Marksans Pharma Ltd.

30th June, 2021

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

Scrip Code: **MARKSANS**

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

Scrip Code: **524404**

Sub: Intimation of Revision in Credit Ratings of Marksans Pharma Limited by Fitch Group

Dear Sirs,

We wish to inform that India Ratings & Research (Fitch Group) has upgraded Marksans Pharma Limited's long-term issuer rating to "IND A/Positive" from "IND A-". The instrument wise rating actions are as under:-

Instrument Type	**Rating / Outlook**	**Rating Action**
Fund-based Bank Facilities	IND A/Positive	Rating upgraded;
Non-fund-based Bank Facilities	IND A1	Rating Affirmed

India Ratings & Research letter dated 29th June, 2021 in this regard is attached herewith.

This is for your information and records.

Thanking you.

Yours faithfully,
For **Marksans Pharma Limited**

Harshavardhan Panigrahi
Company Secretary

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India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Marksans Pharma to 'IND A'; Outlook Positive; Limits Enhanced

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JUN 2021

By Nishith Sanghvi

India Ratings and Research (Ind-Ra) has upgraded Marksans Pharma Limited's (Marksans) Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits				INR1,600 (increased from INR1,300)	IND A/Positive	Upgraded
Non-fund-based limits				INR960	IND A1	Affirmed

Analytical Approach: The agency continues to take a consolidated view of Marksans and its subsidiaries (together referred to as Marksans) - Bell, Sons and Co. (Druggists) Ltd (100% shareholding; based in the UK) and Relonchem Limited (100%; based in the UK) and Time-Cap Labs, Inc (100%; based in the US) and Nova Pharmaceuticals Australasia Pty Ltd. (60%; based in Australia), while arriving at the ratings because of the strong strategic, operational and legal linkages among them.

The rating upgrade reflects the continued improvement in the business and financial profile of Marksans in FY21, driven by the following factors: i) front-end pharmacy integration in the UK through Bell Sons and Co, and in the US through Time-Cap Laboratories; ii) higher proportion of sales through the OTC mix; iii) diversified geographic presence in the large regulated markets of the US and the UK; iv) high EBITDA to operating cash flow conversion; v) low leveraged balance sheet, moderate capex outflow in the near term in relation to cash flows; and vi) a healthy sustainable improvement in the EBITDA margins.

The Positive Outlook reflects Marksans's intention to expand further in the European markets and its planned backward-integration into the active pharmaceuticals ingredients (API) business, which would aid further revenue diversification and help Marksans achieve greater scale and operating leverage. This coupled with primary infusions from the promoter (Mark Saldanha) and OrbiMed Asia IV Mauritius FVCI Limited (Orbimed) over FY22-FY23 would aid in keeping the financial profile robust.

KEY RATING DRIVERS

Healthy Improvement in EBITDA Margins: Marksans's consolidated net EBITDA margins continued improve in FY21, rising to 24.8% (FY20: 14.6%), driven by i) an improvement in gross margins to 56.7% (52%), led by an increase in the revenue share of over-the-counter (OTC) products to 58.6% (45.3%) coupled with the company's presence in the front-end supply chain and distribution, eliminating third parties from the value chain; ii) growth in the revenue share of the pain management segment to 43.9% (30.8%); iii) improved operating leverage, given the revenue growth of 21.3% yoy during the year; and iv) limited competition in soft gel formulations compared to oral solid dosages (OSD) formulations. The management expects the margins to continue to hover between 22%-25% in FY22 and beyond on the back of continued growth in revenues, new product launches, benefits from front-end integration and backward integration in the API business.

Healthy Revenue Growth: Marksans's consolidated revenue grew to INR13.8 billion in FY21 (FY20: INR11.3 billion). In FY21, Marksans derived 95% of its revenues from the regulated markets (FY20: 96%). The US market contributed 42.5% to the company's revenue in FY21, while the UK market contributed 42.3%. The revenue from the US business grew by 34.2% yoy to INR5.8 billion in FY21. Over FY18-FY21, despite headwinds due to channel consolidation and pricing pressure, Marksans revenue from the US market grew at 16% CAGR, driven by its significant presence in the niche segment (soft gels) and OTC space. The revenue from UK business grew by 14.1% yoy to INR5.8 billion in FY21. 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.

Marksans expects its revenue to grow by 15%-20% yoy in FY22, led by new product launches in the US, as the company plans to file 12 abbreviated new drug applications (ANDA) over the next two years and launch three-to-four new products in FY22, on an already approved/filed base of 23 ANDA and 50+ products (in OTC and prescriptions. In addition, the company is considering inorganic growth opportunities to acquire ANDAs to reduce its time-to-market, and is also looking at the acquisitions of facilities in India and the US to meet its future growth aspirations. In the UK, the company has over 450 OTC products, with over 50 products in the pipeline through Bell Sons and Co, an additional 20 products - awaiting approval, and another 20 products in the pipeline under Relonchem on a base of 162 approved marketing authorisations (MAs). Additionally, Marksans is also working on oral liquid solutions, narcotic and dermatology products. These factors should support the company's growth in the UK market. Marksans is also working towards receiving US Food And Drug Administration's approval for its Southport facility in UK to begin exports to the US market and also plans to supply to other European countries.

Strong Credit Metrics: Marksans has reported a healthy EBITDA to cash flow from operations (CFO) conversion from FY20. The CFO/EBITDA ratio surged to 74% over FY20-FY21 from 41% over FY15-FY19. Marksans's CFO dipped to INR1.7 billion in FY21 (FY20: INR2.2 billion) due to inventory restocking. The company's inventory build up to INR4 billion in FY21 (FY20: INR2.4 billion), though the impact of the same was partly offset by an increase in trade payables to INR1.7 billion (INR1.04billion). Marksans debtor days remained healthy at 72 days (78 days). Higher EBITDA generation of INR3.4 billion in FY21 (FY20: INR1.7 billion) and capex remaining flat at INR0.5 billion (INR0.6 billion) led to strong free cash flow generation of INR1.3 billion (INR1.7 billion), resulting in a healthy build-up of cash and low debt. The consolidated cash on books stood at INR2.1 billion in FY21 (FY20: INR0.94billion). The consolidated net interest coverage ratio (EBITDA/interest expenses) ratio improved to 43x in FY21 (FY20: 18x). Ind-Ra expects the CFO/EBITDA conversion to remain healthy in the near term. Additionally, despite a capex of INR2 billion planned towards inorganic expansion (ANDA, facilities), investments in research and development for backward integration in API, the leverage is likely to remain low because of the high cash balances and fresh equity infusions in tranches during FY22-FY23 through the preferential warrants issue for INR3.76 billion to promoters and Orbimed. Post the equity infusion, promoter shareholding would come down to 43.14% from 48.2%, with no pledging.

Expansion in RoCE: Marksans has seen a continuous improvement in the ROCE. The RoCE rose to over 30% in FY21 (FY20: 24%), driven by a combination of i) EBITDA margin growth; ii) high net fixed asset turnover ratio at 4.4x in FY21 (FY20: 4.0x); and iii) a well-managed working capital cycle (FY21: 136 days; FY20: 123 days). The working capital cycle had been shorter in FY20 due to lower inventory days, resulting from higher shipments in lieu of the impact of COVID-19. Ind-Ra believes the company's ROCE would remain dependent on its ability to hold on the EBITDA margins, and the premium paid for the acquisitions of both ANDA and MAs and manufacturing facilities.

Low R&D; No Regulatory Issues: Marksans's R&D expenditure remained low at 1.4% in FY21 (FY20: 0.7%) compared to other large India pharma companies operating in the US and Europe. The same has been a function of the company's molecule selection, its presence in the niche soft gel segment, and its focus on building OTC brands in the US/ UK through the front-end. Ind-Ra expects the R&D expenditure to increase over FY22-FY25 to 2% of the consolidated revenue as the company looks to file for new ANDAs and drug master files towards backward integration into API. Marksans has manufacturing facilities in India, the US and the UK, leading to diversified risk and better customer serviceability. Furthermore, tahe recent inspections at the facilities have been cleared successfully.

High Dependence on One Therapy Segment: Marksan derived 43.9% of the revenues from the pain management segment in FY21 (FY20: 30.8%), indicating its susceptibility to any slowness in demand in the segment. Some of the products and segments such as pain management and cough and cold have benefited from the outbreak of COVID-19. Increased vaccination and a decline in COVID-19 cases could impact revenue growth. However, the management believes the impact of any slowdown in these segments would be mitigated by the growth initiatives that are being undertaken.

Liquidity Indicator - Adequate: Marksans's liquidity continued to be healthy in FY21, with cash balances of INR2.1 billion (FY20: INR0.94 billion). The average utilisation of the working capital limits was 1% during the 12 months ended May 2021. The company does not have any long-term debt, and its short-term debt stood at only INR187 million in FY21 (FY20: INR188 million). Ind-Ra expects the liquidity to remain healthy in the short-to-medium term as the capex would remain limited at INR2 billion over FY22-FY23. Liquidity would also be supported by the equity infusion through warrants issued to promoter and Orbimed for INR3.72billion, which would come in fully over the next 18 months, with INR0.94 billion to be received upfront post approval by the shareholders.

Standalone Performance: On a standalone basis, Marksans reported revenue of INR5.9 billion in FY21 (FY20: INR4.3 billion) and EBITDA margins of 18.9% (16.5%). The interest coverage ratio was 21.2x in FY21 (FY20: 9.8x).

RATING SENSITIVITIES

Positive: The ability of the company to maintain healthy RoCE above 20%, high EBITDA to CFO conversion, healthy operating profitability along with maintaining the credit metrics could be positive for the ratings. Ind-Ra would also monitor the diversification efforts in terms of markets and therapies.

Outlook Revision to Stable: Any large mergers and acquisitions and/or deterioration in the operating profitability or liquidity, leading to the 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 three manufacturing units – one each in India, the UK and the US, and a research and development centre in Navi Mumbai.

FINANCIAL SUMMARY (Consolidated)

Particulars	**FY21**	**FY20**	**FY19**
Revenue (INR million)	13,762	11,342	10,001
EBITDA (INR million)	3,407	1,656	1,093
EBITDA margin (%)	24.8	14.6	10.9
Interest coverage (x)	42.67	18.93	11.32
Net leverage (x)	-0.09	-0.42	0.70
Source: Marksans, Ind-Ra			

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**			
	Rating Type	**Rated Limits (million)**	**Rating**	**17 April 2020**	**6 February 2019**	**23 February 2018**	**26 December 2017**
Issuer rating	Long-term	-	IND A/Positive	IND A-/Positive	IND A-/Stable	IND A-/Stable	IND A-/Stable

Fund-based limits	Long-term	INR1,600	IND A/Positive	IND A-/Positive	IND A-/Stable	IND A-/Stable	IND A-/Stable
Non-fund-based limits	Short-term	INR960	IND A1	IND A1	IND A1	IND A1	IND A1

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.

SOLICITATION DISCLOSURES

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

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

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