline in Gross Profit margin was due to increased input costs in terms of raw materials.
- EBITDA declined by 28.1% YoY/ down 22.9% QoQ to INR 59.8 Cr. Operating margins contracted by 676 bps YoY/564 bps QoQ to 16.6%, driven by compression in Gross Profit margin.
- Employee Cost and Other Expenses also increased significantly by 25% YoY/12% QoQ and 8% YoY/18% QoQ respectively, due to higher freight and packaging costs.
- Effective tax rate stood higher at 22.7% in Q2FY22 versus 16.2% in Q1FY22 and 23.0% in Q2FY21.
- PAT declined by 9.3% YoY/down 26.8% QoQ to INR 46.3 Cr, while net profit margin compressed by 149 bps YoY/ down 525 bps QoQ.
- As of 30th September 2021, cash stood at INR 322.7 Cr. R&D spend stood at 2.0% of sales in H1FY22. Capital Expenditure for H1FY22 was INR 25 Cr.

**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. We estimate Revenue and PAT CAGR of ~14% & 13% respectively during FY21-23E. **We value Marksans Pharma on both the parameters EV/EBITDA (7x FY23E) and PE valuation of 12x of FY23E EPS and arrive at an average target price of INR 86 per share and recommend BUY rating on the stock.**

**Financial Highlights**

INR in Cr	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,000	1,134	1,376	1,530	1,769
EBITDA	132	192	340	355	425
EBITDA margin(%)	13.2%	17.0%	24.7%	23.2%	24.1%
PAT	80	121	239	254	305
PATM (%)	8.0%	10.6%	17.3%	16.6%	17.2%
EPS (in INR)	2.0	3.0	5.8	6.2	7.4
PE (x)	30.0	20.0	10.1	9.5	7.9
EV/EBITDA (x)	18.8	12.2	6.5	5.7	4.3
ROE(%)	14.0%	19.4%	26.7%	22.0%	21.1%

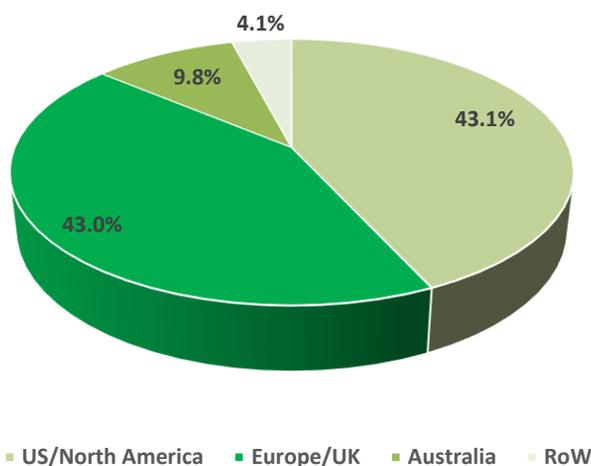
Source: Company, Arihant Research

Quarterly Result

INR in Cr.	Q2FY22	Q1FY22	Q2FY21	QoQ	YoY
<b>Revenue</b>	<b>361</b>	<b>349</b>	<b>356</b>	<b>3%</b>	<b>1%</b>
Cost of Raw Material Consumed	170	113	118	50%	45%
Purchase of stock In trade	33	6	53	421%	-38%
Change in inventories	-28	43	-7	-165%	317%
COGS	175	162	164	8%	7%
<b>Gross Profit</b>	<b>186</b>	<b>187</b>	<b>193</b>	<b>-1%</b>	<b>-4%</b>
<b>Gross Profit (%)</b>	<b>51.4%</b>	<b>53.5%</b>	<b>54.1%</b>	<b>(212) bps</b>	<b>(267) bps</b>
Employee Cost	55	49	44	12%	25%
Other Expenses	71	60	66	18%	8%
<b>EBITDA</b>	<b>60</b>	<b>78</b>	<b>83</b>	<b>-23%</b>	<b>-28%</b>
<b>EBITDA Margin (%)</b>	<b>16.6%</b>	<b>22.2%</b>	<b>23.3%</b>	<b>(564) bps</b>	<b>(676) bps</b>
Other Income	9	6	4	46%	134%
Depreciation	7	7	19	-1%	-61%
<b>EBIT</b>	<b>61</b>	<b>76</b>	<b>68</b>	<b>-20%</b>	<b>-10%</b>
Finance Cost	2	1	2	55%	-22%
<b>EBT and exceptional</b>	<b>59</b>	<b>75</b>	<b>66</b>	<b>-21%</b>	<b>-10%</b>
<b>PBT</b>	<b>59</b>	<b>75</b>	<b>66</b>	<b>-21%</b>	<b>-10%</b>
Tax Expense	13	12	15	11%	-11%
Effective tax rate %	22.7%	16.2%	23.0%	643 bps	(33) bps
<b>PAT</b>	<b>46</b>	<b>63</b>	<b>51</b>	<b>-27%</b>	<b>-9%</b>
PAT margin (%)	12.7%	18.0%	14.2%	(525) bps	(149) bps
<b>EPS (Rs)</b>	<b>1.1</b>	<b>1.5</b>	<b>1.2</b>	<b>-27%</b>	<b>-9%</b>

Source: Company, Arianth Research

H1FY22 Geographic Mix



Source: Company, Arianth Research

## Conference Call Highlights

- In Q2FY22, revenues increased by 3% QoQ/up 1% YoY to INR 361 Cr. However, Gross Profit declined by 1% QoQ/down 4% YoY. Gross Profit margin compressed by 212 bps QoQ/ down 267 bps YoY during the quarter due to higher input costs.
- Cost of Raw material consumed increased by 50% QoQ/ up 45% YoY and were among primary drivers behind contraction in margins.
- Paracetamol based API prices have increased by about 50% during the quarter due to disruptions in China.
- The company sources a lot of raw materials from China and the country has been able to command prices and supply on the global scale.
- Pain management is the dominant segment for the company. Accordingly, the main raw materials of the company include Ibuprofen and Paracetamol based APIs.
- Also, higher freight and packaging costs impacted operating margins.
- Employee cost increased during the quarter owing to salary hikes and staff inclusion.
- Hikes for management employees was in the range of 10%-12%, while for non-management employees, it was in the range of 8%-10%.
- EBITDA declined by 23% QoQ/ down 28% YoY, while EBITDA margins fell 564 bps QoQ/ down 676 bps YoY.
- The company continues to see increased input prices during the current quarter which can impact margins.
- However, if input cost does not come down, the company can pass on the prices to its clients.
- There are news of freight costs declining in China. However, the company has not seen the same effect in India.
- Other income increased by 46% QoQ/ up 134% YoY, while Finance costs declined on YoY basis by 22%.
- PAT declined by 27% QoQ/ down 9% YoY to INR 46 Cr, while PAT margin compressed by 525 bps QoQ/ down 149 bps YoY.
- Currently, the US market is seeing some pricing pressure due to oversupply of drug molecules.
- Marksans Pharma maintains its target to achieve topline of INR 2,000 Cr in the next 2-3 years.
- Primary markets which will contribute to this growth in revenue will be the US markets. However UK/Europe will also show significant growth in topline in the coming years.
- New product launches, capacity expansion, etc. will support growth in future.
- It will maintain margins in the range of 22%-25% going forward.
- Effective tax rate for FY22 would be in the range of 22%-23%.
- Current revenue mix is in the range of Prescription:OTC of about 41%:59%. However, it is difficult to conclude if Prescription products have higher margins than OTC products or vice-versa.
- Going forward, contribution of OTC products would be in the range of 60%, while prescription products will form the remaining portion.
- Recently, OrbiMed, a global leading healthcare investment firm took a stake in the company.
- OrbiMed has strong networking which Marksans Pharma will try to leverage.
- The past acquisition of Time-Cap Labs Inc. is doing well and is strategic in nature to increase penetration and access to final clients in the US markets.
- Marksans Pharma is looking for acquiring assets and increase capacity. It has the required balance sheet to support the asset acquisitions.

**Key Financials**

**Income Statement**

Y/E March (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>1,000</b>	<b>1,134</b>	<b>1,376</b>	<b>1,530</b>	<b>1,769</b>
<i>Change (%)</i>	9.6%	13.4%	21.3%	11.2%	15.6%
Cost of Goods Sold	498	545	595	670	761
% Sales	49.8%	48.0%	43.2%	43.8%	43.0%
Employee costs	159	168	197	222	251
Other expenses	211	229	244	283	332
<b>EBITDA</b>	<b>132</b>	<b>192</b>	<b>340</b>	<b>355</b>	<b>425</b>
<i>EBITDA (%)</i>	13.2%	17.0%	24.7%	23.2%	24.1%
Other Income	5	0	7	22	13
Depreciation	23	27	36	39	41
Interest	10	9	8	9	9
<b>PBT</b>	<b>104</b>	<b>157</b>	<b>302</b>	<b>328</b>	<b>388</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>104</b>	<b>157</b>	<b>302</b>	<b>328</b>	<b>388</b>
Tax Expense	24	36	64	74	83
<i>Tax Rate (%)</i>	22.9%	23.2%	21.1%	22.6%	21.5%
<b>PAT</b>	<b>80</b>	<b>121</b>	<b>239</b>	<b>254</b>	<b>305</b>
<i>PAT (%)</i>	8.0%	10.6%	17.3%	16.6%	17.2%
EPS	2.0	3.0	5.8	6.2	7.4

**Cash Flow Statement**

Y/E March (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>104</b>	<b>157</b>	<b>302</b>	<b>328</b>	<b>388</b>
Depreciation	23	27	36	39	41
Interest & others	10	9	8	9	9
Other	0	7	31	0	0
CF before WC changes	137	199	377	377	438
<b>(Inc)/dec in working capital</b>	<b>-86</b>	<b>52</b>	<b>-150</b>	<b>-27</b>	<b>-80</b>
CF after WC changes	51	258	227	349	358
Less: Taxes	-24	-25	-49	-74	-83
<b>Operating cash flow</b>	<b>27</b>	<b>233</b>	<b>179</b>	<b>275</b>	<b>275</b>
(Inc)/dec in F.A + CWIP	-13	-60	-46	-59	-77
<b>Cash flow from investing</b>	<b>-13</b>	<b>-60</b>	<b>-45</b>	<b>-59</b>	<b>-77</b>
<b>Free cash flow (FCF)</b>	<b>14</b>	<b>173</b>	<b>133</b>	<b>216</b>	<b>198</b>
Borrowings	-18	-81	0	0	0
Finance cost paid	-10	0	0	-9	-9
Dividend	-41	-30	-4	-41	-41
Other financing	47	2	-11	37	30
<b>Cash flow from financing</b>	<b>-21</b>	<b>-114</b>	<b>-15</b>	<b>-13</b>	<b>-20</b>
<b>Net inc /(dec) in cash</b>	<b>-7</b>	<b>60</b>	<b>119</b>	<b>203</b>	<b>179</b>
Opening balance of cash	-32	33	93	212	414
Closing balance of cash	34	94	212	414	593

**Balance Sheet**

Y/E March (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	41	41	41	41	41
Reserves & Surplus	502	595	846	1,096	1400
<b>Net Worth + Non Controlling</b>	<b>553</b>	<b>649</b>	<b>905</b>	<b>1,155</b>	<b>1,460</b>
Total Debt	100	19	19	19	19
Deferred Tax liabilities	7	11	8	8	4
Other non-current liab.	11	17	16	16	12
Current liabilities	133	201	280	267	294
<b>Total Liabilities</b>	<b>804</b>	<b>897</b>	<b>1,228</b>	<b>1,465</b>	<b>1,789</b>
<b>Application of Funds</b>					
Net Block	198	220	234	210	186
Capital Work in Progress	0	0	0	0	0
Intangible Assets	72	83	81	81	81
Other non-current assets	3	4	11	55	117
Debtors	177	243	271	293	339
Inventories	293	242	404	395	454
Cash & bank balance	34	94	212	414	593
Other Current Assets	28	11	14	16	18
<b>Total Assets</b>	<b>804</b>	<b>897</b>	<b>1,228</b>	<b>1,465</b>	<b>1,789</b>

**Key Ratios**

Y/E March	FY19	FY20	FY21	FY22E	FY23E
<b>Per share (INR)</b>					
EPS	2.0	3.0	5.8	6.2	7.4
BVPS	13.3	15.5	21.7	27.8	35.2
<b>Valuation (x)</b>					
P/E	30.0	20.0	10.1	9.5	7.9
P/BV	4.5	3.8	2.7	2.1	1.7
EV/EBITDA	18.8	12.2	6.5	5.7	4.3
<b>Return Ratios (%)</b>					
Gross Margin	50.2%	52.0%	56.8%	56.2%	57.0%
EBITDA Margin	13.2%	17.0%	24.7%	23.2%	24.1%
PAT Margin	7.6%	10.9%	17.2%	16.3%	17.2%
ROE	14.0%	19.4%	26.7%	22.0%	21.1%
ROCE	16.3%	23.8%	32.0%	26.3%	25.7%
<b>Leverage Ratio (%)</b>					
Total D/E	0.2	0.0	0.0	0.0	0.0
<b>Turnover Ratios</b>					
Asset Turnover (x)	3.2	3.2	3.4	3.7	4.1
Inventory Days	187	179	198	215	218
Receivable Days	65	68	68	70	70
Payable days	67	70	84	85	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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