



The Trick Is To  
**Spot Them** At The  
**Larval Stage**

BSE Code	: 524404
Time Duration	: 1 year
CMP	: ₹36.85 (as on 23 July, 2020)
Target Price	: ₹48

## Marksans Pharma

### Mark This Scrip For A Healthy Portfolio

Our Tiny Treasure for the month of July is Marksans Pharma Limited. In 2001, it was incorporated as a wholly-owned subsidiary of Glenmark Pharmaceuticals Limited. However, in 2003, it was spun-off into a separate entity. The company is engaged in research, manufacture, and marketing of generic pharmaceutical products and solutions. It has a wide presence in key regulated markets of the US, Canada, the UK, and Australia, among others. The company has three manufacturing units, one each in India, one in the UK and the other in the United States.

#### Strong product portfolio

Marksans Pharma manufactures and markets analgesics, expectorants as well as an anti-diabetic, cardiovascular, central nervous system, gastrointestinal and oncologic drugs in addition to the antibiotic and anti-allergic products. The company's pain management segment contributes the largest towards revenue i.e. 29.7 per cent. Cardiovascular contributes around 15.5 per cent, cough and cold another 13.8 per cent while, the central nervous system contributes around 11 per cent, followed by anti-diabetics with 10 per cent. Gastro-intestinal, anti-allergic, antibiotics and others contribute the remaining, roughly 17 per cent. In FY20, 55 per cent of the revenue was generated from over the counter (OTC) segment and 45 per cent prescription (Rx) drugs segment. The product portfolio is quite well-diversified and the prudent product mix in the US and UK markets has led to an improvement in the operating margins from 6 per cent in FY17 to 17 per cent in FY20.

Also, it has a presence in the niche softgel capsules segment. Considering the economic, technical, and patent constraints, not many players exist in this segment. It has filed softgel products in all the major markets including the USA, UK, Europe, Canada, Australia & Russia. For this segment, the USA has a potential market of USD 9 billion. The company has six new approvals pending with the USA from this segment. Its Goa facility has a capacity to turn out 2.4 billion softgel capsules per annum. This niche segment gives the company a competitive advantage over its peers and will continue to be its growth driver.

#### Diversification across geographical areas

In FY20, the company's revenue mix in terms of geographical

spread included Europe, UK - 45 per cent, US & North America - 39 per cent, Australia & New Zealand - 12 per cent and rest of the world (RoW) - 4 per cent. It generates 96 per cent of its revenues from such regulated markets. It has entered into strategic tie-ups and acquired key players in the major markets to expand its global footprint.

In the UK, it is one of the top five pharma companies. It has a portfolio of over 50 products in the OTC segment and 100+ products in the Rx drugs segment. Due to its annual launches of five-to-six products and tie-ups with ten major distributors of the country, its top-line is getting stronger and giving good revenue visibility for the upcoming years. It is awaiting approval for ~20 MAs in the UK market. In June 2015, Marksans had acquired Time-Cap Labs located at Farmingdale (New York, USA). During the March quarter of FY20, it received an establishment inspection report (EIR) from United States Food and Drug Administration (USFDA) for Time-Cap Laboratories, which will help it further to expand its reach in the US market. It plans to add four to five new products in the near term for the US market. It has a portfolio of over 20 products with ten abbreviated new drug applications (ANDAs) pending approvals from the USFDA and R&D pipeline of 15 products. The pricing position in the US markets stabilised and post-Brexit, the European markets too settled thereby, helping the company in growing its top-line and operating margins in the last two years.

In Australia, it has tie-ups with the topmost retailers and pharmacies like Woolworths Ltd, Coles Myer Ltd, Aldi, Metcash and Faulding. The company has a stronghold in the key therapeutic areas in Australia and New Zealand markets.

The company now aims to focus on specific countries like Iraq, Kenya, Ukraine, Sri Lanka & Myanmar and also, started filing for approvals in these countries. The company expects to generate 10 per cent of the total revenue from these targeted markets by FY22.

#### Focus on R&D

In FY20, the company spent Rs 8.3 crore on R&D, which almost doubled from Rs 4.5 crore in FY17. Its R&D segment focusses on developing generic products and pharmaceutical formulations,

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DSJ Pvt. Ltd. : C - 105, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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identifying niche areas for product development, post-patent filing for regulated and emerging markets, etc. Recently, it has set up a newly-commissioned state of art R&D centre apart from the existing Goa facility, at Navi Mumbai with an aim to foray into new segments and cater to the therapeutic needs across the globe. Over the years, the company has developed an ability to formulate and market a drug in the shortest possible lead time.

### Stellar financial performance

Marksans Pharma's consolidated revenue for the quarter Q4FY20 came in at Rs 335.34 crore as against Rs 247.4 crore in the corresponding quarter last year, registering 35.5 per cent YoY increase. EBITDA for the quarter grew by 342.6 per cent YoY to Rs 69.18 crore as against Rs 15.63 crore in the corresponding quarter last year, with a corresponding margin expansion of 1,431 bps. EBITDA margin for the quarter stood at 20.6 per cent. PAT for the quarter came in at Rs 42.74 crore as against Rs 9.85 crore in the corresponding quarter last year, with a YoY increase of 333.9 per cent. Looking at the full-year numbers i.e. for FY20, the revenue jumped by 13 per cent YoY to Rs 1,134.2 crore while, EBITDA grew by 45 per cent YoY to Rs 192.24 crore. Further, the company reported a net profit of Rs 120.75 crore, up by 50 per cent YoY.

In FY20, the formulations business in Europe & the UK grew by 23.5 per cent YoY, in the US & North America by 6.1 per cent YoY and in Australia & New Zealand by 17.3 per cent YoY. By the end of FY20, it became a zero-debt company. It has been consistently paying dividend to its shareholders over the last five to six years.

### Valuation

The company is trading at TTM P/E of 12.78x with a TTM EPS of Rs 2.95. In FY20, it delivered ROE and ROCE of 18.6 per cent and 24.5 per cent, respectively. The company has a well-diversified product portfolio and the product mix in the US and UK markets has brought an improvement in its margins. Its base is getting stronger in the US and the UK markets by launching new products. Moreover, its focus to spread presence in new countries will boost the top-line, going forward. Its consistent efforts in strengthening the R&D have been beneficial for its portfolio to reach new markets. The recent pandemic lockdown had the least impact on the company as its products came under the essential services category, declared by the government. Over the years, its financial performance has also improved significantly. Considering all these factors, we see a potential upside of 30 per cent with a target price of Rs 48 for the period of one year.

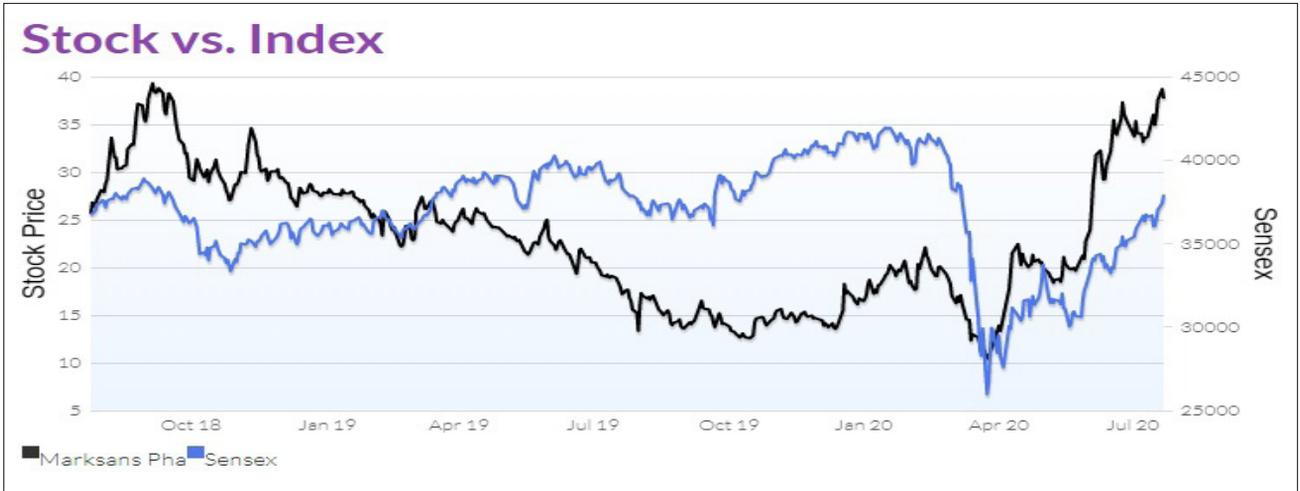
### Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	1134.21	1000.07	912.69	767.16	893.33
Total Income	1134.54	1004.70	921.17	786.01	906.04
Total Expenditure	941.96	867.93	834.31	734.24	760.91
PBIDT	192.58	136.77	86.86	51.77	145.13
PAT	120.75	80.44	35.80	11.33	82.74
Dividend %	0.00	5.00	5.00	5.00	12.00
Adj. EPS(Rs)	2.95	1.87	0.80	0.22	1.92

### Quarter On Quarter (Consolidated)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	335.35	287.65	16.58	247.41	35.54
Total Expenditure	266.15	240.36	10.73	231.76	14.84
PBIDT (Excl OI)	69.20	47.29	46.34	15.65	342.19
PAT	42.74	29.56	44.58	9.85	333.78
PBIDTM% (Excl OI)	20.63	16.44	25.49	6.33	225.91
PBIDTM%	20.64	16.45	25.47	10.26	101.17
PATM%	12.74	10.28	23.93	3.98	220.10
Adj. EPS(Rs)	1.04	0.71	46.48	0.24	333.33

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