

CMP: INR 50

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)	2,047
52w H/L (INR)	97 / 48
Avg. Yearly Volume (in 000')	3,808

Shareholding Pattern %

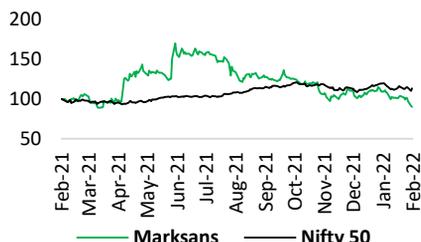
(As on December, 2021)

Promoters	48.25
FII	2.59
DII	0.41
Public & Others	48.75

Stock Performance (%) YTD 6M 1Y

Marksans Pharma	-19%	-33%	-10%
Nifty 50	-1.6%	4.8%	13%

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. 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 (FY21).

Q3FY22 Result Highlights:

- Revenues increased by 1.2% YoY/up 0.5% QoQ to INR 363 Cr, but missed estimates of INR 394 Cr on the revenue front. In 9MFY22, revenues increased by 2.6% YoY to INR 1,073 Cr.
- US, North America was the highest contributor at INR 463.5 Cr and witnessed 2.9% YoY in 9MFY22.
- EU, UK formulations market recorded 2.6% YoY at INR 454.1 Cr in 9MFY22.
- Australia, NZ formulation markets recorded 4.3% YoY growth at INR 108.7 Cr in 9MFY22.
- Growth in Rest of World declined by 5.0% YoY with sales of INR 46.5 Cr in 9MFY22.
- 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 36.5% YoY/ down 3.3% QoQ to INR 57.8 Cr. Operating margins contracted by 947 bps YoY/down 63 bps QoQ to 15.9%, driven by compression in Gross Profit margin, incremental R&D expenses and higher freight cost.
- Employee Cost and Other Expenses also increased significantly by 17.2% YoY/2.4% QoQ and 4.1% YoY/14.5% QoQ respectively, due to higher freight and packaging costs.
- Effective tax rate stood lower at 20.0% in Q3FY22 versus 22.7% in Q2FY22 and 24.1% in Q3FY21.
- PAT declined by 1.9% YoY/up 6.7% QoQ to INR 48.3 Cr, while net profit margin compressed by 42 bps YoY/ up 77 bps QoQ.
- As of 31st December 2021, cash stood at INR 323 Cr. R&D spend stood at 2.0% of sales in 9MFY22. Capital Expenditure for 9MFY22 was INR 32.8 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 ~13% & 17.5% respectively during FY22E-24E. **We value Marksans Pharma on both the parameters EV/EBITDA (7x FY24E) and PE valuation of 12x of FY24E EPS and maintain our average target price of INR 86 and recommend BUY rating on the stock.**

Financial Highlights

INR in Cr	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,134	1,376	1,465	1,618	1,861
EBITDA	192	340	273	340	405
EBITDA margin(%)	17.0%	24.7%	18.7%	21.0%	21.8%
PAT	121	239	217	252	301
PATM (%)	10.6%	17.3%	14.8%	15.6%	16.2%
EPS (in INR)	3.0	5.8	5.3	6.2	7.4
PE (x)	16.9	8.6	9.4	8.1	6.8
EV/EBITDA (x)	10.3	5.5	6.2	4.5	3.3
ROE(%)	19.4%	26.7%	19.7%	18.6%	18.2%

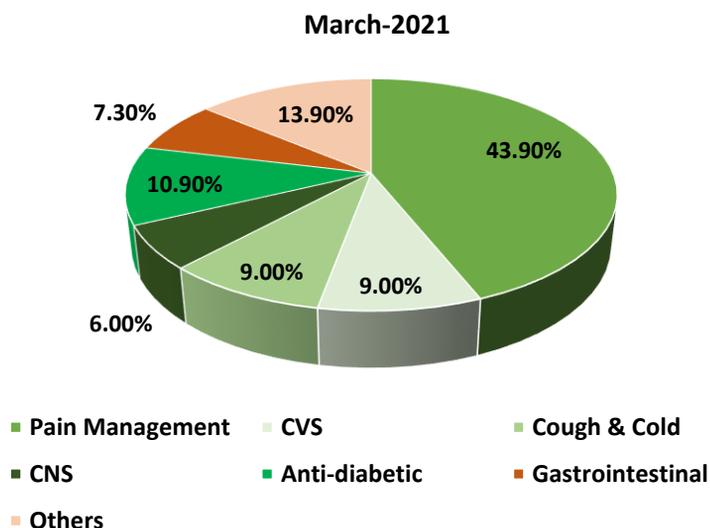
Source: Company, Arihant Research

Quarterly Result

INR in Cr.	Q3FY22	Q2FY22	Q3FY21	QoQ	YoY
Revenue	362.6	360.9	358.4	3%	1%
Cost of Raw Material Consumed	133.1	170.2	111.9	50%	45%
Purchase of stock In trade	20.5	32.9	66.7	421%	-38%
Change in inventories	13.9	-27.8	-37.1	-165%	317%
COGS	167.5	175.4	141.4	8%	7%
Gross Profit	195.1	185.5	216.9	5%	-10%
Gross Profit (%)	53.8%	51.4%	60.5%	240	-673
Employee Cost	56.1	54.8	47.9	2%	17%
Other Expenses	81.2	70.9	78.0	14%	4%
EBITDA	57.8	59.8	91.1	-3%	-37%
EBITDA Margin (%)	15.9%	16.6%	25.4%	-63	-947
Other Income	12.1	8.6	-3.2	41%	-478%
Depreciation	8.6	7.4	8.6	16%	0%
EBIT	61.3	61.0	79.3	1%	-23%
Finance Cost	1.0	1.5	1.7	-37%	-43%
EBT and exceptional	60.4	59.5	77.6	1%	-22%
Share of Profit of JV	0.0	0.0	0.0		
Exceptional items	0.0	0.0	0.0		
PBT	60.4	59.5	77.6	1%	-22%
Tax Expense	12.1	13.5	18.7	-10%	-35%
Effective tax rate %	20.0%	22.7%	24.1%	-266	-407
PAT	48.3	46.0	58.9	5%	-18%
PAT margin (%)	13.3%	12.7%	16.4%	57	-313
EPS (INR)	1.2	1.1	1.4	5%	-17%

Source: Company, Aриhant Research

Therapeutic Segment-Wise Distribution



Source: Company, Aриhant Research (CVS: Cardiovascular System, CNS: Central Nervous System)

Conference Call Highlights

Operational:

- During the quarter, there was increased cost pressure across the board which reduced operating margins.
- With net cash on the balance sheet, the finance cost declined. Also, the tax out-go was lower which positively impacted the bottom-line to some extent.
- The company is continuously investing in manufacturing and distribution capabilities to maintain sustainability.
- The development of the Goa facility which includes addition of manufacturing lines is on track.
- It expanded the product portfolio by launching 4 new products during the quarter. 3 products were launched in the US and 1 was introduced in the UK. The team is working on several new products for the developed markets.
- The management is targeting the top-line to reach INR 2,000 Cr in the next two years with expansion in operating margins.

Financials:

- New product launches in regulated markets, increase in market share and volume growth facilitated revenue growth.
- Higher freight costs and increase in raw material prices (including packaging materials) owing to import from China negatively impacted operating margins.
- Freight costs have stabilized at current levels but has not declined further.
- Within raw material cost, ibuprofen prices have declined in the range of 5-8% but paracetamol and metformin prices have continued to remain higher.
- The company was able to pass on some cost increase to its customers. A part of it was undertaken in the current quarter, but the remaining will be reflected in Q4FY22 and Q1FY23. It depends upon when the company was awarded the contract.
- The company has allocated about INR 100 crores on capital expenditure out of the cash balance of INR 300 crores.
- On a QoQ basis, there was decline in US revenues, owing to price erosion, which was in the range of 7-8% during the quarter.
- The company increased its market share in the ANZ region and the business environment is expected to remain buoyant going forward.

Outlook:

- Effective tax rate likely to be around 22% going forward.
- Erosion of Gross Margin has bottomed out in the previous quarter, which stood around 51%.
- The management is targeting Gross Margin of 55% in the next few quarters.
- The company is also targeting expansion in operating margins to about 21-22% in next two years.
- It spend some capital expenditure on setting up Active Pharmaceutical Ingredients (API) facility to enhance its backward integration operation to certain raw material availability.
- The company will launch 1 product in Q4FY22. Also, it plans to further ramp-up the new product launches done in Q3FY22.

Key Financials

Income Statement

Y/E March (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	1,134	1,376	1,464	1,618	1,861
Change (%)	13.4%	21.3%	6.4%	10.6%	15.0%
Cost of Goods Sold	545	595	687	732	838
% Sales	48.0%	43.2%	46.9%	45.3%	45.0%
Employee costs	168	197	215	235	265
Other expenses	229	244	289	312	354
EBITDA	192	340	273	340	405
EBITDA (%)	17.0%	24.7%	18.7%	21.0%	21.8%
Other Income	0	7	37	26	26
Depreciation	27	36	33	35	37
Interest	9	8	5	5	5
PBT	157	302	272	326	389
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	157	302	272	326	389
Tax Expense	36	64	55	73	87
Tax Rate (%)	23.2%	21.1%	20.2%	22.5%	22.5%
PAT	121	239	217	252	301
PAT (%)	10.6%	17.3%	14.8%	15.6%	16.2%
EPS	3.0	5.8	5.3	6.2	7.4

Cash Flow Statement

Y/E March (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
PBT	157	302	272	326	389
Depreciation	27	36	33	35	37
Interest & others	9	8	5	5	5
Other	7	31	0	0	0
CF before WC changes	199	377	310	366	431
(Inc)/dec in working capital	52	-150	-20	-48	-86
CF after WC changes	258	227	290	318	345
Less: Taxes	-25	-49	-55	-73	-87
Operating cash flow	233	179	235	245	257
(Inc)/dec in F.A + CWIP	-60	-46	-59	-77	-47
Cash flow from investing	-60	-45	-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	-11	38	32	30
Cash flow from financing	-114	-15	-8	-14	-15
Net inc /(dec) in cash	60	119	167	154	195
Opening balance of cash	33	93	212	379	533
Closing balance of cash	94	212	379	533	728

Balance Sheet

Y/E March (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	41	41	41	41	41
Reserves & Surplus	595	846	1063	1315	1616
Net Worth + Non Controlling	649	905	1122	1375	1676
Total Debt	19	19	19	19	19
Deferred Tax liabilities	11	8	8	8	8
Other non-current liab.	17	16	15	15	15
Current liabilities	201	280	271	288	313
Total Liabilities	897	1228	1435	1704	2031
Application of Funds					
Net Block	220	234	216	198	177
Capital Work in Progress	0	0	0	0	0
Intangible Assets	83	81	81	81	81
Other non-current assets	4	11	57	126	167
Debtors	243	271	281	310	357
Inventories	242	404	404	437	500
Cash & bank balance	94	212	379	533	728
Other Current Assets	11	14	16	18	20
Total Assets	897	1228	1435	1704	2031

Key Ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	3.0	5.8	5.3	6.2	7.4
BVPS	15.5	21.7	27.0	33.1	40.5
Valuation (x)					
P/E	16.9	8.6	9.4	8.1	6.8
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	52.0%	56.8%	53.1%	54.8%	55.0%
EBITDA Margin	17.0%	24.7%	18.7%	21.0%	21.8%
PAT Margin	10.9%	17.2%	14.8%	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, Arihant 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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