Marksans Pharma Limited

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	160.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	95.75	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the long-term and short-term ratings of the bank facilities of Marksans Pharma Limited (MPL) derives strength from the strong promoter background with over three decades of experience in the pharmaceutical industry along with the long and established track record of the company, its accredited manufacturing facilities, and its diversified geographical presence.

The ratings continue to derive strength from MPL's comfortable financial risk profile, marked by its growing scale of operations, healthy profitability, strong solvency, and liquidity position.

The ratings also consider MPL's backward integration, its capacity enhancement programme, and its plans to expand into new markets through the inorganic route while not relying on external debt.

The above rating strengths are partially mitigated by the company's presence in a highly regulated industry coupled with intense competition in the overseas markets, revenue concentration risk with high dependence on one therapeutic segment, and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the total operating income (TOI) to ₹2,500 crore and above.
- Improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to 20% and above on a sustained basis.
- Timely completion of the planned project and achievement of the 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 large debt-funded capex or acquisition, leading to weakening of the credit risk profile of the company.

Analytical approach: Consolidated

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

Outlook: Stable

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

The stable outlook reflects that MPL is likely to sustain its healthy operational performance on the back of the favourable demand scenario alongside the maintenance of a comfortable financial risk profile.

Detailed description of the key rating drivers

Key strengths

Growing scale of operations and healthy profitability

The company's TOI grew by 25% and stood at ₹1,891.92 crore during FY23 (FY refers to the period from April 1 to March 31) as against ₹1,511.42 crore during FY22. The growth is supported by new product launches, supported by the increased penetration in the European Union, and the North American and Australian markets. During FY23, the PBILDT margin exhibited an improvement of 213 basis points (bps) in comparison to FY22, reaching 20.62%. The improvement in margin was attributable to the normalisation of freight costs and the company's cost-saving measures. Furthermore, with limited finance cost, the profit-after-tax (PAT) margin improved to 14.02% in FY23 (12.36% in FY22).

During Q1FY24, the company registered a turnover of around ₹500.03 crore (y-o-y growth of around 15%). The PBILDT margin of the company improved around 212 bps y-o-y on account of better product mix and a reduction in the rates of a few raw materials.

Going forward, some moderation is expected in profitability due to the rising employee expenses, primarily driven by the inclusion of employees from Tevapharm India Private Limited (Teva), the recently-acquired manufacturing facility, along with the incremental overheads related to the newly acquired facility.

Comfortable solvency position

The solvency position of the company is comfortable, marked by an overall gearing of 0.07x as on March 31, 2023 (0.09x on March 31, 2022). The company is net debt-free with a free cash balance of ₹714.54 crore as on March 31, 2023, as against a total debt (TD) of ₹122.95 crore (includes ₹81.36 crore liability on account of finance lease) as on March 31, 2023.

The TD/gross cash accruals (GCA) and interest coverage ratio (ICR) remained healthy at 0.39x and 42.74x, respectively, for FY23 (0.47x and 33.09x, respectively, for FY22).

The capital structure and debt coverage indicators for the company are expected to remain healthy in the near term, supported by steady profitability and the absence of any debt-funded capex.

Experienced and qualified management with established track record of operations

MPL is in the business of manufacturing of pharmaceutical formulations for more than three decades and has been able to establish good relationships with its customers and suppliers. The promoters of the company have more than three decades of experience in the pharmaceutical industry. The MD & CEO of the company, Mark Saldanha, is also its Founder-Promoter. Prior to MPL, he was associated with Glenmark Pharmaceuticals 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 Jitendra Sharma, CFO, MPL and Director of MPL's subsidiaries. The company also has strong professionals leading various key aspects of the business, having more than two decades of experience in the pharmaceutical industry. The extensive experience and industry expertise of MPL's leadership team, along with their established relationships, position the company well for continued success and growth in the pharmaceutical industry.

Accredited manufacturing facilities

The company has four manufacturing units (including one acquired from Teva) – two in India, and one each in the US and UK. All the manufacturing facilities are accredited by various health authorities of regulated markets and are well equipped for manufacturing tablets, caplets, capsules, and pellets. The Indian facilities are located in Goa. The existing Indian facility is accredited by US-FDA, UK-MHRA, Brazil- ANVISA and Australia- TGA, while the facility acquired from Teva is accredited by UK-MHRA, Canada- HPFB and Japan- PMDA. The US and UK facilities are accredited by US-FDA and UK-MHRA respectively.

Diversified geographical presence

The company sells its portfolio of products internationally in over 50 countries, with majority of the revenue generated from regulated markets. The company is among the top Indian pharmaceutical companies in the US and the UK, with products in varied therapeutic segments. The US and the UK account for around 42% 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.

Planned growth strategies

The company plans to gradually enhance its existing production capacity, for which it has acquired a manufacturing plant from Teva. The plant has an installed capacity to manufacture 1.50 billion tablets per annum and has approvals to manufacture products from the EU, Health Canada, and the Japanese Health Authority. MPL intends to increase the current plant's capacity to produce 8 billion tablets annually and obtain accreditation from the US-FDA. This project will be undertaken in two phases and is expected to be completed by FY27. For the initial phase (planned completion in FY24), the company has allocated around ₹200 crore and the company plans to spend around ₹400 crore for inorganic growth opportunities in Europe and other emerging markets, as well as routine capex.

Furthermore, the company is planning backward integration through the Contract Development and Manufacturing Organisation (CDMO) approach. These initiatives are expected to be funded without any reliance on external borrowings and are likely to improve MPL's revenue profile and aid profitability over the medium term.

Key weaknesses

Intense competition and exposure to regulatory risk

The company faces intense competition in the international markets. The increasing regulation and 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, patent laws and related regulations may hamper the company's plans to launch new products and cater to new markets. During August 2023, MPL received two observations from the USFDA relating to post-marketing adverse drug experience. These are expected to be resolved by the end of November 2023. Any un-envisaged liabilities arising out of these observations will be monitorable.

Segment concentration risk

The company's products are diversified across chronic and acute therapeutic segments like pain management, cough and cold, cardiovascular, gastrointestinal, anti-diabetic, anti-allergic, central nervous system, vitamins and supplements, etc. The company derives around 44% of its revenue from the pain management system, followed by 14% from cough and cold products, 9% from the cardiovascular system, and others. During FY23, the central nervous system (CNS) segment experienced revenue growth due to the introduction of two new products, Pregabalin capsules and Fluoxetine capsules, following their approval by the USFDA. Additionally, the revenue from the gastrointestinal segment saw an uptick following the USFDA approval and the subsequent launch of Fluoxetine capsules. MPL is actively pursuing diversification in its therapeutic segments. However, the pain management segment is likely to remain the major contributor to the total sales of the company.

Foreign exchange fluctuation risk

The company operates in the international market and most of the business transactions are undertaken in different currencies, as the company derives majority of its revenue from exports and it imports raw materials from various geographies. The company's overall exposure through foreign currency is mainly denominated in US Dollar and Euro. However, the earnings in foreign currency are more than the out-go, which mitigates the risk to some extent.

Liquidity: Strong

The liquidity is marked by strong accruals and cash and liquid investments to the tune of ₹636 crore as on June 30, 2023, against nil repayment obligations. The company is expected to generate GCA of more than ₹250 crore annually over the projected period. With a gearing of 0.07x as on March 31, 2023, the company has sufficient gearing headroom to raise additional debt for its capex. Furthermore, its unutilised bank lines (around ₹100 crore) are more than adequate to meet its incremental working capital needs over the medium term.

Environment, social, and governance (ESG) risks

ESG is critically important for the pharmaceutical sector due to its unique role in global public health. Environmental responsibility is necessary to minimise the industry's ecological impact, as the manufacturing processes can be resource-intensive. Social considerations are vital, given the sector's responsibility to provide access to life-saving medications, ensuring affordability, and promoting ethical practices and promoting equality. Strong governance safeguards against ethical lapses, ensuring trust among stakeholders. In an era of increasing scrutiny and the need for sustainable healthcare solutions, embracing ESG principles not only aligns with societal expectations but also safeguards the industry's long-term viability and will have a positive impact on global well-being.

MPL has implemented and adapted various initiatives for sustainability management, which is aimed at water management (around 4,700 kiloliters water conserved), waste management (around 25 metric tonnes hazardous waste processed), and accessible medical treatment and support for underprivileged sections of society.

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
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

MPL (CIN: L24110MH1992PLC066364) was incorporated in 1992, and subsequently, listed on the Bombay Stock Exchange (BSE) in 1994. MPL is engaged in the manufacturing of generic pharmaceutical formulations and has presence in varied therapeutic segments. The company has four manufacturing plants – two in India, one each in the US and the UK, and a research & development (R&D) centre in Mumbai.

The company is planning backward integration with the manufacturing of active pharmaceutical ingredients (APIs) for captive consumption and expanding its formulation capacity over FY23-FY27.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,511.42	1891.92	510.13
PBILDT	279.46	390.17	89.36
PAT	186.81	265.32	70.44
Overall gearing (times)	0.09	0.07	NA
Interest coverage (times)	33.09	42.74	70.92

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results 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		-	-	-	100.00	CARE A+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	60.00	CARE A+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	2.00	CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	18.75	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	75.00	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
1	Fund-based - LT-Cash Credit	LT	100.00	CARE A+; Stable	1)CARE A+; Stable (02-Feb-23) 2)CARE A+; Stable (20-Jan-23)	-	-
2	Non-fund-based - ST-Letter of credit	ST	75.00	CARE A1+	1)CARE A1+ (02-Feb-23) 2)CARE A1+ (20-Jan-23)	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A1+	1)CARE A1+ (02-Feb-23) 2)CARE A1+ (20-Jan-23)	-	-
4	Non-fund-based - ST-Forward Contract	ST	18.75	CARE A1+	1)CARE A1+ (02-Feb-23) 2)CARE A1+ (20-Jan-23)	-	-
5	Fund-based - LT-Proposed fund based limits	LT	60.00	CARE A+; Stable	1)CARE A+; Stable (02-Feb-23) 2)CARE A+; Stable / CARE A1+ (20-Jan-23)	-	-

*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 - LT-Proposed fund based limits	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/associates considered for consolidation

Name of Company/Entity	Percentage of holding as on March 31, 2023
Marksans Pharma (UK) Limited	100
Relonchem Limited	100
Marksans Holdings Limited	100
Bell, Sons and Co. (Druggist) Limited	100
Marksans Pharma Inc.	100
Time-Cap Laboratories Inc.	100
Custom Coating Inc	100
Marksans Realty LLC	100
Nova Pharmaceuticals Australasia Pty Ltd	60
Access Healthcare for Medical Products L.L.C.	100
Marksans Pharma GmbH	100
Marise Ann Inc	100
Nova Pharmaceuticals Ltd	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Divyesh Bharat Shah Director **CARE Ratings Limited** Phone: : +91-20-4000-9069 E-mail: divyesh.shah@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: : +91-22-6754 3444 E-mail: ankur.sachdeva@careedge.in	Ashish Kashalkar Assistant Director **CARE Ratings Limited** Phone: +91-20-4000-9009 E-mail: Ashish.Kashalkar@careedge.in Rakshya Daga Lead Analyst **CARE Ratings Limited** E-mail: rakshya.daga@careedge.in

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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