

CMP	: INR 1,745
Reco	: BUY ↔
Target Price	: INR 2,100 ↑
Target Price Change	: 3%
Target 1HFY26 P/E (x)	: 35
EPS Change FY24/ 25%	: -1%/ -4%

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Market data	
Sensex	: 63,591
Sector	: Pharmaceuticals
Market Cap (INR bn)	: 701.0
Market Cap (USD bn)	: 8.417
O/S Shares (mn)	: 400.6
52-wk HI/LO (INR)	: 1950/1241
Avg. Daily Vol ('000)	: 177
Bloomberg	: MANKIND IN

Source: Bloomberg

	FY24e	FY25e	FY26e
EPS (INR)	45.3	55.7	64.3
P/E (x)	38.5	31.3	27.1
P/BV (x)	7.7	6.3	5.2
EV/EBITDA (x)	26.5	21.3	18.0
Dividend Yield (%)	0.3	0.3	0.4

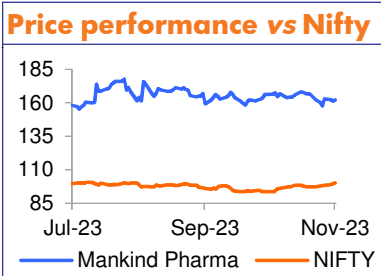
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	(3)	(1)	-	-
Relative	1	2	-	-

Source: Bloomberg

Shareholding pattern	
Promoters	: 77%
Public	: 23%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

2QFY24 RESULT REVIEW

Mankind Pharma

Steady margins, improvement likely from FY25

MANKIND Pharma (MANKIND) reported a revenue growth of 12% on a YoY basis, with the India business growing at a modest 7% YoY. Within this, its branded prescription business grew 8% YoY, largely driven by increased market share in chronic therapies viz. Cardiac, Respiratory, and Anti-Diabetes. However, its acute segment had lower growth on account of the delayed onset of acute season which impacted its key therapies viz. Anti-Infective, Respiratory, GI & VMN, coupled with increased competition in its key product viz. Dydrobroon. The growth in Consumer Healthcare was muted with 2% revenue growth on a YoY basis. To grow its Consumer business, MANKIND continues to invest in brand building by increasing its presence in modern trade channels and e-commerce. We expect the Consumer Healthcare segment to grow at ~10% CAGR, driven by premiumization of existing brands and new launches. Growth in the export segment came as a positive surprise with the revenue growing 12% QoQ and MANKIND gaining market share in an Ophthalmic product on account of a shortage in the market.

Gross margin for the quarter came in at 69.5%, improving ~2.3% on a YoY basis, driven by price hikes and lower RM costs. However, EBITDA margin improved only by 50 bps YoY, due to higher other expenses in relation to brand building and marketing spends. MANKIND has maintained its margin guidance range of 24%–26%. However, we believe the guidance is conservative given the improvement in contribution from the chronic portfolio, new launches, and faster growth from Panacea’s portfolio. With IPM likely to grow at ~10%, we expect MANKIND to grow at ~13% CAGR over a two-year period. We keep our estimates largely unchanged and maintain BUY rating on the stock with a revised target price of INR 2,100 (earlier INR 2,032), valuing the company at 35x 1HFY26 EPS. Amongst our pharma coverage universe, MANKIND remains our top pick.

Chronic contribution improves

MANKIND’s branded India business grew at 8% on a YoY basis, mainly due to the delayed onset of the acute season. However, during the quarter, contribution from the chronic portfolio improved to 34% as against 32% YoY, with Cardiac and Anti-diabetic growing at double-digit growth rates. In its bid to increase its market share in metros and Tier 1 cities, MANKIND will be offering US & CEP DMF grade products at affordable prices. Most of the product offerings are going to be in the chronic and sub-chronic segments. In the past two years, MANKIND has created 10 dedicated divisions and field force for targeting key therapies viz. Cardiac, Diabetes, CNS, Respiratory, Ophthalmology, and Gynecology. For its Consumer Healthcare business, the focus remains on increasing penetration in rural markets for its key brands viz. Manforce Condoms, Gas-o-Fast, HealthOK, and Prega News. The company will also leverage its existing brand equity by launching line extensions viz. Prega News Advance, Ova News, PregaHope & Prega Happy. On the back of these measures, we expect the India business to grow at ~13% CAGR over a two-year period.

Investment Summary

MANKIND’s ability to take price hikes and improvement in chronic therapies have been key drivers for its gross margin improvement in 2QFY24. We like MANKIND’s India franchise given its healthy regional mix, improving acute-chronic ratio, and growing Consumer Healthcare business. As MANKIND’s pricing is lower than its peers for a larger part of its portfolio, we believe steady price hikes are also a growth lever. We also expect MANKIND to grow its Anti-Diabetic and Cardiac franchise via new launches (large brands going off-patent in India) and a focused brand/ sub-therapy marketing approach. With pricing tailwind and improved contribution from the chronic portfolio, we believe the gross margin can improve further. On the whole, we expect MANKIND to deliver ~27% EBITDA margin and ~20% EPS CAGR over a two-year period. We maintain BUY rating on the stock.

Conference Call Highlights

Operational highlights

- MANKIND's 2QFY24 revenue grew 12% YoY to INR 27.1 bn led by a sharp recovery in exports and consistent growth in domestic business.
- Gross margin expanded ~280 bps YoY to 69.5% led by improved price increases and reduction in API costs.
- Employee costs and other expenses increased 15% and 20% respectively.
- The increase in other expenses is mainly due to increasing marketing costs. The company expects the same to moderate in coming quarters.
- In 2Q, R&D spends were 1.9% of sales vs. 2.2% in FY23.
- EBITDA margin expanded 50 bps YoY to 25.2% led by gross margin expansion, partly offset by an increase in costs.
- Depreciation costs increased by ~INR 100 mn QoQ due to the commissioning of a new manufacturing unit in Rajasthan.
- ETR for the quarter contracted 50 bps to 20.4%.
- APAT for the quarter increased 17% YoY to INR 5 bn.
- The company's net cash increased to ~INR 22.6 bn in Sep'23 from ~INR 14.5 bn in Mar'23.
- Capex for the quarter stood at INR 1,140 mn and INR 2,250 mn for 1HFY24.

Domestic operations

- Domestic business grew 7% YoY to INR 25.3 bn, accounting for 93% sales.
- Total MR count as of Sep'23 stood at ~15,550 (including ~3,000 managers).
- India Rx
 - India Rx business grew 8% YoY led by strong growth in the chronic business.
 - Mankind's secondary sales registered a muted growth of 5%, as compared to 7% growth in the Indian Pharma Market (IPM), primarily due to the delayed acute season.
 - Mankind maintained its #4 rank with a market share of 4.4% in 2QFY24 as compared to 4.5% in 2QFY23.
 - As per IQVIA, volume growth declined 4.6% vs. 0.3% for IPM due to delayed acute season.
 - Mankind's chronic segment grew 10% as compared to IPM chronic segment growth of 9% in 2QFY24. Mankind's chronic therapies registered 1.1x outperformance as compared to IPM.
 - The share of chronic increased to 34% in 2QFY24 as compared to 32% in 2QFY23.
 - Additional competition in Dydrogesterone led to market share loss in Dydroboon. The company will launch new SKU to regain market share and get a head start over competition.
 - The company highlighted seeing signs of recovery in acute therapies from Sep'23.
 - The acquired portfolio of Panacea witnessed 30% YoY growth in 2Q.
 - Discontinuation of select products impacted growth for the company, but it plans to recoup ~70% of the revenue loss by FY24 end by launching new molecule combinations.

■ Consumer Healthcare

- India consumer healthcare grew 2% YoY, the growth was muted due to optimization of channel inventory and implementation of IT tools to facilitate stockist consolidation.
- Secondary sales have witnessed mid-teen growth and brands continue to outperform in their categories and maintain market share.
- Four consumer healthcare brands ranked #1 in their categories.
- Mankind continues to focus on building brands, expanding the portfolio range to increase brand love & advocacy. The company is also pursuing product line extensions in certain established brands.
- Focus on increasing rural penetration in key brands—Manforce Condoms, Prega News, Gas-o-Fast, and HealthOk.
- The company also started supplying to modern channels and e-com during the quarter and has seen robust demand.
- The company plans to increase its product basket by launching Nimulid in Nov'23 and also multiple SKUs of Acnestar.
- One new division is expected to be added for consumer healthcare by Jan, taking the total to two division under consumer healthcare.
- Margins of this business are expected to increase by cost optimization, operating leverage, and premiumization.
- The business segment is expected to grow in single digits in FY24.

Exports

- Exports grew 160% YoY and 12% YoY to INR 1.8 bn.
- The YoY growth was aided by certain one-off opportunities in the US.
- Mankind continues to focus on differentiated filings, including in-licensing for key markets.

Guidance

- The company will fill in the white spaces it has in chronic therapies with M&A, in-house R&D, and in-licensing opportunities.
- The company plans to incur INR 5.5–6 bn in capex for FY24.
- The management highlighted 2H has seasonally been weaker in terms of margins for the company. Hence the company maintained its margin guidance of 24%–26%.
- The company plans to draw from its FCF for any near-term M&A opportunities that may arise. It plans to maintain net-cash status post the M&A.
- The company expects to grow the Consumer Healthcare in mid-teens range for FY25.

Exhibit 1: Segmental Revenue snapshot

(INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
India Branded Formulations	23,360	21,660	8	22,110	6	45,470	41,020	11
Consumer Healthcare	1,930	1,900	2	2,080	(7)	4,010	3,830	5
Domestic sales	25,290	23,560	7	24,190	5	49,480	44,850	10
Exports	1,790	690	159	1,600	12	3,390	1,200	183
Gross sales	27,080	24,250	12	25,790	5	52,870	46,050	15

Source: Company, Antique

Exhibit 2: Quarterly snapshot

(INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Sales	27,081	24,258	12	25,786	5	52,867	46,058	15
Cost of Material Consumed	8,249	8,063	2	8,200	1	16,448	15,615	5
% of sales	30.5	33.2	(278) bps	31.8	(134) bps	31.1	33.9	(279) bps
Employee cost	5,720	4,971	15	5,529	3	11,249	9,511	18
% of sales	21.1	20.5	63 bps	21.4	(32) bps	21.3	20.6	63 bps
Other expenses	6,286	5,229	20	5,509	14	11,796	10,374	14
% of sales	23.2	21.6	166 bps	21.4	185 bps	22.3	22.5	(21) bps
Total Exp	20,255	18,263	11	19,238	5	39,493	35,501	11
EBIDTA	6,826	5,996	14	6,548	4	13,375	10,558	27
Margin %	25.2	24.7	49 bps	25.4	(19) bps	25.3	22.9	238 bps
Other income	600	274		586		1,186	439	
Interest	86	103		63		150	265	
Depreciation	965	786		874		1,838	1,566	
PBT before exceptional	6,375	5,380	18	6,197	3	12,573	9,165	37
Exceptional item	-	89		-		-	89	
PBT after exceptional	6,375	5,292	20	6,197	3	12,573	9,077	39
Tax	1,298	1,104		1,303		2,601	1,947	
Tax Rate %	20.4	20.9	(50) bps	21.0	(66) bps	20.7	21.5	(76) bps
PAT before MI	5,077	4,188	21	4,895	4	9,972	7,130	40
P/L from associates	35	38		47		82	73	
MI	102	29		73		175	80	
Reported PAT	5,010	4,197	19	4,869	3	9,879	7,123	39
Adjusted PAT	5,010	4,272	17	4,869	3	9,879	7,198	37
Adj. EPS (INR)	12.5	10.7	17	12.2	3	25	18	37

Source: Company, Antique

Exhibit 3: Balance Sheet

	1HFY24	FY23	9MFY23
Share Capital	401	401	401
Reserves & Surplus	83,884	73,952	71,058
Networth	84,284	74,352	71,459
Debt	1,794	1,704	1,760
Minority Interest	2,051	1,881	1,797
Net deferred Tax liabilities	187	-87	509
Capital Employed	88,318	77,849	75,525
Capital work in progress	2,179	5,501	8,711
Net Block	45,814	42,253	38,393
Goodwill	200	200	200
Investments	18,591	11,650	9,872
Non Current Investments	1,158	895	2,776
Current Investments	17,433	10,755	7,096
Current Assets, Loans & Advances	43,193	36,227	35,248
Inventory	15,338	14,985	14,480
Debtors	10,572	5,764	6,480
Cash & Bank balance	5,826	4,532	4,551
Loans & advances and others	11,457	10,946	9,738
Current Liabilities & Provisions	21,658	17,982	16,900
Liabilities	17,057	13,927	13,058
Provisions	4,601	4,055	3,842
Net Current Assets	21,534	18,245	18,349
Application of Funds	88,318	77,849	75,525

Source: Company, Antique

Exhibit 4: 2QFY24 Actual vs Estimates

(INR mn)	2QFY24		
	Actual	Estimated	% Variance
Revenue	27,081	26,914	0.6
EBITDA	6,826	7,122	(4.1)
EBITDA margin	25.2	26.5	(125)bps
APAT	5,010.3	5,210.7	(3.8)
Adj. EPS (INR)	12.5	13.0	(3.8)

Source: Company, Antique

Exhibit 5: Old vs. new estimates

(INR mn)	New estimates			Old estimates		Change %	
	FY24E	FY25E	FY26E	FY24E	FY25E	FY24E	FY25E
Rating	BUY			BUY			
Target (INR)	2,100			2,032		3	
Sales	1,01,857	1,15,159	1,29,649	1,01,585	1,15,116	0	0
EBITDA	25,573	31,229	35,838	25,633	31,731	(0)	(2)
EBITDA%	25.1	27.1	27.6	25.2	27.6	(13) bps	(45) bps
PAT	18,151	22,315	25,761	18,427	23,256	(1)	(4)
EPS (INR)	45.3	55.7	64.3	46.0	58.1	(1)	(4)

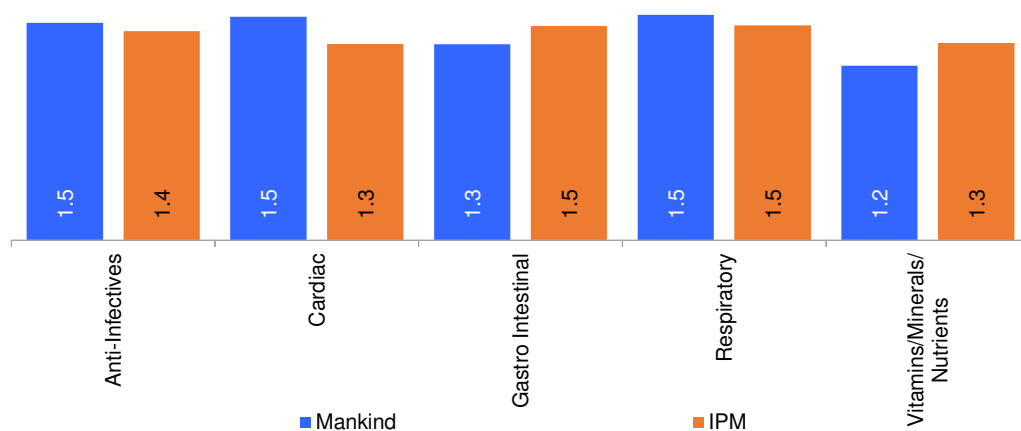
Source: Company, Antique

Exhibit 6: Robust performance of top 10 brands over 3-year CAGR

Brand name	MAT Sep'23 (INR mn)	3 Year CAGR (%)
MANFORCE	4,698	24.8
MOXIKIND-CV	3,690	15.8
UNWANTED-KIT	2,392	15.9
PREGA NEWS	2,254	24.1
AMLOKIND-AT	2,155	10.0
DYDROBOON	2,000	62.9
GUDCEF	1,919	18.9
CANDIFORCE	1,868	(1.4)
GLIMESTAR-M	1,796	10.6
NUROKIND-GOLD	1,469	13.3

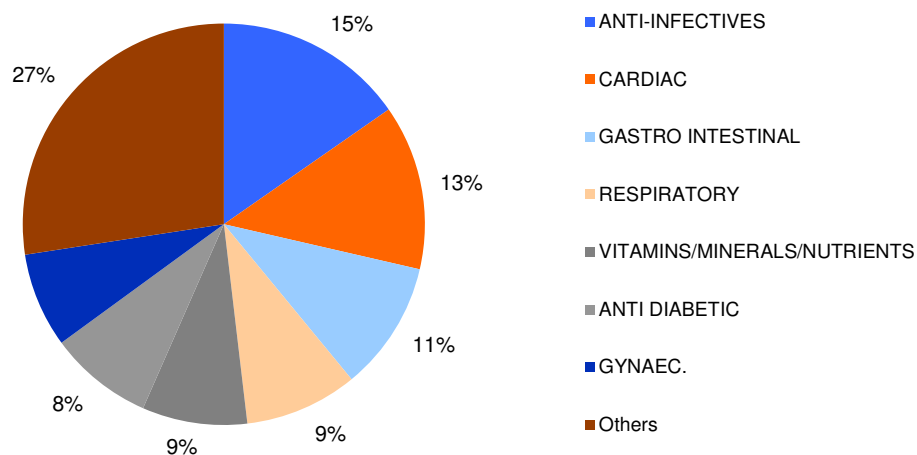
Source: Company, Antique

Exhibit 7: Mankind's core therapies performance vs IPM - 3-year CAGR



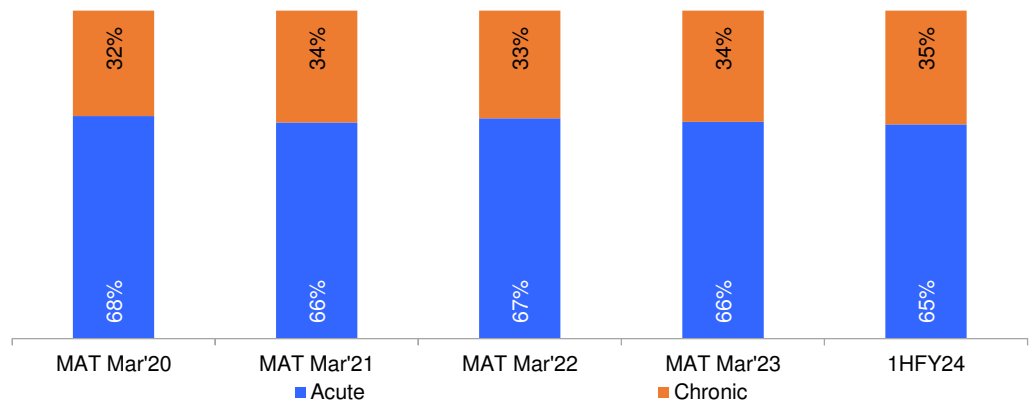
Source: Company, Antique

Exhibit 8: Well diversified therapy mix



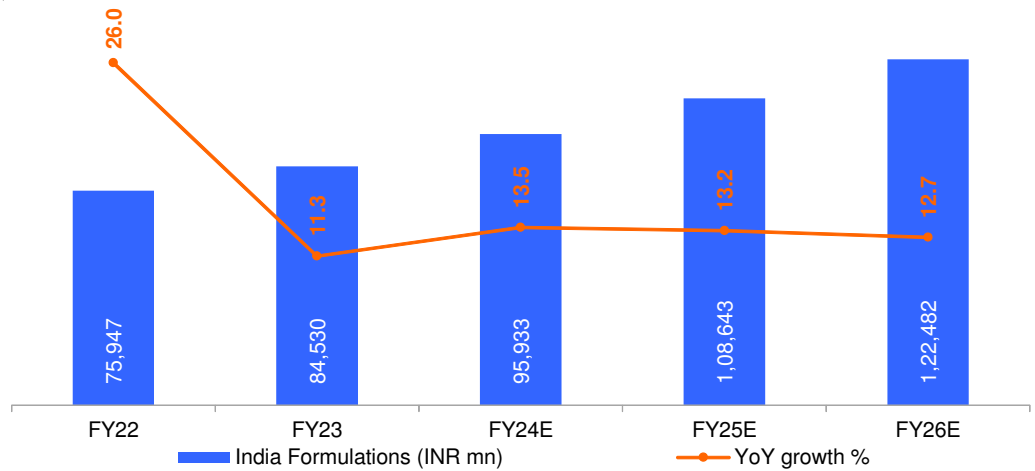
Source: Company, Antique

Exhibit 9: Growing chronic share



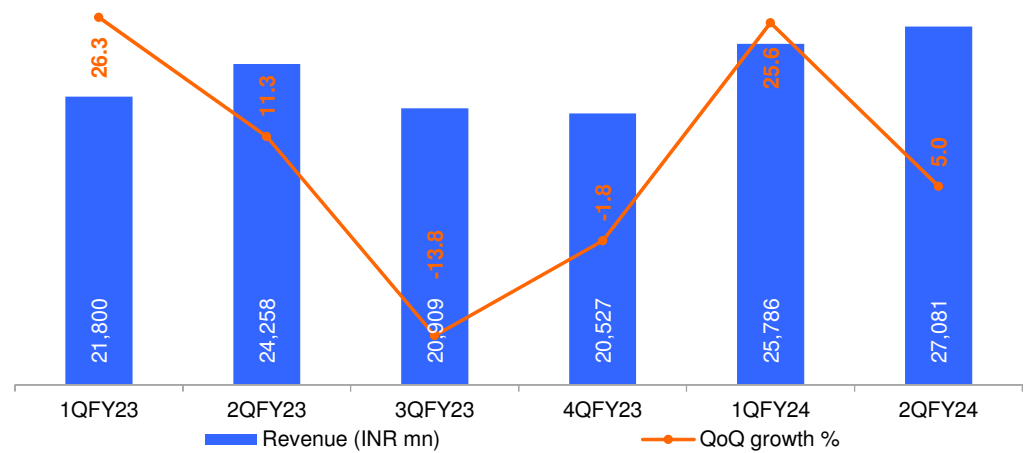
Source: Company, Antique

Exhibit 10: India business revenue to grow at ~13% CAGR



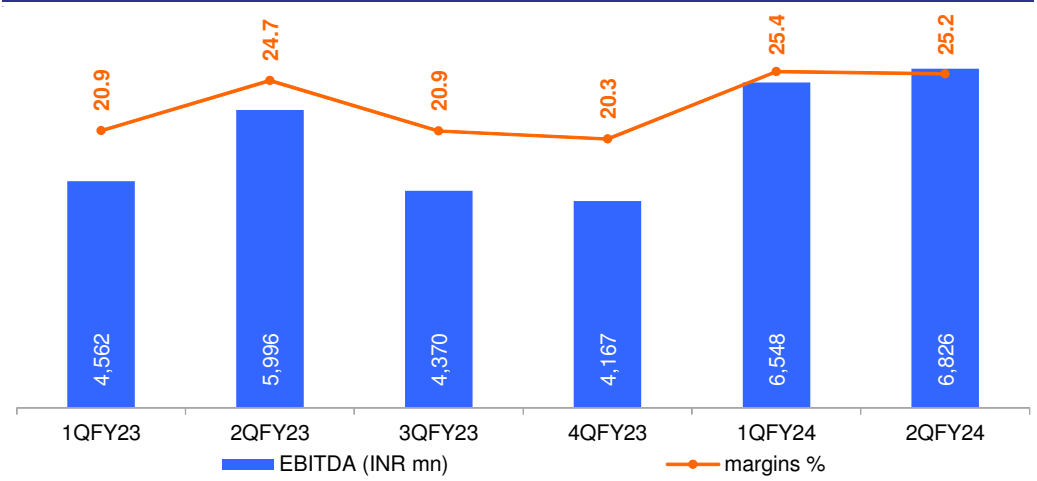
Source: Company, Antique

Exhibit 11: Quarterly Revenue & growth trend (INR mn)



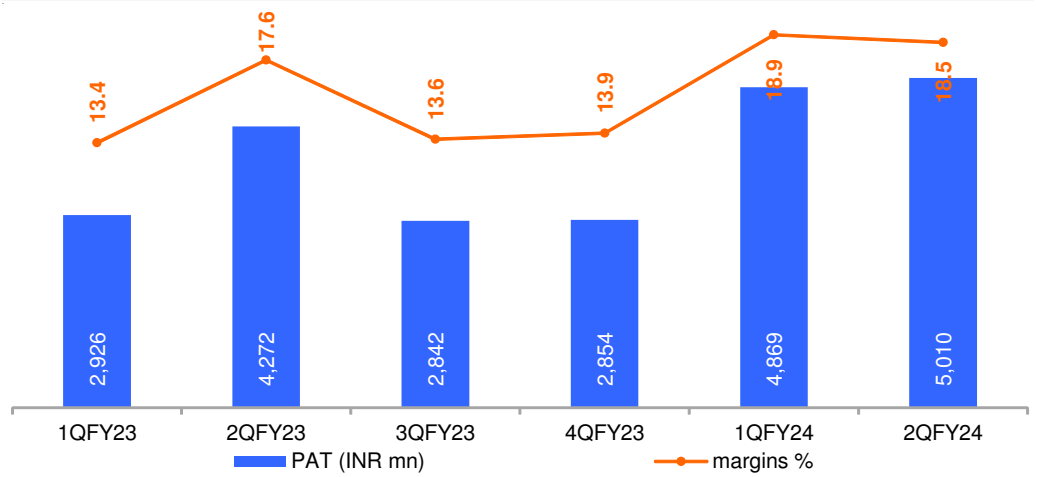
Source: Company, Antique

Exhibit 12: Quarterly EBITDA & Margin trend (INR mn)



Source: Company, Antique

Exhibit 13: Quarterly PAT & Margin trend (INR mn)



Source: Company, Antique

Exhibit 14: Peer valuation table

	P/E(x)			EV/EBITDA(x)			RoE (%)		
	FY23a	FY24e	FY25e	FY23a	FY24e	FY25e	FY23a	FY24e	FY25e
Mankind	54.5	38.5	31.3	36.1	26.5	21.3	18.9	22.0	22.2
Torrent	52.7	41.0	32.9	24.5	21.0	18.1	20.3	24.1	26.5
Eris [^]	30.2	26.9	23.2	23.0	17.6	15.0	18.8	18.3	17.9
Alkem	41.3	28.9	24.2	26.4	21.3	18.2	12.0	15.8	16.7
Cipla	33.0	32.7	29.9	18.5	19.3	17.3	13.3	12.0	11.9
JB chemical	52.9	38.0	31.6	31.6	23.8	20.1	17.7	21.1	21.6
ZYDUSLYF	24.2	24.2	21.1	15.3	15.5	13.5	13.9	13.0	13.4
Sun pharma [^]	31.8	29.0	24.7	22.0	19.8	17.3	16.2	15.7	16.3
Average	40.1	32.4	27.4	24.7	20.6	17.6	16.4	17.8	18.3

Source: Company, Antique; [^]Bloomberg estimates

Risks and Concerns

- 1) MANKIND grows below IPM** – Since ~98% of MANKIND's revenue comes from the India business any slowdown in IPM growth rate can result in the company's volume growth being lower.
- 2) Expansion in metro cities** – MANKIND derives ~53% of its revenue from metro and Tier 1 cities, these markets are highly competitive on price and quality, and there remains a risk on MANKIND's ability to improve its share of revenue from metro cities.
- 3) DMF grade products at affordable prices** – As MANKIND is launching expensive DMF grade products in Metro region at affordable prices, this could dent margins in the near term.

Financials

Profit and loss account (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Net Revenue	77,816	87,494	1,01,857	1,15,159	1,29,649
Op. Expenses	57,922	68,488	76,284	83,930	93,811
EBITDA	19,894	19,006	25,573	31,229	35,838
Depreciation	1,666	3,259	3,769	4,087	4,278
EBIT	18,227	15,747	21,804	27,142	31,560
Other income	1,960	1,286	2,000	2,000	2,000
Interest Exp.	586	445	341	341	341
Reported PBT	19,602	16,588	23,463	28,801	33,220
Tax	5,216	3,616	5,162	6,336	7,308
Reported PAT	14,385	12,973	18,301	22,465	25,911
Minority Int./Profit (loss) From Asso.	(50)	(154)	(150)	(150)	(150)
Net Profit	14,335	12,819	18,151	22,315	25,761
Adjusted PAT	14,335	12,819	18,151	22,315	25,761
Adjusted EPS (INR)	35.8	32.0	45.3	55.7	64.3

Balance sheet (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Share Capital	401	401	401	401	401
Reserves & Surplus	61,152	73,952	90,288	1,10,371	1,33,556
Networth	61,552	74,352	90,688	1,10,772	1,33,957
Debt	8,731	1,704	1,704	1,704	1,704
Minority Interest	1,611	1,881	2,191	2,501	2,811
Net deferred Tax liabilities	(484)	(87)	(87)	(87)	(87)
Capital Employed	71,410	77,849	94,495	1,14,889	1,38,384
Gross Fixed Assets	42,261	52,005	59,005	62,005	65,005
Accumulated Depreciation	6,638	9,752	13,522	17,609	21,886
Capital work in progress	7,015	5,501	3,001	4,001	5,001
Net Fixed Assets	42,638	47,754	48,485	48,398	48,120
Goodwill	204	200	200	200	200
Investments	9,417	11,650	19,000	37,000	57,000
Non Current Investments	673	895	2,000	7,000	7,000
Current Investments	8,745	10,755	17,000	30,000	50,000
Current Assets, Loans & Adv.	38,027	36,227	47,809	51,748	57,109
Inventory	17,602	14,985	15,906	17,984	20,247
Debtors	3,882	5,764	9,767	11,043	12,432
Cash & Bank balance	4,059	4,532	7,228	6,351	6,465
Loans & advances and others	12,483	10,946	14,907	16,371	17,965
Current Liabilities & Provisions	18,876	17,982	20,999	22,457	24,045
Liabilities	15,431	13,927	16,444	17,902	19,489
Provisions	3,445	4,055	4,555	4,555	4,555
Net Current Assets	19,150	18,245	26,810	29,291	33,064
Application of Funds	71,410	77,849	94,495	1,14,889	1,38,384

Per share data

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
No. of shares (mn)	400.6	400.6	400.6	400.6	400.6
Diluted no. of shares (mn)	400.6	400.6	400.6	400.6	400.6
BVPS (INR)	153.7	185.6	226.4	276.5	334.4
CEPS (INR)	40.1	40.5	55.1	66.3	75.4
DPS (INR)	0.0	0.0	4.5	5.6	6.4

Source: Company, Antique

Cash flow statement (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	19,746	16,712	23,463	28,801	33,220
Depreciation & amortization	991	3,259	3,769	4,087	4,278
Interest expense	141	402	341	341	341
(Inc)/Dec in working capital	(5,861)	6,338	(5,869)	(3,358)	(3,658)
Tax paid	(4,995)	(3,231)	(5,162)	(6,336)	(7,308)
Less: Interest/Div. Income Recd.	(129)	(128)	-	-	-
Other operating Cash Flow	(695)	(550)	-	-	-
CF from operating activities	9,198	22,804	16,542	23,535	26,872
Capital expenditure	(23,424)	(8,260)	(4,500)	(4,000)	(4,000)
Inc/(Dec) in investments	4,929	(6,802)	(7,350)	(18,000)	(20,000)
Add: Interest/Div. Income Recd.	303	128	160	160	160
CF from investing activities	(18,192)	(14,934)	(11,690)	(21,840)	(23,840)
Inc/(Dec) in debt	6,219	(6,987)	-	-	-
Dividend Paid	-	-	(1,815)	(2,232)	(2,576)
Others	(173)	(410)	(341)	(341)	(341)
CF from financing activities	6,046	(7,397)	(2,156)	(2,572)	(2,917)
Net cash flow	(2,948)	473	2,696	(878)	115
Opening balance	7,007	4,059	4,532	7,228	6,351
Closing balance	4,059	4,532	7,228	6,351	6,465

Growth indicators (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Revenue (%)	25.2	12.4	16.4	13.1	12.6
EBITDA (%)	19.4	(4.5)	34.6	22.1	14.8
Adj PAT (%)	13.3	(10.6)	41.6	22.9	15.4
Adj EPS (%)	13.3	(10.6)	41.6	22.9	15.4

Valuation (x)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	48.8	54.5	38.5	31.3	27.1
P/BV (x)	11.4	9.4	7.7	6.3	5.2
EV/EBITDA (x)	34.9	36.1	26.5	21.3	18.0
EV/Sales (x)	8.9	7.8	6.6	5.8	5.0
Dividend Yield (%)	0.0	0.0	0.3	0.3	0.4

Financial ratios

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
RoE (%)	26.4	18.9	22.0	22.2	21.1
RoCE (%)	33.2	22.8	27.6	27.8	26.5
Asset/T.O (x)	1.6	1.4	1.4	1.5	1.6
Net Debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
EBIT/Interest (x)	34.4	38.3	69.9	85.5	98.5

Margins (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
EBITDA Margin (%)	25.6	21.7	25.1	27.1	27.6
EBIT Margin (%)	23.4	18.0	21.4	23.6	24.3
PAT Margin (%)	18.0	14.4	17.5	19.0	19.6

Source: Company Antique

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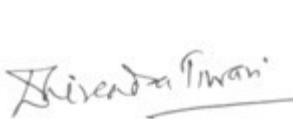
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