

IPO Note: Mankind Pharma Ltd.

Industry: Pharmaceutical

Date: April 24, 2023

| Issue Snapshot | | Issue Break up | | |
|----------------|---|------------------------------------|-------------|-------------------|
| Company Name | Mankind Pharma Ltd. | QIB ex Anchor | 20% | 8,011,769 |
| Issue Opens | April 25, 2023 to April 27, 2023 | Anchor Investor | 30% | 12,017,653 |
| Price Band | Rs. 1026 to Rs. 1080 | HNI<Rs. 10 Lakhs | 5% | 2,002,942 |
| Bid Lot | 13 Equity Shares and in multiples thereof. | HNI>Rs. 10 Lakhs | 10% | 4,005,884 |
| The Offer | Public issue of 40,058,844 Equity shares of Face value Re. 1 each, (Comprising of Offer for Sale by Selling Shareholder). | RII | 35% | 14,020,595 |
| Issue Size | Rs. 4110.0 – 4326.4 Crore | Total Public | 100% | 40,058,844 |
| IPO Process | 100% Book Building | | | |
| Face Value | Re. 1.00 | Equity Share Pre Issue (Nos. Cr.) | 40.1 | |
| Exchanges | NSE & BSE | OFS Share (Nos. Cr.) | 4.0 | |
| BRLM | Kotak Mahindra Capital Co Ltd, Axis Capital Ltd, IIFL Securities Ltd, Jefferies India Pvt Ltd, J.P. Morgan India Pvt Ltd | Equity Share Post Issue (Nos. Cr.) | 40.1 | |
| Registrar | KFin Technologies Ltd | Market Cap (Rs. Cr.) | 43,263.6 | |
| | | Stake Sale by OFS | 10.0% | |

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 3,705,443 equity shares by Ramesh Juneja, up to 3,505,149 equity shares by Rajeev Juneja, up to 2,804,119 equity shares by Sheetal Arora, up to 17,405,559 equity shares by Cairnhill CIPEF Limited, up to 2,623,863 equity shares by Cairnhill CGPE Limited, up to 9,964,711 equity shares by Beige Limited and up to 50,000 equity shares by Link Investment Trust)

Company Highlights

- Mankind Pharma Ltd. (MPL) is India's fourth largest pharmaceutical company in terms of Domestic Sales and third largest in terms of sales volume for MAT December 2022. The company is engaged in developing, manufacturing and marketing a diverse range of pharmaceutical formulations across various acute and chronic therapeutic areas, as well as several consumer healthcare products.
- MPL operate at the intersection of the Indian pharmaceutical formulations and consumer healthcare sectors with the aim of providing quality products at affordable prices, and have an established track record of building and scaling brands in-house.
- MPL have created 36 brands in the pharmaceutical business. The company is present in several acute and chronic therapeutic areas in India, including anti-infectives, cardiovascular, gastrointestinal, anti-diabetic, neuro/CNS, vitamins/minerals/nutrients and respiratory. It has over 36 brands, including Manforce (Rx), Moxikind-CV, Amlokind-AT, Unwanted-Kit, Candiforce, Gudcef, Glimestar-M, Prega News, Dydroboon, Codistar, Nurokind-Gold, Nurokind Plus-RF, Nurokind-LC, Asthakind-DX, Cefakind, Monticope, Telmikind-H, Telmikind, Gudcef-CV, and Unwanted-72, among them.
- Mankind entered the consumer healthcare industry in 2007 and have since established several differentiated brands in the condoms, pregnancy detection, emergency contraceptives, antacid powders, vitamin and mineral supplements and anti-acne preparations categories. Total Covered Market for consumer healthcare business amounted to Rs 20,682 crore in 2022. MPL is the category leaders in:
 - ❖ The male condom category, where their Manforce brand had Domestic Sales of approximately Rs 461.6 crore (representing a market share of approximately 29.6%).
 - ❖ The pregnancy detection kit category, where their Prega News brand had Domestic Sales of approximately Rs 184.4 crore (representing a market share of approximately 79.7%).
 - ❖ The emergency contraceptives category, where the Unwanted-72 brand had Domestic Sales of approx Rs 108.3 crore (representing a market share of approximately 61.7%), for MAT December 2022.

- MPL operate 25 manufacturing facilities across India and have 4,121 manufacturing personnel as of December 31, 2022. The formulations manufacturing facilities have a total installed capacity of 42.05 billion units per annum across a wide range of dosage forms including tablets, capsules, syrups, vials, ampoules, blow fill seal, soft and hard gels, eye drops, creams, contraceptives and other over-the-counter products, as of December 31, 2022.
- For its covered market, Mankind is ranked #2 by market share. Mankind's covered market presence in IPM has increased from ~62% to over ~69% in the past three years. This kind of robust growth was achieved through its focus on increasing penetration in the chronic therapeutic areas.
- Over the past three years, the company's revenue has grown at 16% CAGR, which is nearly 1.5x the IPM growth rate. Mankind's rank, based on domestic sales, has improved from #8 to #4 in the past 10 years. During the same period, the company has also been able to increase its market share by 0.4% to 4.4% in FY23, making it one of the fastest growing companies in IPM.
- Mankind has pan-India presence with a large part of its revenue contribution coming from North India (~35%), with south and west contributing an equal ~23% each, and the rest being covered from the eastern markets. A large part of Mankind's revenue comes from Tier 2-4 towns with the regions contributing ~47% to sales, which is ~37% for its larger peers and IPM in general. The company has a large field force of ~12,000 MRs and ~3,200 line managers, helping the company grow at ~13% CAGR over the past three years in Tier 2-4 markets.

View

In domestic sales Mankind Pharma is India's fourth largest pharmaceutical company, developing, manufacturing and marketing a diverse range, in acute and chronic therapies, of pharmaceutical formulations such as Manforce (RX), Moxikind CV, Amlokind AT, Unwanted Kit, Candiforce, Gudcef, GlimestarM, etc., as well as consumer healthcare products such as Manforce, Prega News, Unwanted 72, Gas-o-Fast, Health OK and AcneStar. Mankind Pharma is a purely domestic business having majority acute brands (67% of sales) with top 5 therapeutic areas of anti-infective, cardiac, gastro, vitamins & respiratory. It is focusing on increasing penetration in the chronic therapies, and has launched new divisions in anti-diabetic, cardiovascular, neuro/CNS and respiratory. Sales of chronic therapies (33% of FY22 revenues) clocked an 14% CAGR over FY20-22, outpacing the IPM's 10%. The recently acquired pharma formulations (transplants, oncology) from Panacea Biotec, and Daffy (derma) & Combihale (respiratory) from Dr Reddy's would boost growth. Further growth would be led by launches in SGLT2 inhibitors, gliptins, cardiac, anti-epileptic, antidepressant anxiolytics. The company plans to grow consumer healthcare business through expanding distribution channel and increasing the market share of existing brands. For existing portfolio of products, the company relies largely on distribution through pharmacies. The company plan to expand distribution reach through grocers and neighborhood small (kirana) stores. Mankind Pharma generates 98% of its revenue from the Indian market, making it the only company of its size with an exclusive domestic focus. The company currently has an annualised revenue of ~Rs. 9,000 crore in FY23. Other domestic-focussed companies listed on the stock exchange either dabble in the international markets (think Torrent, Cipla, Zydus) or are of smaller size (think Eris, JB Chemical). Based on the financials of recent years' growth, margin and return ratios have been impressive with typical advantages of branded formulations business such as limited working capital of 48 days, minimal capex and R&D (~2.5% of sales). We believe that most of the negative impact on margins and sales has already been experienced, and we anticipate a significant improvement in key financial metrics in FY24. The suppression in margins was due to increase in input prices, hiring costs and one-off costs due to Panacea's products acquisition, which is mostly behind us. The company is expected to be listed with a market capitalisation of ~Rs. 43,000 crore, implying a P/E valuation of ~32x on FY23 annualised earnings. Post-IPO, the promoter will continue to hold 78% of the company, with 12% held by existing PE investors. This strong promoter holding makes the stock well-positioned from a float perspective. Overall, we believe that the Mankind Pharma IPO presents a compelling investment opportunity with a favourable risk-reward outlook.

Revenue from Operations

| | FY20 | | FY21 | | FY22 | | 9MFY22 | | 9MFY23 | |
|--|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | Amount (Rs. Cr.) | % to Total |
| Revenue from Operations | 5,865.2 | 100% | 6,214.4 | 100% | 7,781.6 | 100% | 6,055.8 | 100% | 6,691.3 | 100% |
| - Sales of Products | 5,863.7 | 100% | 6,211.9 | 100% | 7,778.1 | 100% | 6,053.5 | 100% | 6,649.2 | 99% |
| - Sales of services | 1.6 | 0% | 2.5 | 0% | 3.5 | 0% | 2.3 | 0% | 9.7 | 0% |
| - Sale of Inventories in Housing Project | - | - | - | - | - | - | - | - | 32.3 | 0% |
| - Other operating revenues | - | - | - | - | - | - | - | - | 5.5 | 0% |
| - Royalty Income | - | - | - | - | - | - | - | - | 5.5 | 0% |
| Total Revenue | 5,865.2 | 100% | 6,214.4 | 100% | 7,781.6 | 100% | 6,055.8 | 100% | 6,696.8 | 100% |

Based on Geography

| | | | | | | | | | | |
|--------------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| In India | 5,788.8 | 99% | 6,028.5 | 97% | 7,594.8 | 98% | 5,918.4 | 98% | 6,481.6 | 97% |
| Outside India | 76.4 | 1% | 185.9 | 3% | 186.8 | 2% | 137.4 | 2% | 215.2 | 3% |
| - United States | 13.1 | 0% | 104.1 | 2% | 73.9 | 1% | 63.1 | 1% | 106.0 | 2% |
| - Bangladesh | 3.5 | 0% | 6.7 | 0% | 17.8 | 0% | 11.5 | 0% | 22.9 | 0% |
| - Sri Lanka | 13.8 | 0% | 12.5 | 0% | 16.3 | 0% | 12.2 | 0% | 18.1 | 0% |
| - Nepal | 7.1 | 0% | 6.3 | 0% | 10.3 | 0% | 7.2 | 0% | 9.8 | 0% |
| - Others | 38.9 | 1% | 56.3 | 1% | 68.4 | 1% | 43.5 | 1% | 58.3 | 1% |
| Revenue from Operations | 5,865.2 | 100% | 6,214.4 | 100% | 7,781.6 | 100% | 6,055.8 | 100% | 6,696.8 | 100% |

Highest Selling Pharmaceutical Brands

| Brand | Domestic Sales for MAT Dec'2022 (? in Cr) | CAGR for FY20 to MAT Dec' 2022 | Market Share for MAT Dec' 2022 | Ranking for MAT Dec'2022 |
|------------------|---|--------------------------------|--------------------------------|--------------------------|
| Manforce (Rx) | 386.2 | 18% | 48.1% | 1 |
| Moxikind-CV | 312.3 | 10% | 8.9% | 3 |
| Dydroboon | 205.0 | 177% | 22.3% | 2 |
| Unwanted-kit | 204.7 | 19% | 4865.0% | 1 |
| PregaNews | 184.4 | 24% | 79.7% | 1 |
| Amlokind-AT | 182.0 | 10% | 29.0% | 1 |
| Candiforce | 172.5 | 1% | 18.2% | 1 |
| Gudcef | 167.6 | 145% | 13.7% | 2 |
| Glimestar-M | 158.8 | 13% | 5.1% | 6 |
| Codistar | 140.8 | 34% | 25.2% | 2 |
| Nurokind-Gold | 130.0 | 14% | 6.2% | 1 |
| Nurokind-LC | 125.7 | 13% | 50.2% | 1 |
| Nurokind plus-RF | 115.6 | 7% | 14.2% | 2 |
| Telmikind-H | 111.1 | 12% | 14.2% | 2 |
| Cefakind | 109.8 | 17% | 12.4% | 2 |
| Telmikind | 109.2 | 14% | 10.1% | 2 |
| Unwanted-72 | 108.3 | 19% | 61.7% | 1 |
| Vomikind | 105.9 | 16% | 21.3% | 3 |
| Monticope | 105.5 | 16% | 7.3% | 3 |
| Telmikind-AM | 104.9 | 27% | 11.6% | 2 |

Intellectual Property Rights

| | Filing | Approved/ Hold | Tentative Approval | Pending | Remark |
|--------------|--------|----------------|--------------------|---------|--|
| ANDAs | 54 | 29 | 3 | 22 | |
| Drug Product | 645 | 451 | - | 194 | |
| DMFs | 25 | 4 | - | 21 | Submitted in the United States received 'Adequate' letter from USFDA |
| | 1 | - | - | 1 | DMF submitted in Canada |
| CEPs | 11 | 7 | - | 4 | Submitted in Europe |
| Patent | 245 | 52 | - | 136 | Filed in several countries |
| Trademarks | 3,163 | 2,319 | - | 844 | Registered, currently hold |

Financial Statement

| (In Rs. Cr) | FY20 | FY21 | FY22 | 9MFY22 | 9MFY23 |
|---------------------------------|--------|--------|--------|--------|--------|
| Share Capital | 40.1 | 40.1 | 40.1 | 40.1 | 40.1 |
| Net Worth | 3671.6 | 4862.9 | 6316.3 | 6123.7 | 7325.6 |
| Long Term Borrowings | 50.3 | 57.7 | 49.2 | 53.5 | 30.7 |
| Other Long Term Liabilities | 92.8 | 98.7 | 158.8 | 108.9 | 213.7 |
| Short-term borrowings | 76.6 | 176.9 | 818.8 | 215.2 | 137.2 |
| Other Current Liabilities | 1182.0 | 1176.5 | 1804.6 | 1542.6 | 1566.6 |
| Fixed Assets | 1864.0 | 1982.0 | 4222.3 | 2269.1 | 4620.4 |
| Non Current Assets | 2225.1 | 484.0 | 518.6 | 469.1 | 684.5 |
| Current Assets | 2822.2 | 3906.6 | 4406.8 | 5305.7 | 3968.9 |
| Total Assets | 5073.3 | 6372.6 | 9147.7 | 8043.9 | 9273.8 |
| Revenue from Operations | 5865.2 | 6214.4 | 7781.6 | 6055.8 | 6696.8 |
| Revenue Growth (%) | | 6.0 | 25.2 | | 10.6 |
| EBITDA | 1436.8 | 1648.1 | 1989.4 | 1704.5 | 1484.0 |
| EBITDA Margin (%) | 24.5 | 26.5 | 25.6 | 28.1 | 22.2 |
| Net Profit | 1056.1 | 1293.0 | 1453.0 | 1260.2 | 1016.0 |
| Net Profit Margin (%) | 18.0 | 20.8 | 18.7 | 20.8 | 15.2 |
| Earnings Per Share (Rs.) | 25.7 | 31.6 | 35.8 | 31.0 | 24.9 |
| Return on Networth (%) | 29.6 | 26.8 | 23.3 | 20.8 | 13.9 |
| Net Asset Value per Share (Rs.) | 87.0 | 117.9 | 153.7 | 148.9 | 178.4 |

Source: RHP, Ashika Research

Cash Flow Statement

| (In Rs. Cr) | FY20 | FY21 | FY22 | 9MFY22 | 9MFY23 |
|--|---------|----------|----------|----------|---------|
| Cash flow from Operations Activities | 1069.7 | 1137.2 | 919.8 | 1158.5 | 1328.9 |
| Cash flow from Investing Activities | (439.2) | (1222.2) | (1369.1) | (1035.0) | (528.7) |
| Cash flow from Financing Activities | (530.7) | (7.8) | 604.6 | 22.3 | (796.1) |
| Net increase/(decrease) in cash and cash equivalents | 99.8 | (92.8) | 155.3 | 145.8 | 4.1 |
| Cash and cash equivalents at the beginning of the year | 116.3 | 219.7 | 127.3 | 127.3 | 283.1 |
| Cash and cash equivalents at the end of the year | 219.7 | 127.3 | 283.1 | 273.6 | 293.4 |

Source: RHP

Comparison with listed industry peers

| Co Name | Net Sales (Rs. Cr.) | OPM (%) | D/E (x) | ROCE (%) | RONW (%) | P/E (x) | P/BV (x) | EV/EBIDTA (x) | MCap/Sales (x) | Market Cap (Rs. Cr.) |
|--------------------------------------|---------------------|---------|---------|----------|----------|---------|----------|---------------|----------------|----------------------|
| Mankind Pharma Ltd. | 7781.6 | 25.6 | 0.0 | 26.1 | 27.7 | 31.9 | 5.9 | 21.8 | 4.8 | 43263.6 |
| Sun Pharma Laboratories Ltd. | 38654.5 | 16.8 | 0.0 | 9.3 | 7.2 | 56.7 | 4.3 | 20.5 | 5.7 | 238829.8 |
| Cipla Ltd. | 21763.3 | 16.3 | 0.0 | 17.2 | 13.1 | 27.9 | 3.2 | 14.5 | 3.3 | 73588.5 |
| Torrent Pharmaceuticals Ltd. | 8508.0 | 17.3 | 0.7 | 14.4 | 13.2 | 65.0 | 8.5 | 20.8 | 5.9 | 53993.9 |
| Zydus Lifesciences Ltd. | 15265.2 | 12.0 | 0.2 | 15.3 | 15.5 | 25.4 | 3.0 | 15.2 | 3.3 | 52361.3 |
| Abbott India Ltd. | 4919.3 | 23.1 | 0.0 | 40.5 | 30.0 | 52.0 | 16.3 | 34.6 | 9.2 | 48307.7 |
| Alkem Laboratories Ltd. | 10634.2 | 14.5 | 0.3 | 18.7 | 21.0 | 39.1 | 4.2 | 22.2 | 3.6 | 39945.5 |
| Glaxosmithkline Pharmaceuticals Ltd. | 3278.0 | 23.3 | 0.0 | 37.7 | 18.4 | 12.4 | 13.0 | 22.6 | 6.4 | 21112.2 |
| Ipca Laboratories Ltd. | 5796.7 | 23.7 | 0.1 | 20.4 | 17.9 | 40.1 | 3.6 | 19.2 | 3.5 | 21038.4 |
| JB Chemicals & Pharmaceuticals Ltd. | 2424.2 | 24.0 | 0.0 | 25.5 | 19.9 | 40.4 | 6.8 | 25.2 | 5.5 | 16452.8 |
| Eris Lifesciences Ltd. | 1347.0 | 36.6 | 0.0 | 25.3 | 23.3 | 21.2 | 3.9 | 16.0 | 5.4 | 8397.6 |
| Procter & Gamble Health Ltd. | 1114.4 | 25.2 | 0.0 | 38.4 | 29.4 | 33.6 | 10.6 | 21.6 | 6.7 | 7813.8 |

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