# Marksans Pharma Ltd.

**December 08, 2023**

**National Stock Exchange of India Limited**
Exchange Plaza
Bandra Kurla Complex
Bandra (E), Mumbai – 400051

Scrip Code: **MARKSANS**

**BSE Limited**
P. J. Towers
Dalal Street
Mumbai – 400 001

Scrip Code: **524404**

**Sub: Intimation of upgradation of Credit Rating of Marksans Pharma Limited by India Ratings and Research Private Limited**

Dear Sir/Madam,

We wish to inform that India Ratings and Research Private Limited (a Fitch group company) has upgraded Marksans Pharma Limited's (Company) bank facilities' ratings as follows:-

| Instrument Type | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|
| Fund-based limits | INR 1,000 | IND A+/Positive | Upgraded |
| Non-fund-based limits | INR 770 | IND A1+ | Upgraded |

Copy of the press release of the rating agency is attached herewith.

Please note that this information will also be available on the website of the Company at http://www.marksanspharma.com/corporate-announcements.html

This is for your information and records.

Thanking you.

Yours faithfully,
For **Marksans Pharma Limited**

HARSHAVARDHAN PANIGRAHI
Digitally signed by HARSHAVARDHAN PANIGRAHI
Date: 2023.12.08 11:18:37 +05'30'

**Harshavardhan Panigrahi**
**Company Secretary &Compliance Officer**

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# India Ratings Upgrades Marksans Pharma's Bank Facilities to 'IND A+'; Outlook Positive

Dec 07, 2023 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has upgraded Marksans Pharma Limited's (Marksans) bank facilities' ratings as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Fund-based limits | - | - | - | INR1,000 | IND A+/Positive | Upgraded |
| Non-fund-based limits | - | - | - | INR770 | IND A1+ | Upgraded |

**ANALYTICAL APPROACH:** The agency continues to take a consolidated view of Marksans and its subsidiaries (together referred to as Marksans) – Marksans Holdings Limited Ltd (100% shareholding; based in the UK), Marksans Pharma Inc (100%; based in the US), Nova Pharmaceuticals Australasia Pty Ltd. (60%; based in Australia) and Access Healthcare for Medical Products LLC (100%; based in the UAE), while arriving at the ratings because of the strong strategic, operational and legal linkages among them.

The upgrade reflects Marksans' healthy operating performance during FY23-1HFY24, led by the improved operating performance in its key markets, especially the US and the UK. The increased share of the OTC portfolio in the total revenue has strengthened the revenue / EBITDA profile, given the smooth supply chain dynamics of the OTC business. Marksans has been net cash positive since FY19. Post the acquisition of 10% stake by OrbiMed Asia IV Mauritius FVCI (Orbimed) through primary equity infusion, Marksans remains well positioned to capture growth opportunities without materially impacting its strong credit metrics.

Ind-Ra has maintained a Positive Outlook in view of Marksans' ongoing initiatives to improve its profitability through backward integration by taking the contract development manufacturing route as well as healthy growth in the formulation business from the enhanced capacities with the acquisition of manufacturing unit from Teva Pharmaceuticals Industries Limited (Teva) with a focus to strengthen the over-the-counter (OTC) franchise in the US and UK markets. Ind-Ra believes the above initiatives will help strengthen the business profile via diversification, which could support Marksans' transition to a higher rating category. Ind-Ra will monitor the usage of the strong consolidated cash balance of INR6,605 million as on 30 September 2023. Ind-Ra believes the company would continue with its inorganic growth strategy while keeping its net leverage healthy, given the strong business performance and EBITDA margins. Fructification of capacity enhancement / backward integration initiatives will be a key monitorable.

## Key Rating Drivers

**Significant Revenue Growth over FY23-1HFY24:** Marksans' consolidated revenue expanded at a CAGR of 15% over FY18-FY23, led by the shift to front-end distribution through its subsidiaries located in US, UK and Australia, product launches, increased market share in existing products and increased capacities. The consolidated revenue grew by 24% yoy to INR18,521million in FY23 (FY22: up 8% yoy) and by 16% yoy to INR10,313 million in 1HFY24, backed by volume growth in existing products and new launches across key regions. The regulated markets of Europe contributed 45% to the total sales in 1HFY24, followed by the US (40%), and Australia and Canada (jointly contributed 10%); the balance was contributed by the rest of the world (RoW). Marskans plans to continue to focus on revenue growth through the regulated markets of the US and Europe. Marksans is also looking at further growth impetus to come from the developed markets of Australia, New Zealand and Canada and the rest of Europe.

**Improvement in EBITDA Margin; Profitability to Rise through Backward Integration:** Despite higher price erosion in the US due to competitive pressures, the consolidated EBITDA margins grew marginally to 18.3% in FY23 (FY22:17.4%), led by cost-optimisation initiatives and normalisation of freight expenses. Additionally, the EBITDA margins improved on a yoy basis to 20.9% in 1HFY24 (1HFY23: 17.3%). Furthermore, Marksans is in the process of backward integration through manufacturing active pharmaceutical ingredients (APIs) of four major products for captive consumption. In the next two years, the company plans to achieve both backward and forward integration. The agency expects the EBITDA margin to improve gradually in the near term, led by a robust pipeline of new launches in the regulated markets of the US and Europe; continued demand for its existing products, and cost savings from improved sourcing due to the company's backward-integration initiatives.

**Strengthening OTC segment with Diversified Presence across regulated Markets:** Marksans has a strong business risk profile due to its large and diversified revenue streams across geographies and products. Over 94% of the revenues are from the regulated markets – the US, Europe, Australia and Canada. With the company's geographical diversification to the Middle East, the revenue from RoW grew by 50% yoy in FY23 (FY22:6%). This apart, the European market grew by 26% yoy in FY23 (FY22: 5%) and the US market grew by 22% yoy (9% yoy). Marksans' OTC business is present in the US, UK and Europe, Australia, and a few RoW nations. The company has been fairly increasing its share from the OTC segment, which grew at a CAGR of 28% over FY18-FY23, leading to consistent improvement in the revenues. A major portion of the revenue in OTC is derived from manufacturing and selling store brands (private label manufacturing) for key retailers in key regions. The revenue from the OTC segment contributed 74% to the revenue in FY23 (FY22: 69%), and the prescription segment contributed 26% (31%). The company's customer and product concentration has been fairly distributed such that no single customer accounts for a major portion of the revenue. The supply chain in the OTC business is a differentiator, as the end-customer expects the entire inventory management to be taken care of by the manufacturer. However, there is an embedded stickiness in the customers as supply security is a key area of concern.

**Low Leverage despite Recent Acquisition:** At FYE23, the company did not have any long-term debt other than lease liabilities of INR813 million (FYE22: INR695 million) and a short-term debt of INR416 million (INR363 million). The cash on books, including fixed deposits, stood at INR6,605 million as on 30 September, 2023 (FYE23: INR7,145 million; FYE22: INR3,463 million). Marksans was net cash positive over FY19-FY23 and the net adjusted leverage (net debt/EBITDA) is likely to be below 1x in the near-to-medium term despite the capex plans. Marksans acquired the manufacturing unit of Teva in April 2023 and plans to scale up the existing capacities with a total capex of INR2,000 million in FY24; of this, the company had already incurred INR1,199 million until 1HFY24, including the acquisition cost of IINR779 million. The entire capex has been planned from internal accruals. The gross coverage (EBITDA/interest expense) ratio remained comfortable and improved to 37.2x in FY23 (FY22: 30x) owing to the rise in the EBITDA levels to INR3,393 million (INR2,589 million). Ind-Ra believes Marksans would continue to pursue inorganic growth opportunities for fast-tracking its growth objectives; however, the size would be insignificant, and thus, will not impact the credit metrics.

**Liquidity Indicator - Adequate:** Marksans' consolidated cash on books, including fixed deposits, amounted to INR6,605 million as on 30 September 2023 (FYE23: INR 7,145 million; FYE22:INR3,463 million). Its average utilisation of the working capital limits was nil during the 12 months ended October 2023. Marksans have been effectively utilising the cash through buyback, dividends, disciplined acquisitions and capacity expansion. The liquidity is also supported by the equity infusion through conversion of warrants issued to promoter and Orbimed amounting to INR3,724 million in FY23.In FY23, Marksans bought back 6.47 million equity shares, which resulted in a cash outflow of INR402 million during the year.

The working capital cycle of the company remained stretched due to the elongated inventory period but improved to 219 days in FY23 (FY22: 253 days) due to a fall in the inventory days to 192 days (216 days) and a decline in debtor days to 82 days (97 days). The company holds high inventory inclusive of finished goods as well as raw materials. For the OTC segment, a high level of inventory needs to be maintained to cater to the large number of stock-keeping units; for the prescription segment, high raw material inventory is maintained due to the volatility in input prices. Despite capex rising to INR536 million in FY23 (FY22: INR463 million), the free cash flow increased to INR1,780 million (INR390 million) owing to higher EBITDA generation of INR3,393 million (INR2,589 million); this led to a healthy build-up of cash and low debt. Ind-Ra expects the liquidity to remain healthy in the short-to-medium term as the capex would remain limited at a total of INR4,000 million over FY24-FY27.

**High Dependence on One Therapy Segment:** Marksans' revenue growth drivers are four major OTC segments - pain management, cough and cold, gastrointestinal, and anti-allergic. Pain management continues to be the largest revenue contributor, with a share of 44% in FY23 (FY22: 51%), followed by cough and cold (14%), others, which includes anti-allergic, vitamins and supplements and antibiotics (15%); and cardio-vascular (9%) segments, indicating its susceptibility to any slowness in demand in these segments. Some of the products and segments such as pain management and cough and cold had benefited from the outbreak of COVID-19. The management believes the impact of any slowdown in these segments would be mitigated by the growth initiatives that are being undertaken. Furthermore, pain management, cough and cold, cardio-vascular therapeutic segments were the main drivers of revenue growth in FY23 and this will continue in the near-to-medium term.

**Regulatory Concerns:** Marksans has high revenue and EBITDA exposure to the UK and the US markets, where the regulatory environment has been challenging as reflected by historical pricing pressures due to channel consolidation in the US and the United States Food and Drug Administration's regulatory scrutiny of the company's manufacturing facilities. While there has been an improvement in the regulatory scenario pertaining to higher facility and product approvals in the recent past, the facilities catering to the regulated markets continue to be subject to stringent regulatory oversight. Ind-Ra, however, draws comfort from the reasonable track record of Marksans' manufacturing facilities with regulated market authorities, with the successful closure of inspections.

**Standalone Performance:** On a standalone basis, Marksans reported revenue of INR6,552 million in FY23 (INR6,583 million), EBITDA margins of 14% (17.3%) and interest coverage ratio of 25.5x (30x).

## Rating Sensitivities

**Positive:** Improvement in the scale of operations and the EBITDA margins post capacity enhancement / backward integration initiatives while maintaining the low leveraged debt profile, on a sustained basis, will be positive for the ratings.

**Outlook revision to Stable:** Any large mergers and acquisitions and/or deterioration in the operating profitability or liquidity, leading to the consolidated net leverage exceeding 1.5x, on a sustained basis, could be negative for the ratings.

## Company Profile

Marksans was incorporated as a wholly owned subsidiary of Glenmark Pharmaceuticals Ltd. in 2001. In 2003, it was spun off into a separate entity. The company is engaged in the research, manufacturing and marketing of generic pharmaceuticals products. Marksans is headquartered in Mumbai and has subsidiaries in the UK, the

US and Australia, with proprietary marketing networks in these countries. The company has four manufacturing units – one each in UK, US and two in India- Goa; including the recently acquired facility from Teva and research and development centres in Goa, Navi Mumbai, the UK and the USA.

**FINANCIAL SUMMARY (Consolidated)**

| Particulars | FY23 | FY22 |
|---|---|---|
| Revenue (INR million) | 18,521 | 14,908 |
| EBITDA (INR million) | 3,393 | 2,589 |
| EBITDA margin (%) | 18.3 | 17.4 |
| Gross interest coverage (x) | 37.2 | 30.7 |
| Net leverage (x) | n.m | n.m |
| Source: Marksans; Ind-Ra<br>n.m: Not meaningful | | |

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issu and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security any issuer.

## Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | | |
|---|---|---|---|---|---|---|---|
| | **Rating Type** | **Rated Limits (million)** | **Rating** | **20 October 2023** | **14 September 2022** | **29 June 2021** | **17 April 2020** |
| Issuer rating | Long-term | - | - | WD | IND A/Positive | IND A/Positive | IND A-/Positive |
| Fund-based limits | Long-term | INR1,000 | IND A+/Positive | - | IND A/Positive | IND A/Positive | IND A-/Positive |
| Non-fund-based limits | Short-term | INR770 | IND A1+ | - | IND A1 | IND A1 | IND A1 |

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| Fund-based facilities | Low |
| Non-fund-based limit | Low |

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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## APPLICABLE CRITERIA

**Evaluating Corporate Governance**

**Short-Term Ratings Criteria for Non-Financial Corporates**

**Corporate Rating Methodology**

**The Rating Process**

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