Marksans Pharma Limited

January 20, 2023

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	123.00	CARE A+; Stable	Assigned
Long-term / Short-term bank facilities	29.00	CARE A+; Stable / CARE A1+	Assigned
Short-term bank facilities	103.75	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Marksans Pharma Limited (MPL) derive strength from the strong promoter background with over three decades of experience in the pharmaceutical industry along with long and established track record of the company, accredited manufacturing facilities and diversified geographical presence. The ratings also derive strength from the comfortable financial risk profile marked by growing scale of operations, healthy profitability, strong solvency and liquidity position.

The above strengths are partially mitigated by presence in highly regulated industry coupled with intense competition in overseas market, revenue concentration risk with dependence on one therapeutic segment and foreign exchange fluctuation risk.

The ratings also take into account the planned backward integration through Contract Development and Manufacturing Organization (CDMO) approach and planned capacity enhancement. The project is proposed to be funded by internal accruals, available cash and bank balance, and proceeds from issue of convertible warrants.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Sustained improvement in total operating income (TOI) to ₹2,500 crore and above.
- Improvement in PBILDT margin to 20% and above on a sustained basis.
- Timely completion of the planned project and achieving desired benefits from the same.

Negative factors

- PBILDT margin falling below 15% on a sustained basis.
- Any adverse regulatory action against MPL, significantly impairing the credit profile of the company.
- Any unenvisaged debt resulting into deterioration in solvency position of the company.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of MPL consisting of MPL (Standalone) and its wholly owned subsidiaries as mentioned in Annexure 6.

Key strengths

Experienced promoter and long track record of the company in the pharmaceutical industry:

MPL is in the business of manufacturing of pharmaceutical formulations for more than three decades and has been able to establish good relationship with its customers and suppliers. The promoters of the company have more than three decades of experience in the pharmaceutical industry. The MD and CEO of the company, Mark Saldanha, is the founder promoter of the company. Prior to MPL, he was associated with Glenmark Pharmaceutical Limited (GPL) as a whole-time director. He is supported by Satish Kumar (MD – Marksans Pharma (UK) Limited), David Mohammed (MD – Nova Pharmaceuticals Australasia Pty Ltd), and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Jitendra Sharma (CFO – MPL and director of MPL's subsidiaries). The company also has strong professionals having more than two decades of experience in the pharmaceutical industry.
Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry and in smooth operations of the company.

Accredited manufacturing facilities:
The company has three manufacturing units – one each in India, USA and UK. All the manufacturing facilities are accredited by various health authorities of regulated market and are well equipped for manufacturing tablets, caplets, capsules and pellets. The Goa facility is accredited by US-FDA, UK-MHRA, Brazil-ANVISA and Australia-TGA, while US and UK facilities are accredited by US-FDA and UK-MHRA respectively.

Growing scale of operations and healthy profitability:
The income from operations of the company has grown at a Compounded Annual growth rate (CAGR) of around 13% over FY18-FY22 on account of new product launches supported by capacity augmentation during the period and increased penetration in European Union, North American and Australian markets.
Pharma sector had witnessed a significant jump in its operating profitability (PBILDT) margin in FY21 over FY20 on account of sharp reduction in marketing, travelling and conveyance expenses in the backdrop of COVID-19 pandemic restrictions. The profitability was also supported by COVID-19-led sales opportunities. However, with the normalisation of the above-mentioned expenses along with waning sales opportunity of COVID-19-related drugs, the industry suffered a decline in its PBILDT margin during FY22 over FY21. This apart, US generic market saw a steep rise in competition and consequent price erosion, which also impacted the profitability during FY22. The operating profitability of MPL also followed the industry trend with increase in margin to around 25% in FY21 (around 17% in FY20) and decline to around 18% in FY22. Furthermore, with limited fixed capital charges, the PAT margin of the company remained comfortable at around 12% in FY22 (around 17% in FY21).
During H1FY23 (refers to the period April 01 to September 30), the company registered a turnover of around ₹886 crore (y-o-y growth of around 25%) driven by continued volume growth and market share gain in the existing products. The PBILDT margin of the company declined by around 200 bps on a y-o-y basis on account of increase in prices of active pharmaceutical ingredients (APIs) and key starting materials (KSM), the surge in solvent prices, rise in freight and energy cost. Nevertheless, the margin continued to remain healthy at 17.28% for the period. The profitability for FY23 is likely to remain in line with H1FY23.

Planned growth strategies:
The company is planning to enhance its existing production capacity for which it has acquired manufacturing plant from Tevapharm India Private Limited. The plant has an installed capacity to manufacture 1.50 billion per annum and has approvals to manufacture products from EU, Health Canada, and Japanese Health Authority. MPL is planning to enhance this capacity to 8 million per annum along with capacity enhancement of its existing Goa facility. The project will be executed in two phases and is expected to be completed by FY27. The total cost of the project is estimated to be around ₹450 crore which is proposed to be funded by internal accruals, available cash and bank balance and proceeds from issue of convertible warrants. MPL had issued convertible warrants of ₹372.40 crore on preferential basis. The company has received 25% of the price and the balance 75% will be received within 18 months from the date of allotment. Furthermore, the company is planning backward integration through Contract Development and Manufacturing Organization (CDMO) approach. Post completion of the projects, the company is expected to see substantial growth in its revenue along with improvement in the profitability margins.

Comfortable solvency position:
The solvency position of the company is comfortable as marked by the overall gearing of 0.10x as on March 31, 2022 and total debt/GCA of 0.47x for FY22. The company is net debt free with free cash balance of ₹346.26 crore as on March 31, 2022 as

against the total debt of ₹110.78 crore as on March 31, 2022. Since the company has no debt-funded capex plans in the near future and the working capital utilisation is also expected to remain low, the capital structure of the company is expected to remain comfortable at the current level.

Diversified geographical presence:
The company sells its portfolio of products internationally in over 50 countries, with majority of the revenue generated from regulated market. The company is among the top Indian pharmaceutical companies in USA and UK with products in varied therapeutic segments. USA and UK account for around 43% and 41% of the revenue respectively. Furthermore, the company operates in Australia and New Zealand through its subsidiary. The geographically-diversified nature of revenue reduces the exposure of the company towards any adverse economic slowdown in any single geography.

Key weaknesses

Segment concentration risk:
The company's products are diversified across chronic and acute therapeutic segments like pain management, cough & cold, cardiovascular, gastrointestinal, anti-diabetic, anti-allergic, central nervous system, vitamin & supplements etc. The company derives around 51% of the revenue from the pain management system followed by cough and cold (11%), cardiovascular system (8%), and others. The contribution from pain management has been increasing over the last three years ended FY22 which exposes the company to concentration risk. However, the company covers almost 100% of product basket for the pain management segment and also has 1,500 stock keeping units (SKUs) in the US market within the segment. The strong presence in the segment with full coverage of product portfolio mitigates the concentration risk to some extent.

Foreign exchange fluctuation risk:
The company operates in the international market and majority of business transactions are undertaken in different currencies. The company is thus exposed to foreign exchange risk through its sales service and imported purchase to/from various geographies. The company's overall exposure through foreign currency is mainly denominated in USD and Euro. However, the earnings in foreign currency are more than the outgo which mitigates the risk to some extent.

Intense competition and exposure to regulatory risk:
The company faces intense competition in the international markets. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. Furthermore, the patent laws and related regulations might hamper the plans of pharmaceutical companies to launch new products and cater to new markets.
However, Indian pharmaceutical companies are expected to continue to experience growth from the US markets over the medium term backed by sizeable generic opportunities over the next two years and strong product pipeline of abbreviated new drug applications (ANDAs).

Liquidity: Strong
Liquidity is marked by strong accruals and cash and liquid investments to the tune of ₹330 crore as on September 30, 2022 against low repayment obligations of ₹5 crore for Q4FY23. With a gearing of 0.10x as of March 31, 2022 and 0.08x as on September 30, 2022, the company has sufficient gearing headroom, to raise additional debt for its capex. Furthermore, its unutilized bank lines (around ₹80 crore) are more than adequate to meet its incremental working capital needs over the medium term.

Applicable criteria

[Policy on default recognition]
[Consolidation]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Rating Methodology - Pharmaceuticals]
[Policy on Withdrawal of Ratings]

About the company

Incorporated in the year 1992, MPL is engaged in manufacturing of generic pharmaceutical formulations and has presence in varied therapeutic segments. The company has three manufacturing plants – one each in India, USA, and UK, and a research & development centre in Mumbai.

The company is planning backward integration with manufacturing of API for captive consumption and expand its formulation capacity over a period of FY23-FY27.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,376.18	1,511.42	886.33
PBILDT	339.61	279.46	153.13
PAT	238.54	186.81	101.35
Overall gearing (times)	0.04	0.10	0.08
Interest coverage (times)	42.53	33.09	35.28

A: Audited; UA: Un-audited
Note: Financials of 9MFY23 are not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	123.00	CARE A+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	29.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Bank guarantee	-	-	-	-	5.00	CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Forward contract	-	-	-	-	18.75	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	80.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	123.00	CARE A+; Stable	-	-	-	-
2	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A1+	-	-	-	-
3	Non-fund-based - ST-Bank guarantee	ST	5.00	CARE A1+	-	-	-	-
4	Non-fund-based - ST-Forward c]ontract	ST	18.75	CARE A1+	-	-	-	-
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	29.00	CARE A+; Stable / CARE A1+	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based/non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Bank guarantee	Simple
4	Non-fund-based - ST-Forward contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure 6: List of Subsidiaries

Sr. No.	Name of Subsidiary	% Holding
1	Marksans Pharma (UK) Limited	100
2	Relonchem Limited	100
3	Marksans Holdings Limited	100
4	Bell, Sons and Co. (Druggist) Limited	100
5	Marksans Pharma Inc.	100
6	Time-Cap Laboratories Inc.	100
7	Custom Coating Inc	100

Sr. No.	Name of Subsidiary	% Holding
8	Marksans Realty LLC	100
9	Nova Pharmaceuticals Australasia Pty Ltd	100
10	Access Healthcare for Medical Products L.L.C.	100
11	Marksans Pharma GmbH	100

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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