Marksans Pharma Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	135.00 (Reduced from 160.00)	CARE A+; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	25.00	CARE A1+	Assigned
Short-term bank facilities	95.75	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Marksans Pharma Limited (MPL) continue to derive strength from its growing scale of operations with steadily improving profitability, comfortable financial risk profile and strong liquidity position. Further, Ratings factor in the strong promoter background with over three decades of experience in the pharmaceutical industry and long and established track record of the company, accredited manufacturing facilities and diversified geographical presence.

Ratings also consider MPL's backward integration, capacity enhancement programme and plans to expand into new markets through inorganic route, without relying on large external debts.

Rating strengths are partially mitigated by presence in highly regulated industry, intense competition in the overseas markets with major presence in over the counter (OTC) segment, 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

- Improving total operating income (TOI) to ₹ 2,500 crore and above and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 20% and above on a sustained basis.
- Timely completion of the planned project and achieving desired benefits from it.

Negative factors

- PBILDT margin falling below 15% on a sustained basis.
- Adverse regulatory action against MPL, significantly impairing the company's credit profile.
- Large debt funded capex or acquisitions leading to weakening credit risk profile.

Analytical approach: Consolidated

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

Outlook: Positive

Revision in the outlook from 'Stable' to 'Positive' reflects CARE Ratings' expectation of improvement in MPL's operational performance with growth in scale of operations and steady profitability while maintaining its healthy financial risk profile. The outlook may be revised to 'Stable' if the improvement in operational parameters is substantially lower than expected and if debt protection metrics and capital structure weaken from current levels.

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

Detailed description of key rating drivers:

Key strengths

Growing scale of operations with healthy profitability

The company's TOI grew by 16% and stood at ₹ 2,185.65 crore in FY24 (refers to April 01 to March 31) against ₹1,891.92 crore in FY23. The growth is supported by volume gains in the existing product portfolio, new product launches and an increase in share of business with existing customers and addition of new customers. In FY24, the PBILDT margin improved by 131 basis points (bps) in comparison to FY23, reaching 21.36%. Improvement in margin was due to moderation in pricing pressure for prescription products in the U.S. market and enhanced operational efficiency. With limited finance cost, profit after taxes (PAT) margin improved to 14.41% in FY24 (14.02% in FY23).

In Q1FY25 (refers to April 01 to June 30), the company registered a TOI of ~₹ 590.60 crore (y-o-y growth of ~18%) and PBILDT margin of 21.74% (21.97% in Q1FY24). Going forward, MPL is expected to maintain sales growth from ramp up of operations at the recently acquired plant and new product launches. PBILDT margins are expected to remain at a similar level due to rising employee expenses, primarily driven by new hires for newly acquired manufacturing facility and elevated freight costs due to the ongoing Red Sea crisis.

Comfortable solvency position

The company's solvency position is comfortable as marked by overall gearing of 0.12x as on March 31, 2024 (0.07x on March 31, 2023). The company is net debt free with free cash and bank balance and liquid investments of ₹700.39 crore against total debt of ₹244.06 crore (includes ₹214.97 crore liability considering finance lease) as on March 31, 2024.

Total debt to gross cash accruals (TD/GCA) and interest coverage ratio remained healthy at 0.64x and 41.67x for FY24 (0.39x and 41.56x respectively for FY23). The company's capital structure and debt coverage indicators are expected to remain healthy in the near term supported by steady profitability and absence of debt funded capex.

Experienced and qualified management with established track record of operations

MPL is into manufacturing pharmaceutical formulations for over three decades and has been able to establish good relationship with its customers and suppliers. The company's promoters have over three decades of experience in the pharmaceutical industry. The company's MD & CEO, Mark Saldanha, is also the 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 Limited), and Jitendra Sharma (CFO – MPL and director of MPL's subsidiaries). The company also has strong professionals leading key aspects of business having over two decades of experience 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 USA and the UK. All manufacturing facilities are accredited by several health authorities of regulated market and are well-equipped for manufacturing tablets, caplets, capsules and pellets. Indian facilities are 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 the UK facilities are accredited by USFDA and UK-MHRA respectively.

Diversified geographical presence

The company sells its product portfolio internationally in over 50 countries, with majority revenue generated from regulated markets. The USA and the UK account for ~42% and 43% of the revenue respectively. The company operates in Australia and New Zealand through its subsidiary. Geographically diversified nature of revenue reduces the company's exposure towards adverse economic slowdown in a single geography.

Planned growth strategies

The company plans to gradually enhance its existing production capacity, which it acquired manufacturing plant from Teva and has approvals from EU, Health Canada, and Japanese Health Authority. The plant has an installed capacity to manufacture 1.50 billion tablets per annum, which was expanded to 3.00 billion tablets per annum in FY24. MPL intends to increase the current plant's capacity to produce 8 billion tablets annually in phased manner and obtain accreditation from the US-FDA. The company plans to enhance its capacity to 5 billion per annum by FY25. The company may opt for inorganic growth opportunities in Europe and other emerging markets in addition to routine capex.

The company is planning for backward integration, and active pharmaceutical ingredient (API) manufacturing for captive consumption for top molecules also preparing to file Drug Master File (DMFs) for these molecules. These initiatives are expected to be funded without reliance on external borrowings and are likely to improve MPL's revenue profile and aid profitability in the medium term.

Key weaknesses

Intense competition and exposure to regulatory risk

The company faces intense competition in international markets. Increasing regulation, and increased sensitivity towards product performance are key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide through its direct bearing on public health. Patent laws and related regulations might hamper the company's plans to launch new products and cater to new markets.

In April 2024, MPL received five inspectional observations from the U.S. Food and Drug Administration (USFDA) relating to routine current Good Manufacturing Practices (cGMP). In August 2024, USFDA issued an Establishment Inspection Report ("EIR") and closed the inspection. Observations were classified as Voluntary Action Indicated (VAI).

While MPL's manufacturing sites continue to successfully clear regulatory audits conducted by leading global regulatory agencies, un-envisaged action by these regulatory agencies impacting the company's credit profile will remain a key monitorable.

Segment concentration risk with major presence in OTC segment

The company's products are diversified across chronic and acute therapeutic segments such as pain management, cough & cold, cardiovascular, gastrointestinal, anti-diabetic, anti-allergic, central nervous system, and vitamin & supplements among others. The company derives ~42% revenue from pain management system, followed by 15% from cough and cold products, 11% from cardiovascular system, and others. In FY24, the company launched two products Esomeprazole Magnesium Delayed-Release Capsules and Guaifenesin Extended-Release Tablets under gastrointestinal and Cough & Cold segment post approval from the USFDA. The company is actively pursuing diversification in its therapeutic segments. However, the pain management segment is likely to remain the major contributor to total sales in the near-term reflecting segment concentration risk. MPL is mainly present in OTC segment, which is highly competitive and price sensitive.

Foreign exchange fluctuation risk

The company operates in international markets and majority business transactions are undertaken in different currencies. The company derives majority revenue from exports and it imports raw materials from across geographies. The company's overall exposure through foreign currency is mainly denominated in USD and Euro. However, earnings in foreign currency are more than the outgo, which mitigates risk to some extent.

Liquidity: Strong

Liquidity is marked by strong accruals and cash and liquid investments to the tune of ₹691 crore as on June 30, 2024, against nil debt repayment obligations. The company is expected to generate GCA over ₹350 crore annually in the projected period. With a gearing of 0.12x as of March 31, 2024, the company has sufficient gearing headroom to raise additional debt for its capex. Its unutilised bank lines (~₹100 crore) are more than adequate to meet its incremental working capital needs in the medium term.

Assumptions/Covenants: Not applicable

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 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 positive impact on global well-being.

MPL has implemented and adapted initiatives for sustainable waste disposal, reducing greenhouse gas emission, focus on areas of preventive healthcare, education, eradicating malnutrition, welfare of women and children, rural development projects in local communities, accessible medical treatment and support for underprivileged sections of society.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Consolidation
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

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

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)

Consolidated			
Total operating income	1,891.92	2,185.65	590.60
PBILDT	379.36	466.82	128.42
PAT	265.32	314.90	89.07
Overall gearing (times)	0.07	0.12	NA
Interest coverage (times)	41.56	41.67	43.98

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Brief Financials (₹ crore) (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	694.33	861.52	254.52
PBILDT	131.09	148.19	40.84
PAT	102.87	133.76	32.02
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	36.28	149.99	144.32

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE A+; Positive
Fund-based - LT-Proposed fund based limits		-	-	-	35.00	CARE A+; Positive
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+
Non-fund-based - ST-Proposed non fund based limits		-	-	-	25.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	100.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Oct-23)	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+ (06-Oct-23)	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+ (06-Oct-23)	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+ (06-Oct-23)	1)CARE A1+ (02-Feb-23) 2)CARE A1+ (20-Jan-23)	-
5	Fund-based - LT-Proposed fund based limits	LT	35.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Oct-23)	1)CARE A+; Stable (02-Feb-23) 2)CARE A+; Stable / CARE A1+ (20-Jan-23)	-
6	Non-fund-based - ST-Proposed non fund based limits	ST	25.00	CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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
6	Non-fund-based - ST-Proposed non fund based limits	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Marksans Pharma (UK) Limited	Full	Subsidiary
2	Relonchem Limited	Full	Step-down subsidiary
3	Marksans Holdings Limited	Full	Step-down subsidiary
4	Bell, Sons and Co. (Druggist) Limited	Full	Step-down subsidiary
5	Marksans Pharma Inc.	Full	Subsidiary
6	Time-Cap Laboratories Inc.	Full	Step-down subsidiary
7	Custom Coating Inc	Full	Step-down subsidiary
8	Marksans Realty LLC	Full	Step-down subsidiary
9	Nova Pharmaceuticals Australasia Pty Ltd	Full	Subsidiary
10	Access Healthcare for Medical Products L.L.C.	Full	Subsidiary
11	Marksans Pharma GmbH (Under liquidation)	Full	Subsidiary
12	Marise Ann Inc.	Full	Step-down subsidiary
13	Nova Pharmaceuticals Ltd.	Full	Step-down subsidiary
14	Access Healthcare for Medical Products LLC	Full	Subsidiary

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