

Company Overview

Founded in 1992, Marksans Pharma was incorporated as a wholly owned subsidiary of Glenmark Pharma. The company is engaged in Research, Manufacturing & Marketing of generic pharmaceutical formulations in the global markets. Over the years, the company has become an established player in the OTC space, with a meaningful presence in North America and the UK. The company is also present in Australia, New Zealand, the Middle East, Africa, and South-East Asia. The company produces OTC and prescription medicines in therapy areas including oncology, gastroenterology, antidiabetic, antibiotics, cardiovascular, pain management, and gynaecology, among others. The company also offers CRAMS services to global pharmaceutical companies. Marksans has a presence in more than 50+ countries, largely in regulated markets. The company has manufacturing facilities in India, the UK, and the US where it manufactures tablets, hard & soft gelatin capsules, oral liquids, and ointments. The company's Goa facility is one of the biggest manufacturing facilities for soft gelatin capsules and tablets in Asia.

Investment Rationale

Focus on integration of newly acquired manufacturing plant from Teva

Marksans Pharma has entered into a Business Transfer Agreement with Tevapharm to acquire its business relating to the manufacture and supply of bulk pharmaceutical formulations in Goa. The company plans to manufacture tablets, hard and soft gel capsules, ointments, gummies, and creams from the new capacity. The newly acquired manufacturing plant, where the company plans to increase its capacity, will launch a new delivery segment of oral solid dosage forms and expect meaningful revenue contribution from this plant to start from Q3FY24. The new capacity will be an addition to the three existing manufacturing sites in Southport (UK), Farmingdale (US), and Goa (India). The company is likely to spend Rs. 200 crores for the acquisition and the said capex.

Strong growth in OTC business to drive profitability

Marksans Pharma has in-house R&D centres, owned and outsourced manufacturing, and a wide-spread supply chain and distribution set up through subsidiaries in the US, the UK, and Australia. Over the years, the company has spread its product portfolio across key therapeutic areas and captured a large share of the OTC and generic market via licensed products with reach within the distribution channels in the UK and the US. Further, the benefit of being in the OTC business is relatively less pricing pressure which brings stability to the business. The company has not withdrawn any OTC products till now across all markets due to pricing pressure. The OTC business has relatively higher entry barriers as the company would need to build relationships with last-mile retailers. The OTC segment is mostly for niche markets but there is room for the company to grow even with competition. We, thus, expect the company to launch new high-margin products, enter new geographies, add new customers, and capture growth opportunities in the OTC segment.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	110
Target Price (INR)	129
NSE Symbol	MARKSANS
BSE Code	524404
Bloomberg	MRKS IN
Reuters	MARK.BO

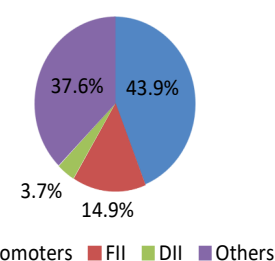
Key Data

Nifty	19,745
52WeekH/L(INR)	113 / 46
O/s Shares (Mn)	453
Market Cap (INR bn)	50
Face Value (INR)	1

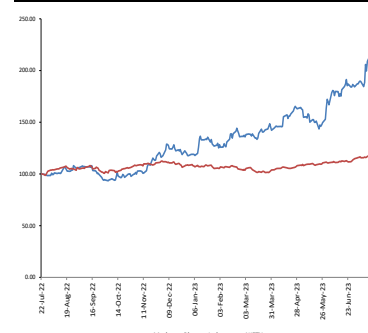
Average volume

3 months	37,57,740
6 months	30,55,770
1 year	25,10,010

Share Holding Pattern (%)



Relative Price Chart



Marksans Pharma Ltd.

Valuation and Outlook

Marksans is concentrating on regulated markets of the US and the UK with a focus on higher margin soft gels and OTC products. Over the years, the company has become an established player in the OTC space with a meaningful presence in North America and the UK. The company is focused on the private-label OTC drugs market which accounts for 70% of its sales. Led by prudent acquisitions made in the past, Marksans has created capital efficiencies that allow them to compete even in an adverse price environment as it exists today. Now, the company focuses on the creams and ointments OTC category as the Teva plant acquisition gives them the necessary capacities. Teva's Goa plant has the potential to double company-level revenues with incremental investments in new capex. The company will need to incur capex for adding more lines to this facility which requires an annual capex of Rs. 100 crores for the next three years. The company grew its revenue at a CAGR of 16.0% during the FY21-23 period. **Thus, we give the stock a "Buy" rating. On the valuation front, we value the company based on 22x of FY23 earnings and arrived at a target price of INR 129 (17% upside from CMP) with a 12 months investment horizon.**

Key Financials						
YE March (Rs. crores)	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	913	1,000	1,134	1,376	1,491	1,852
Revenue Growth (Y-o-Y)	19.0%	9.6%	13.4%	21.3%	8.3%	24.2%
EBIDTA	78	132	192	340	259	339
EBIDTA Growth (Y-o-Y)	75.2%	68.6%	45.5%	76.6%	(23.8%)	31.1%
Net Profit	36	80	121	239	187	265
Net Profit Growth (Y-o-Y)	215.7%	124.7%	50.1%	97.5%	(21.7%)	42.0%
Diluted EPS	0.8	1.8	2.7	5.3	4.1	5.9
Diluted EPS Growth (Y-o-Y)	215.7%	124.7%	50.1%	97.5%	(21.7%)	42.0%
Key Ratios						
EBIDTA margin (%)	8.6%	13.2%	17.0%	24.7%	17.4%	18.3%
NPM (%)	3.9%	8.0%	10.6%	17.3%	12.5%	14.3%
RoE (%)	7.6%	14.8%	19.0%	26.9%	15.5%	0.4%
RoCE (%)	13.2%	20.6%	29.4%	37.5%	20.8%	0.5%
Valuation Ratios						
P/E (x)	139.3x	62.0x	41.3x	20.9x	26.7x	18.8x
EV/EBITDA	64.7x	38.2x	25.5x	14.1x	18.1x	12.7x
P/BV (x)	10.6x	9.2x	7.8x	5.6x	4.1x	2.9x
Market Cap. / Sales (x)	5.5x	5.0x	4.4x	3.6x	3.3x	2.7x

Source: Company, BP Equities Research



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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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