

Marksans reported earnings were marginally above our estimations. Revenue saw a significant growth of 20.8% YoY and 8.7% QoQ to INR 6,419mn, driven by strong performance across key markets which was led by the US market and increased market share. EBITDA at INR 1,357mn saw a similar growth of 19.1% YoY and 5.6% QoQ. Margins slightly contracted by 31bps YoY and 61bps QoQ to 21.1%. Adj. PAT grew by 16.6% YoY and 9.8% QoQ to INR 978mn. The management expects strong performance in the coming quarters, led by upcoming new launches and scaling up of the TEVA facility.

- US & North America:** The US business experienced a robust growth of 36.9% YoY and 21.2% QoQ, accounting for ~47% of total revenue, driven by increased market share and incremental revenue from the new product launches. Price erosion in the prescription portfolio is stable. The demand for cough and cold remedies will increase as the winter season approaches, which will boost revenue growth in the upcoming quarters. The aim is to double store brand OTC revenue. Marksans has 32 products in the pipeline, of which 20 are oral solids and 12 are ointments and creams.
- UK & Europe Business:** The UK business grew by 5.7% YoY but marginally de-grew by 1.9% QoQ to INR 2,467mn, accounting for ~38% of total revenue, the decline was due to the onset of the cough and cold season. Planning for 34 new filings over the next 3 years of which 16 products are already filed and awaiting approval. The company is investing heavily in R&D in the UK, with a focus on new product launches and filings, which is expected to generate significant revenue potential. The company expects a consolidated stronger Q3FY25 due to improved UK numbers. Marksans is prioritizing M&A in Europe, a region it is looking to expand into, and has been exploring opportunities for over a year. It's also expected that the UK market will bounce back in the H2FY25 with the onset of the winter season.
- Margin Profile:** The gross margin improved significantly by 732bps YoY and 407bps QoQ, reaching 59.7%, due to the softening of raw material prices and a better product mix. The EBITDA margin slightly contracted by 31bps YoY and 61bps QoQ to 21.1%, because of an increase in employee expenses due to the addition of new employees at the TEVA facility and a surge in freight cost due to the Red Sea crisis.
- Outlook and Valuation:** Marksans growth story is based on its revenue guidance of achieving INR 3,000cr in the next 2 years with a better margin, supported by doubling revenue in the US & North American market, inorganic growth to support the growth in the European market, a healthy product pipeline offering across the key therapeutic segments, and backward integration to support the margin expansion. The expected CAGR for Revenue, EBITDA, and PAT is 18.4%, 22.1%, and 25.5%, respectively, for FY24-27E. We have introduced FY27E and valued the stock based on Sep-FY27E EPS, arriving at a target price of INR 376 (valued at 30x) and assigning a **BUY** rating on the stock.

### Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	14,908	18,521	21,774	26,278	30,712	36,138
Gross Profit (INR Mn.)	7,740	9,308	11,393	14,216	16,799	19,876
EBITDA (INR Mn.)	2,589	3,393	4,586	5,834	7,002	8,348
EBITDA Margin (%)	17.4	18.3	21.1	22.2	22.8	23.1
Adj. EPS (INR)	4.5	5.9	6.9	9.2	11.3	13.7

Source: Company, CEBPL

	Nov 13, 2024
CMP (Rs)	306
Target Price (Rs)	376
Potential Upside (%)	22.9

\*CMP as on 13<sup>th</sup> Nov 2024

### Company Info

BB Code	MRKS IN EQUITY
ISIN	INE750C01026
Face Value (Rs.)	1.0
52 Week High (Rs.)	328
52 Week Low (Rs.)	4126
Mkt Cap (Rs bn.)	138.5
Mkt Cap (\$ bn.)	1.6
Shares o/s (Mn.)/F.Float (%)	453/45
TTM EPS (Rs)	7.7
EPS FY27E (Rs)	13.7

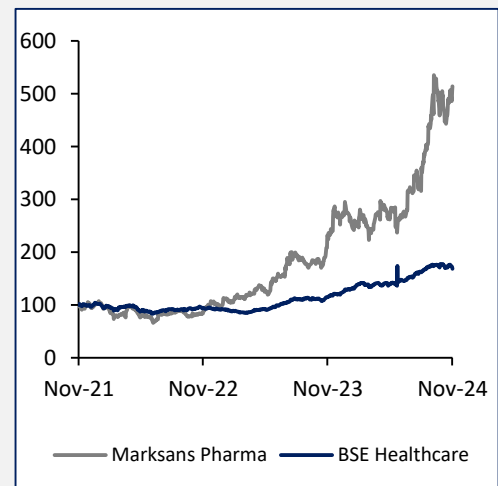
### Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	43.87	43.87	43.85
FII's	21.31	18.59	15.57
DII's	4.10	3.75	5.17
Public	30.70	33.77	35.40

### Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	68.7	78.4	46.9
Alkem Labs	413.9	497.8	121.2

### Rebased Price Performance



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## Quarterly performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	6,419	5,312	20.8	5,906	8.7
Cost of Goods Sold	2,584	2,527	2.2	2,618	-1.3
Gross Margin (%)	59.7	52.4	731.8bps	55.7	406.9bps
Employee Expenses	842	711	18.3	805	4.6
<b>EBITDA</b>	<b>1,357</b>	<b>1,139</b>	<b>19.1</b>	<b>1,284</b>	<b>5.6</b>
EBITDA Margin (%)	21.1	21.4	-31.3bps	21.7	-60.9bps
Depreciation	195	176	11.2	204	-4.6
EBIT	1,272	1,154	10.3	1,229	3.5
Interest	26	16	62.0	29	-9.9
<b>PBT</b>	<b>1,246</b>	<b>1,138</b>	<b>9.5</b>	<b>1,200</b>	<b>3.8</b>
Tax	268	299	-10.3	310	-13.3
<b>PAT</b>	<b>978</b>	<b>839</b>	<b>16.6</b>	<b>891</b>	<b>9.8</b>
PAT Margin (%)	15.2	15.8	-55.5bps	15.1	14.9bps
EPS	2.2	1.9	16.6	2.0	9.8

Source: Company, CEBPL

## Geographical Performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
US & North America	3,042	2,222	36.9%	2,509	21.2%
% of sales	47.4	41.8		42.5	
Europe & UK	2,467	2,333	5.7%	2,515	-1.9%
% of sales	38.4	43.9		42.6	
Australia & New Zealand	636	484	31.4%	656	-3.0%
% of sales	9.9	9.1		11.1	
India & RoW	274	273	0.4%	227	20.7%
% of sales	4.3	5.1		3.8	
<b>Total Sales</b>	<b>6,419</b>	<b>5,312</b>		<b>5,907</b>	

Source: Company, CEBPL

## Estimates vs Actual

Particulars (Rs mn)	Actual	Estimates	Deviation (%)
Net Sales	6,419	6,218	3.2
EBIDTA	1,357	1,368	-0.8
EBIDTA Margin (%)	21.1	22.0	-86.3bps
PAT	978	956	2.2
EPS	2.2	2.1	2.2

Source: Company, CEBPL

## Change in estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Previous	Change	New	Previous	Change	New
Net sales	26,278	26,699	-1.58	30,712	31,790	-3.39	36,138
EBITDA	5,834	6,274	-7.02	7,002	7,693	-8.98	8,348
EBITDA margin(%)	22.2	23.5	-130	22.8	24.2	-140	23.1
PAT	4,175	4,472	-6.63	5,142	5,587	-7.97	6,206
EPS	9.2	9.8	-6.65	11.3	12.3	-7.98	13.7

Source: Company, CEBPL

## Management Call - Highlights

### North America & US Markets

- The order book remains strong, supported by a pipeline of new products and contract extensions, with growth expected to continue through product launches starting from Q3 FY25.
- Elevated inventory levels due to new launches and contractual stockpile requirements are expected to normalize as sales pick up by March 2025.

### Europe & UK Markets

- Management aims to become one of the top three companies in the UK within the next few years, maintaining a strong focus on growth.

### Australia & NZ Markets

- Business in Australia and New Zealand demonstrated strong performance this quarter, with an improved growth trajectory.
- The OTC market in these regions is seen as a key growth area, with a focus on expanding the OTC portfolio to double revenue over time.
- The company aims for a milestone of AUD 50 mn before pursuing further growth.

### Others

- Gross margin expansion is primarily due to reductions in raw material costs rather than shifts in the prescription versus OTC product mix.
- Management remains committed to exploring growth opportunities, especially in high-potential markets.
- No immediate mergers or acquisitions are planned, but management remains open to value-added opportunities, particularly in Europe and the domestic Indian market.

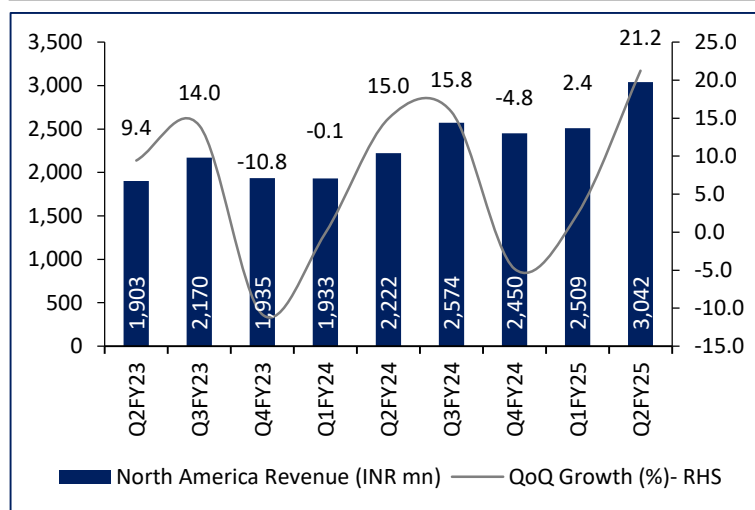
### Teva Facility

- The acquired manufacturing facility from Teva Pharma is ramping up operations successfully and is on track to scale further in the coming quarters.
- Currently operating at approximately 40% capacity utilization, the Teva facility contributed about INR 100 crores in the quarter.
- The facility is expected to contribute positively to profits, yielding operating leverage benefits as capacity utilization improves.

### Outlook

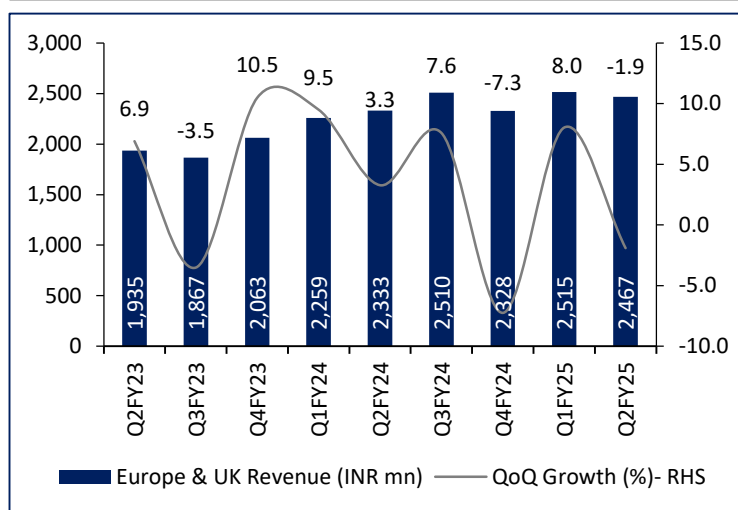
- The strategy focuses on expanding the current business, launching new products, and enhancing supply from the new facility, with a milestone revenue target of INR 3,000 crores within the next two years.
- R&D spending for Q2 was INR 10.7 crores, representing 1.7% of revenue, with a goal of reaching 2% for FY25.
- Management remains open to value-added opportunities for mergers and acquisitions, especially in Europe and potentially in the domestic market, to complement organic growth.

North America Market (Rs. mn) and QoQ Growth (%)



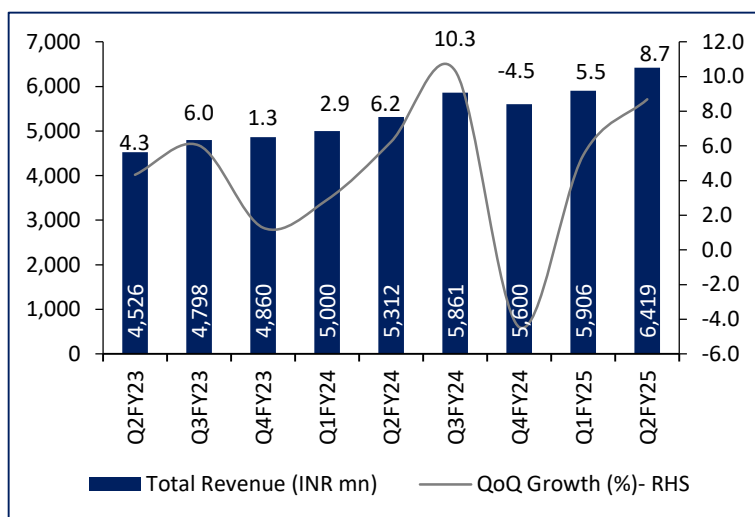
Source: Company, CEBPL

Europe & UK Market (Rs. mn) and QoQ Growth (%)



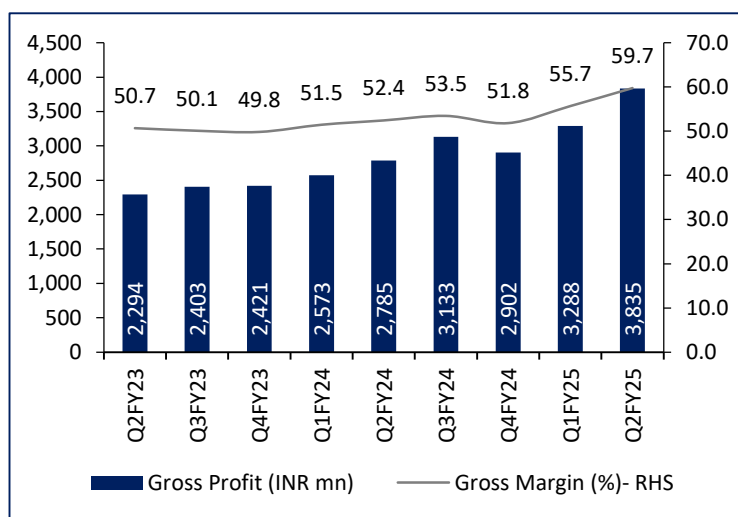
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



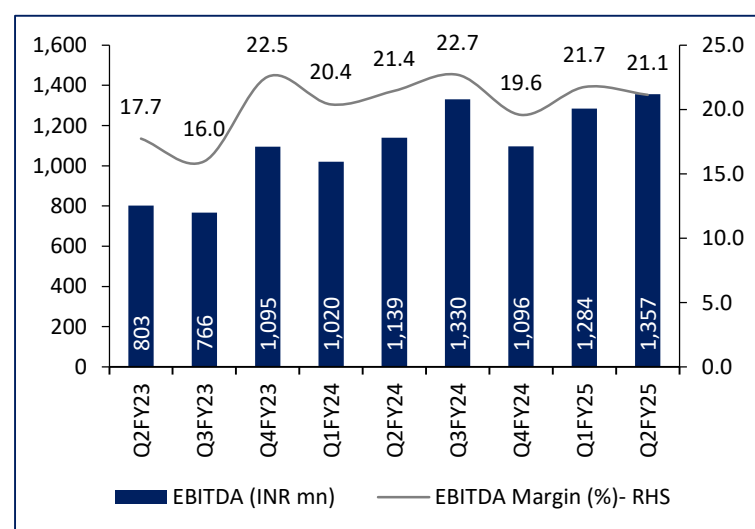
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



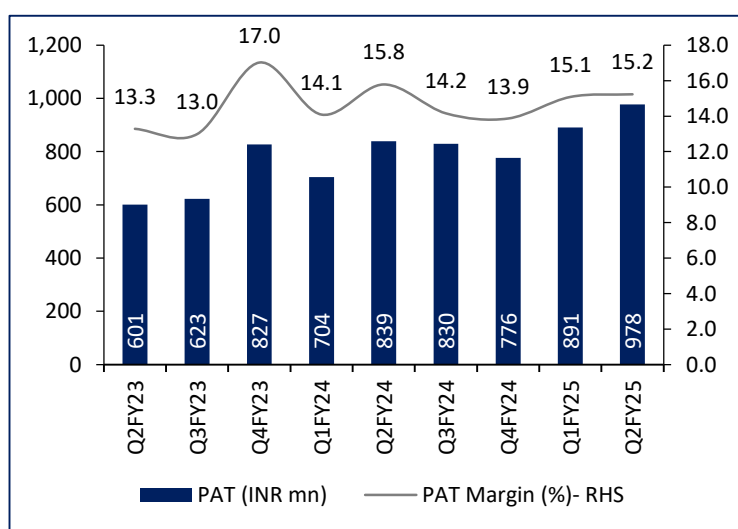
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



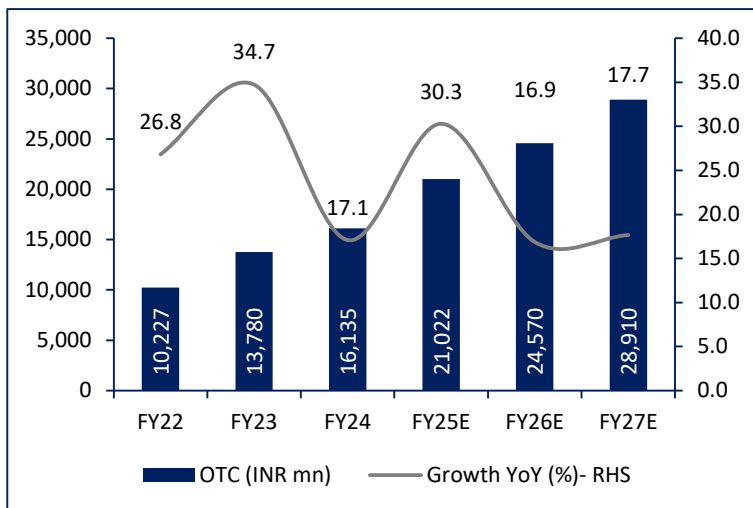
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



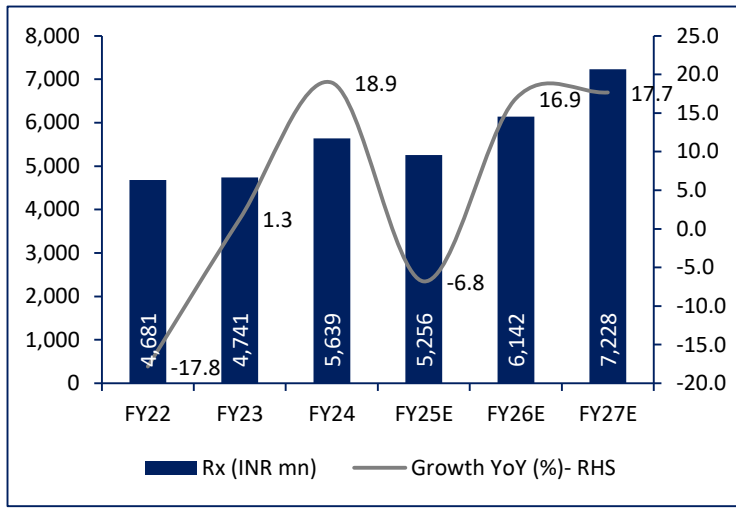
Source: Company, CEBPL

**OTC Revenue (Rs. mn) and YoY Growth (%)**



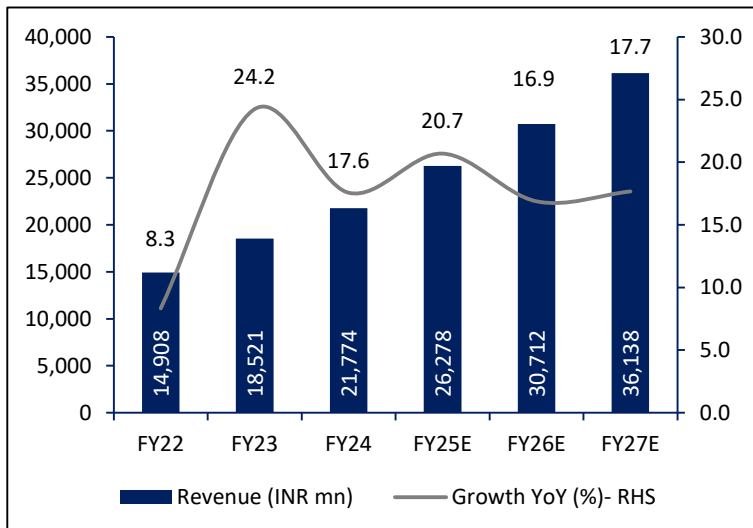
Source: Company, CEBPL

**Rx Revenue (Rs. mn) and YoY Growth (%)**



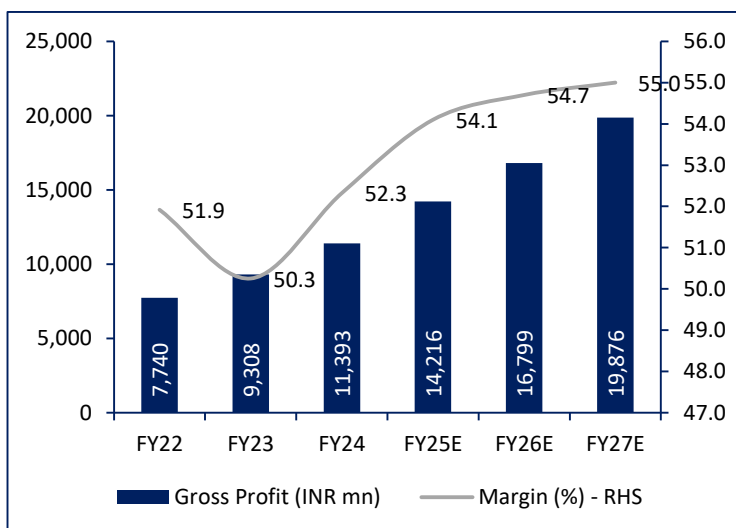
Source: Company, CEBPL

**Total Revenue (INR mn) and YoY Growth (%)**



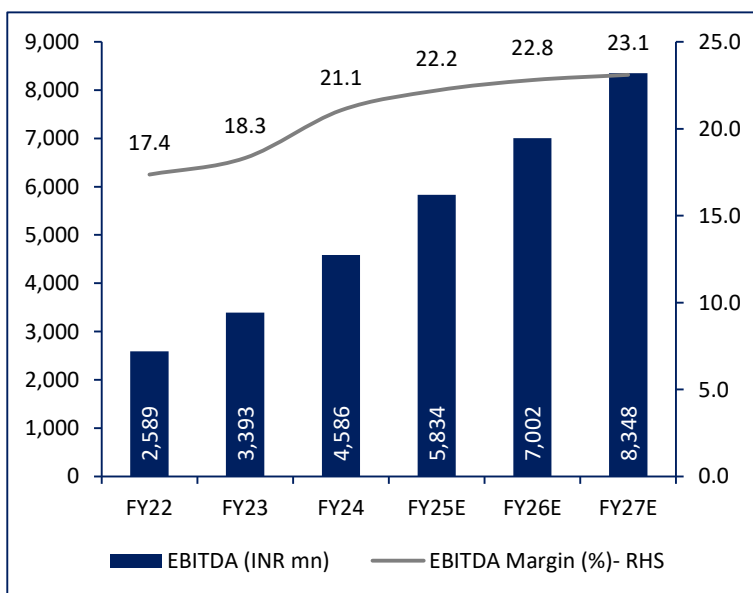
Source: Company, CEBPL

**Gross Profit (INR mn) and Margin (%)**



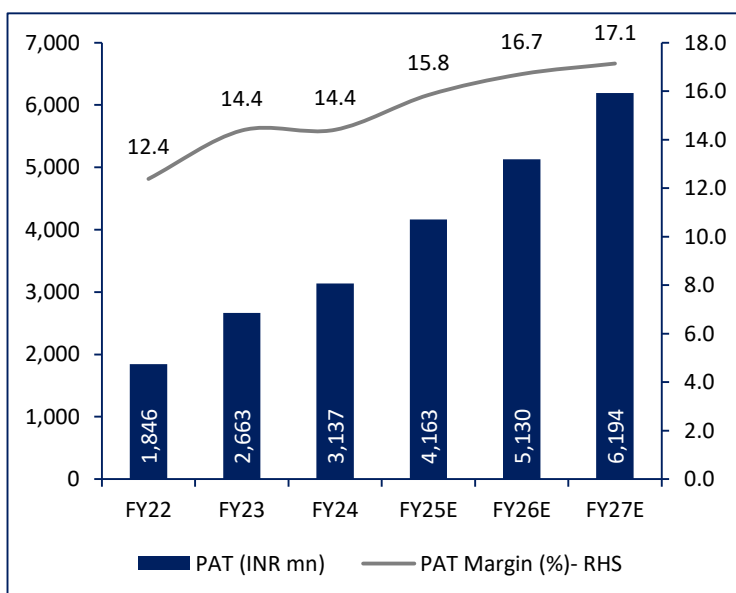
Source: Company, CEBPL

**EBITDA (INR mn) and Margin (%)**

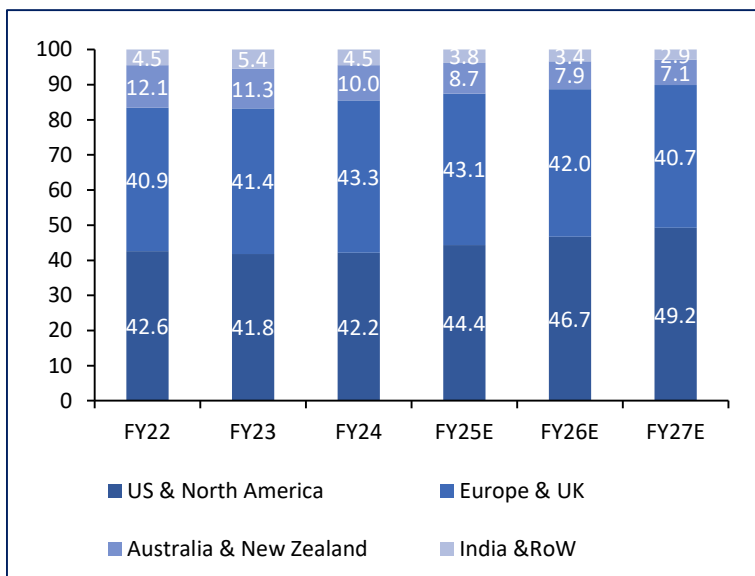


Source: Company, CEBPL

**PAT (INR mn) and Margin (%)**

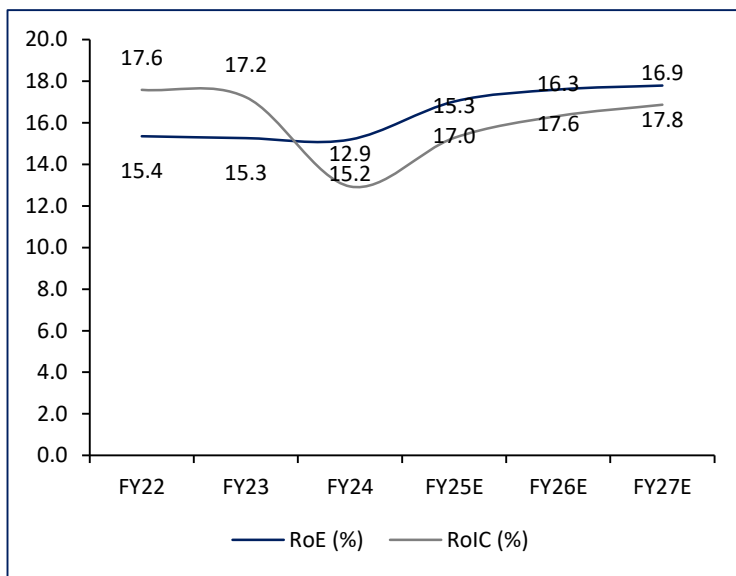


**Geographical Breakdown of Revenue (% of sales)**



Source: Company, CEBPL

**RoE (%) and RoIC (%)**



Source: Company, CEBPL

**1 Year Forward PE Band (x)**



Source: Company, CEBPL

**Income statement (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,908	18,521	21,774	26,278	30,712	36,138
Gross profit	7,740	9,308	11,393	14,216	16,799	19,876
EBITDA	2,589	3,393	4,586	5,834	7,002	8,348
Depreciation	448	519	743	833	849	925
EBIT	2,560	3,468	4,347	5,657	6,921	8,326
Other income	419	593	504	657	768	903
Interest expense	84	91	112	90	65	52
PBT	2,475	3,377	4,235	5,567	6,856	8,275
Reported PAT	1,846	2,663	3,137	4,163	5,130	6,194
EPS	4.5	5.9	6.9	9.2	11.3	13.7

**Balance sheet (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	12,023	17,452	20,651	24,460	29,154	34,822
Borrowings	413	416	291	0	0	0
Trade Payables	2,001	2,306	2,683	3,240	3,534	4,158
Other non-current liabilities	609	843	2,052	1,782	1,462	1,142
Other current liabilities	1,148	688	925	786	545	443
Minority Interest	207	199	209	197	185	173
<b>Total Net Worth &amp; liabilities</b>	<b>16,401</b>	<b>21,904</b>	<b>26,809</b>	<b>30,464</b>	<b>34,879</b>	<b>40,738</b>
Net Block	3,416	3,796	6,757	7,174	7,338	7,498
Capital WIP	7	72	54	54	54	54
Goodwill & intangible assets	867	1,067	1,002	1,002	1,002	1,002
Investments	4	5	270	270	270	270
Trade Receivables	3,948	4,168	4,532	5,760	7,152	8,416
Cash & Cash equivalents	3,493	7,150	6,736	6,944	7,476	6,278
Other non-current assets	99	215	371	471	695	809
Other current assets	4,567	5,430	7,087	8,789	10,891	16,411
<b>Total Assets</b>	<b>16,401</b>	<b>21,904</b>	<b>26,809</b>	<b>30,464</b>	<b>34,879</b>	<b>40,738</b>

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from operations	993	2,374	2,304	2,677	2,685	2,372
Cash flows from investing	(844)	(2,592)	(1,497)	(1,250)	(1,013)	(1,084)
Cash flows from financing	795	1,978	(688)	(1,035)	(851)	(928)

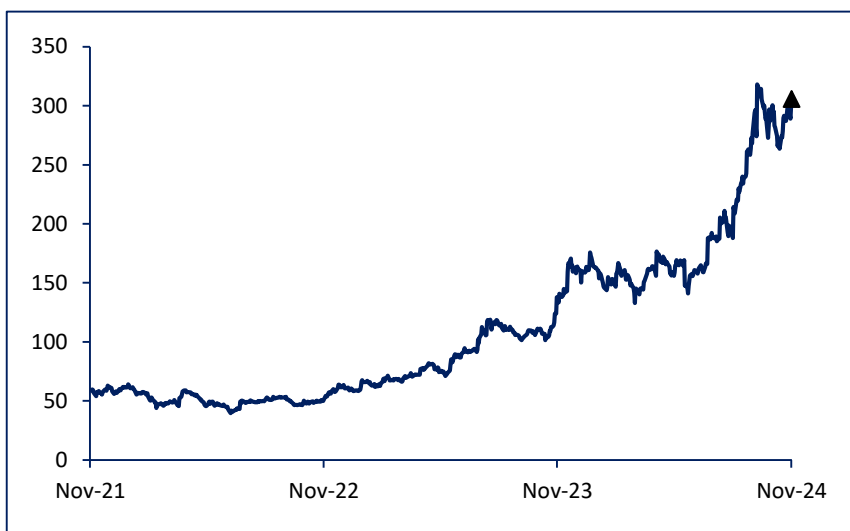
Source: Company, CEBPL

<b>Growth Ratios</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Revenues	8.3	24.2	17.6	20.7	16.9	17.7
EBITDA	(23.8)	31.1	35.1	27.2	20.0	19.2
PAT	(21.8)	44.3	17.8	32.7	23.2	20.7
<b>Margins</b>						
EBITDA Margin	17.4	18.3	21.1	22.2	22.8	23.1
PAT Margin	12.4	14.4	14.4	15.8	16.7	17.1
<b>Profitability</b>						
Return on equity (ROE)	15.4	15.3	15.2	17.0	17.6	17.8
Return on invested capital (ROIC)	17.6	17.2	12.9	15.3	16.3	16.9
Return on capital employed (ROCE)	14.8	14.9	15.0	17.0	17.6	17.8
<b>Financial leverage</b>						
Pre-tax OCF/EBITDA (x)	0.6	0.9	0.7	0.7	0.6	0.5
OCF / Net profit (x)	0.5	0.9	0.7	0.6	0.5	0.4
EV/EBITDA (x)	52.8	39.8	29.4	23.0	19.0	15.9
<b>Turnover Ratios (Days)</b>						
Inventory days	104	96	104	105	110	110
Receivable days	97	82	76	80	85	85
Creditor days	49	45	45	45	42	42
Working Capital Days	152	132	135	140	153	153
<b>Financial Stability ratios</b>						
Net debt to Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net debt to EBITDA (x)	(0.6)	(1.0)	(0.8)	(0.7)	(0.7)	(0.7)
Interest Cover(x)	30.3	38.0	38.8	62.6	106.6	160.8
<b>Valuation Metrics</b>						
Fully diluted shares (mn)	409	453	453	453	453	453
Price (INR)	306	306	306	306	306	306
Market Cap(INR Mn)	1,25,065	1,38,464	1,38,463	1,38,463	1,38,463	1,38,463
PE(x)	67.8	52.0	44.1	33.3	27.0	22.4
EV (INR Mn)	1,36,812	1,35,055	1,34,721	1,34,129	1,33,308	1,32,949
EV/EBITDA (x)	52.8	39.8	29.4	23.0	19.0	15.9
Book Value (INR/share)	29.4	38.5	45.6	54.0	64.3	76.8
Price to BV (x)	10.4	7.9	6.7	5.7	4.7	4.0
EV/OCF (x)	85.5	43.6	39.7	33.0	30.3	29.9

Source: Company, CEBPL



## Historical recommendations and target price: Marksans Pharma



### Marksans Pharma

- |    |            |             |                     |
|----|------------|-------------|---------------------|
| 1. | 14-06-2024 | Outperform, | Target Price Rs.215 |
| 2. | 14-11-2024 | Buy,        | Target Price Rs.376 |

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<b>BUY</b>	The security is expected to generate greater than or = 15% over the next 24 months
<b>HOLD</b>	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
<b>SELL</b>	The security expected to show Below -5% next 24 months

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