Mankind Pharma

2 June, 2023

Initiating Coverage

One of a kind with pure domestic play

Established in 1991, Mankind Pharma Ltd (Mankind) is largely a pure-play domestic story (~97% domestic sales in FY23). The domestic market's contribution is also the highest among the large cap domestic pharma peers, which gives it greater revenue visibility against the backdrop of uncertain export growth, especially in the generic segment. Mankind is the 4th largest pharma company in value terms and 1st in terms of prescriptions generated in the Indian Pharma Market (IPM), led by its pan-India presence and the largest fieldforce of 11,541 MRs. Therapy presence is also well diversified in the Acute segment (~66% of domestic sales); key therapies catered to are: Anti-Infective (AI; rank 5), Gastro-Intestinal (GI; rank 6), Vitamins (VMN; rank 2) and Pain Management (rank 8). It also has a growing presence in the Chronic therapy areas of CNS, CVS, Anti-Diabetes, Dermatology and Respiratory. The Chronic segment's contribution to topline has already increased by over 600bps to 34% over FY18-FY23. Mankind also has a strong portfolio in the Consumer Health segment (8% of domestic sales) with some marquee brands, including Manforce, Prega News, Acnestar, Gas-O-Fast and Unwanted Kit. We like Mankind due to its domestic-centric portfolio, strong growth prospects, improving mix towards Chronic and specialist doctors with strong financials.

We expect Revenue/EBITDA/PAT CAGR of 13.4%/22.4%/26.8% over FY23-FY25E with margin improvement of 360bps. Future growth strategy will revolve around: (1) Increased covered market presence, especially in the Chronic segment (2) Gaining scale in the Consumer Health business (3) Increasing penetration in Metro and Class-I cities and (4) Increasing doctor engagements, especially the specialists. We estimate healthy free cashflow (FCF) generation of ~Rs32bn over FY24E-FY25E with low capex requirement. ROE and ROCE are expected to remain healthy at 21.1% and 20.1%, respectively by FY25E. We initiate coverage on Mankind with an ACCUMULATE recommendation and a target price (TP) of Rs1,440, valuing it at 28x March'FY25E EPS.

Market-beating growth with the largest MR network: As per IQVIA, Mankind's revenue grew at a CAGR of ~13% over FY20-FY23, outpacing industry growth of ~10% on the back of multiple catalysts: (1) Market-beating growth in the Chronic segment (2) Strong positioning in the Acute segment (3) New product launches, notably Dydrogesterone and multiple line extensions of existing products and (4) Covid-related tailwinds. Mankind has the largest distribution network in IPM, which consists of ~11,541 MRs and 3,500+ field managers, helping it to penetrate the domestic market across Metro and Tier I-IV cities. We believe that excluding Covid-19, the above factors will continue to support the company in outpacing industry growth, at least in the near term.

EBITDA margin to improve by 360bps over FY23-FY25E: The company's FY23 EBITDA margin declined by 384bps to 21.7% mainly due to cost inflation (gross margin declined by 218bps to 66.7%) and one-time impact of ~60-70bps owing to the Panacea acquisition and 110bps impact due to addition of MRs (Own+Pancea). However, lower advertising & marketing spend by ~125bps YoY in 9MFY23 restricted further drag in margins. Despite normalizing marketing spend, we expect ~360bps improvement in EBITDA margin over FY23-FY25E to 25.3% mainly on the back of waning cost inflation, price hikes and change in the product mix towards Chronic and Specialist segments.

Key downside risks: Rising competition, additional products coming under NLEM and regulatory challenges.

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	62,144	77,816	87,494	99,396	1,12,549
Revenue growth (%)	*6.0*	*25.2*	*12.4*	*13.6*	*13.2*
EBITDA	16,658	19,894	19,006	23,805	28,475
Net profit	12,789	14,335	12,819	16,536	20,602
EPS (Rs)	31.9	35.8	32.0	41.3	51.4
EPS growth (%)	*16.6*	*12.1*	*(10.6)*	*29.0*	*24.6*
EBITDA margin (%)	*26.8*	*25.6*	*21.7*	*24.0*	*25.3*
PER (x)	42.9	38.3	42.8	33.2	26.6
EV/Sales (x)	8.5	7.0	6.1	5.3	4.5
EV/EBITDA (x)	31.9	27.4	28.1	22.0	17.9
RoCE (%)	*28.5*	*23.5*	*17.2*	*19.1*	*20.1*
RoE (%)	*31.2*	*26.4*	*18.9*	*20.3*	*21.1*

Source:Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs1,369

Target Price: Rs1,440

Upside: 5.2%

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Shareholding Pattern (%)

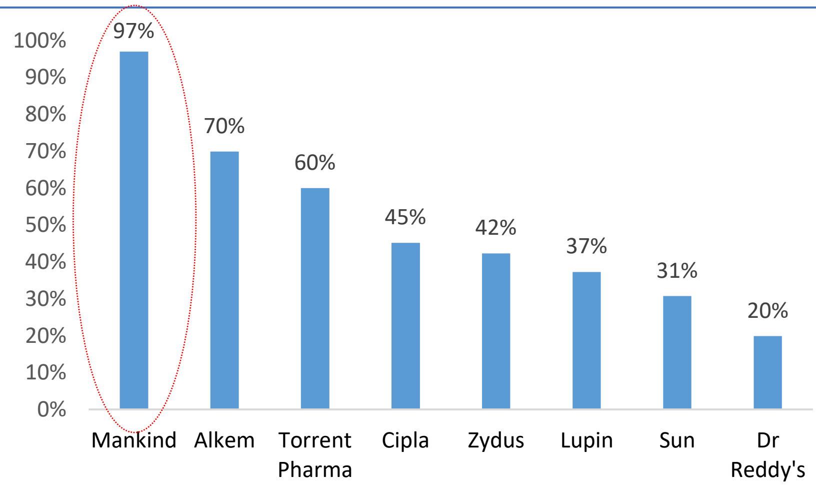
	Pre Issue	Post Issue
Promoter shareholding	79.0	76.5
Public - Investor Shareholders	21.0	13.5
Public - Others	-	10.0
Total	**100**	**100**

Key investment thesis

Highest contribution from domestic market among peers

Mankind is largely a pure-play domestic company as ~97% of its revenue comes from Domestic Formulations, which is the highest among all the listed large domestic pharma companies. After Mankind, Alkem has ~70% domestic market contribution followed by Torrent Pharma at 60% (including CRAMS) while all the other companies are having <50% contribution from the domestic market.

Exhibit 1: Highest contribution of domestic sales among all large cap peers (FY23)

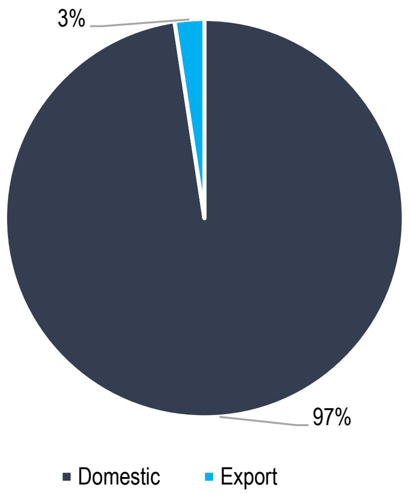


Source: Company, Nirmal Bang Institutional Equities Research, Note: Torrent Pharma included CRAMs sales

One of the fastest growing companies in IPM with a diversified presence across therapies

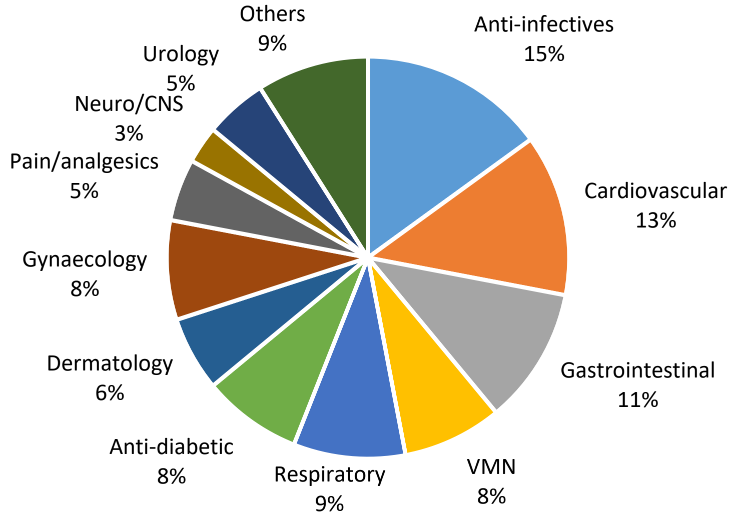
Mankind is the 4th largest branded generics company in India with a market share of 4.1% (source: IQVIA MAT Mar'23). As per IQVIA, over FY20-FY23, Mankind's revenue grew at a CAGR of ~13%, outpacing industry growth of ~10% on the back of multiple catalysts: (1) Market-beating growth in the Chronic segment (2) Strong positioning in the Acute segment (3) New product launches, notably Dydrogesterone and multiple line extensions of existing products and (4) Covid-related tailwinds.

Exhibit 2: Derives majority revenue from the domestic market (FY23)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Therapy split (FY23)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Strong market share in key brands

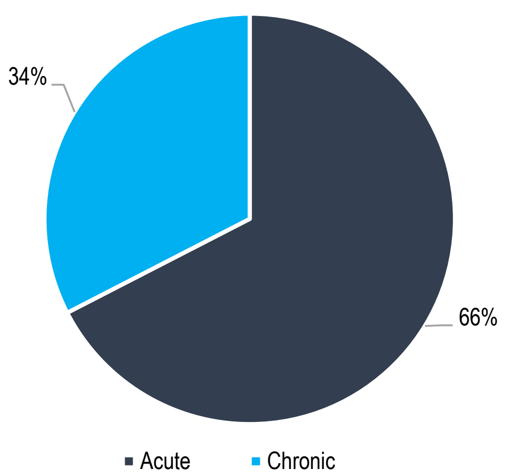
Key brands	MAT Dec'22 sales (Rsmn)	Rank	Market Share	CAGR (FY20- MAT Dec'22)
Manforce (Rx)	3,862	1	48.1%	18%
Moxikind-CV	3,123	3	8.9%	10%
Dydroboon	2,050	2	22.3%	177%
Unwanted-kit	2,047	1	48.6%	19%
PregaNews	1,844	1	79.7%	24%
Amlokind-AT	1,820	1	29.0%	10%
Candiforce	1,725	1	18.2%	1%
Gudcef	1,676	2	13.7%	14%
Glimestar-M	1,588	6	5.1%	13%
Codistar	1,408	2	25.2%	34%

Source: RHP, Nirmal Bang Institutional Equities Research

Outpacing growth in both Acute and Chronic therapy areas

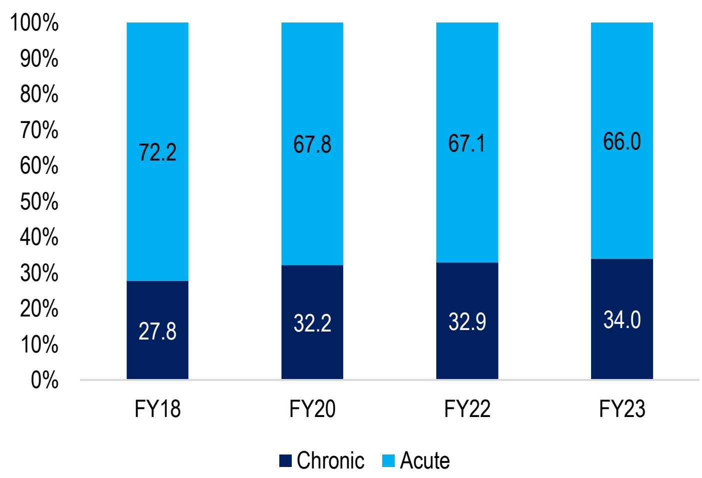
Mankind has consistently outpaced IPM growth in both Acute as well as Chronic therapy areas, growing by 1.2x and 1.4x, respectively over FY20-FY23. This broad-based growth has been led by outperformance in AI, Cardio, Respiratory, Anti-Diabetes (AD) and Gynaec, among others. Over the last five years, Mankind has shifted its attention towards the fast-growing Chronic therapy area with its contribution increasing from 27.8% in FY18 to 34% as of FY23. This transition is in line with the management's intention to pivot its focus towards the Chronic therapy area.

Exhibit 5: Bifurcation of Acute and Chronic therapies (FY23)



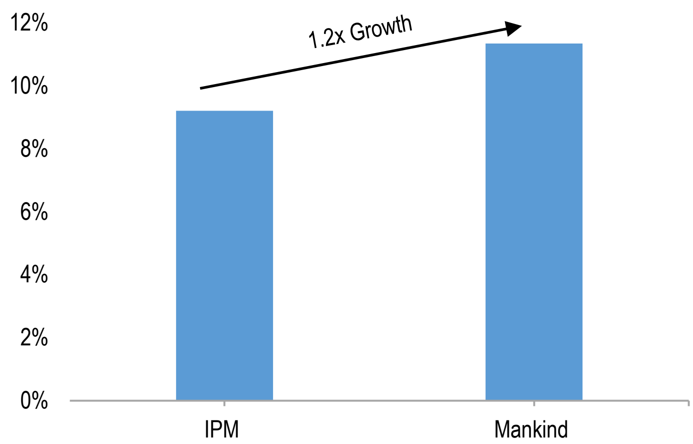
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Increasing contribution from Chronic therapy over FY18-FY23



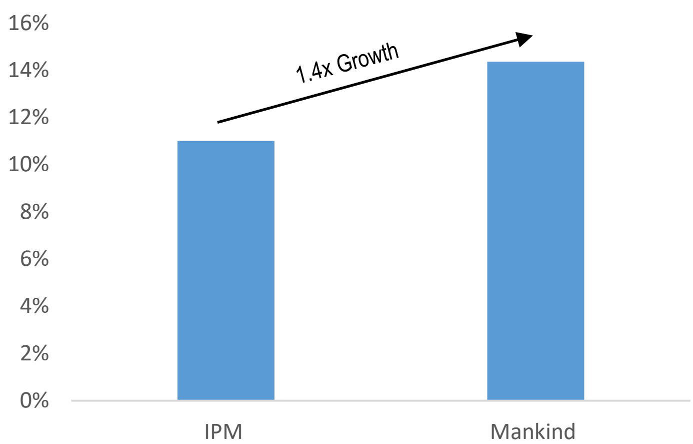
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Acute therapy CAGR over FY20-FY23



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Chronic therapy CAGR over FY20-FY23



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Formidable presence across Acute therapies complemented by strong growth in Chronic therapies

Therapy Area	Market ranking In Covered Markets	Mankind CAGR (FY20-MAT Dec'22)	IPM CAGR (FY20-MAT Dec'22)
Anti-infectives	5	**9%**	**7%**
Cardiovascular	4	**16%**	**11%**
Gastrointestinal	6	11%	12%
Vitamins/minerals/nutrients	2	9%	10%
Respiratory	3	**15%**	**11%**
Anti-diabetic	3	**16%**	**8%**
Dermatology	3	2%	7%
Gynaecology	2	**31%**	**11%**
Pain/analgesics	8	5%	10%
Neuro/CNS	5	10%	11%

Source: RHP, Nirmal Bang Institutional Equities Research

Anti-infectives – On a strong footing

AI is the second largest segment in IPM post CVS and Mankind is the 4th largest player in this segment with a market share of ~5.7%. Mankind's portfolio in AI includes therapeutic classes such as Penicillin, Cephalosporin, Macrolides and Quinolones. The company's AI segment grew at a CAGR of 11% vs IPM growth of 8% over FY20-FY23 mainly on the back of strong industry tailwinds, partially supported by COVID-19. We are building in 11% CAGR over FY23-FY25E, mainly driven by price hikes as well as volume growth.

Exhibit 10: Key brands in the Anti-infective therapy area

Brand	Molecule	Domestic Sales (Rsmn)	Ranking	Market Share
Moxikind-CV	Amoxicillin	3,123	3	8.9%
Gudcef	Cefpodoxime	1,676	2	13.7%
Gudcef-CV	Cefpodoxime	961	1	15.6%
Mahacef	Cefixime	741	8	2.7%
Cefakind	Cefuroxime	1,098	2	12.4%
Zady	Azithromycin	636	4	4.6%
Zenflox	Ofloxacin	520	3	19.6%

Source: RHP, Nirmal Bang Institutional Equities Research

CVS – Second largest segment

CVS is the second largest segment for the company and contributes ~13% to domestic sales (IQVIA MAT FY23). Mankind's CVS portfolio includes Angiotensin Receptor Blockers and Calcium Channel Blockers. The company's CVS sales grew at a CAGR of ~17% over FY20-FY23 against industry growth of ~11%. Increasing focus on the Chronic segment as well as Metro & Tier-I cities is likely to drive faster growth in the CVS segment. We are pencilling in 13% CAGR for this segment over FY23-FY25E.

Exhibit 11: Key brands in CVS therapy area

Brand	Molecule	Domestic Sales (Rsmn)	Ranking	Market Share
Amlokind	Amlodipine	489	4	10.5%
Amlokind-AT	Amlodipine	1,820	1	29.0%
Telmikind	Telmisartan	1,092	2	10.1%
Telmikind-H	Telmisartan	1,111	2	14.2%
Telmikind-AM	Telmisartan	1,049	2	11.6%

Source: RHP, Nirmal Bang Institutional Equities Research

Gynaecology – Dydroboon continues to provide strong growth

Mankind is the second largest company in the Gynaecology segment, constituting 6.7% to total sales. Over FY20-FY23, it grew at a robust ~30% CAGR vs IPM CAGR of 11.5%. This growth was driven by the launch of Dydroboon (Dydrogesterone) in 2019, which is used to treat female infertility. Mankind was only the second player and first generic company to launch the product in India. The company is one of the few players to manufacture this complex API as well as market the formulation in India. Being vertically integrated allows Mankind to partially control operating costs, quality and stability in the supply of essential raw materials for its formulations, giving it a solid competitive advantage. As per media sources, Mankind is spending Rs2.5-3bn on the Udaipur unit, which is expected to begin operations by 2QFY24. The unit will manufacture Dydrogesterone key starting materials, API and formulations. We expect the strong growth in this product to continue to drive sales for the Gynaecology segment in future. We are baking in a 30% CAGR over FY23-FY25E.

Exhibit 12: Key brands in Gynaecology therapy

Brand	Molecule	Domestic Sales (Rsmn)	Ranking	Market Share
Unwanted Kit	Mifepristone and misoprostol	2,047	1	48.60%
Dydroboon	**Dydrogesterone**	**2,050**	**2**	**22.30%**
Unwanted-72	Levonorgestrel	1,083	1	61.70%

Source: RHP, Nirmal Bang Institutional Equities Research

Dydrogesterone grew by 33% over FY20-Dec22

Dydrogesterone is widely prescribed to support pregnancies as part of infertility treatments and in gynaecological indications such as endometriosis. This segment grew by 33.1% over FY20-Dec'22, mainly driven by expansion of the market post the entry of new players and superiority vs Progesterone. Dydrogesterone has proven effective in a variety of conditions associated with progesterone deficiency, infertility due to luteal insufficiency (including threatened miscarriage, habitual or recurrent miscarriage), menstrual disorders, pre-menstrual syndrome and endometriosis. Additionally, oral administration is the easiest route of administration and generally the most acceptable route for the patient.

Exhibit 13: Industry v/s product growth for Dydrogesterone

	FY20	FY21	FY22	MAT Dec'22	*CAGR %*
Dydrogesterone (Rsbn)	3.9	4.2	6.1	9.2	*33.1*
Growth (%)	18%	6%	45%	67%	-
Dydroboon Market share (%)	3.20%	20.30%	24.30%	22.30%	-
Dydroboon (Rsbn)	0.1	0.9	1.5	2.1	*154.3*

Source: RHP, Nirmal Bang Institutional Equities Research

Focus on affordability and accessibility

Mankind has a formidable presence in the price-sensitive Class II-IV cities and rural markets, deriving ~47% of its domestic sales vs peer average of ~37%. This level of rural penetration has largely been achieved on the back of: (1) Implementation of a calibrated marketing strategy centred on affordability and accessibility and (2) Leveraging of the MR network to build a wider doctor reach. Despite better affordability, the company believes this strategy would work in Metro & Tier-I cities as well. Our research on some of the company's top-selling brands confirms the belief around product affordability. Majority of the company's top-selling products are offered at the lower end of the price spectrum, with price differential ranging from +5% to (-)70% compared to industry average.

Exhibit 14: Price differential for key products

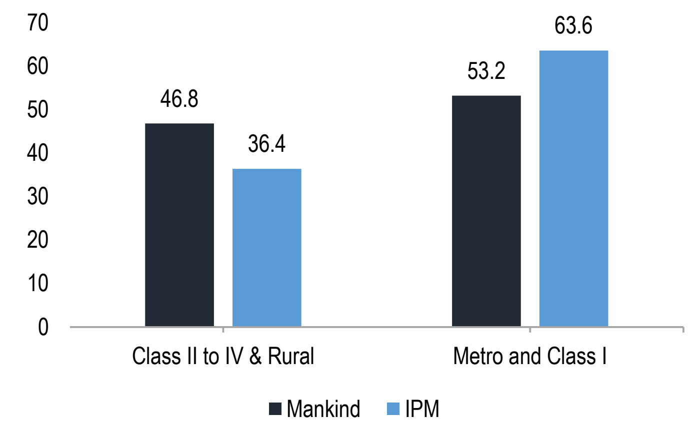
Brand sold by Mankind	Molecule Composition	MRP/tablet	Average industry MRP/tablet*	Premium(+)/Discount (-) to industry
Moxikind-CV 625 Tablet	Amoxycillin (500mg) + Clavulanic Acid (125mg)	17.1	18.4	**-7%**
Dydroboon	Dydrogesterone (10mg)	59.9	58.1	**+3%**
Amlokind-AT Tablet	Amlodipine (5mg) + Atenolol (50mg)	3.3	10.3	**-68%**
Glimestar-M 1 Tablet PR	Glimepiride (1mg) + Metformin (500mg)	7.0	9.6	**-27%**
Telmikind 40 Tablet	Telmisartan (40mg)	3.9	6.5	**-41%**
Nurokind-LC Tablet	Levo-carnitine (500mg) + Methylcobalamin (1500mcg) + Folic Acid (1.5mg)	15.0	16.9	**-12%**
Gudcef Plus Tablet	CefpodoximeProxetil (200mg) + Ofloxacin (200mg)	21.5	23.0	**-7%**

**Average is based on a sample of competitor brands; Source: Tata 1mg, Nirmal Bang Institutional Equities Research*

Enhanced focus on Metro and Tier-I cities

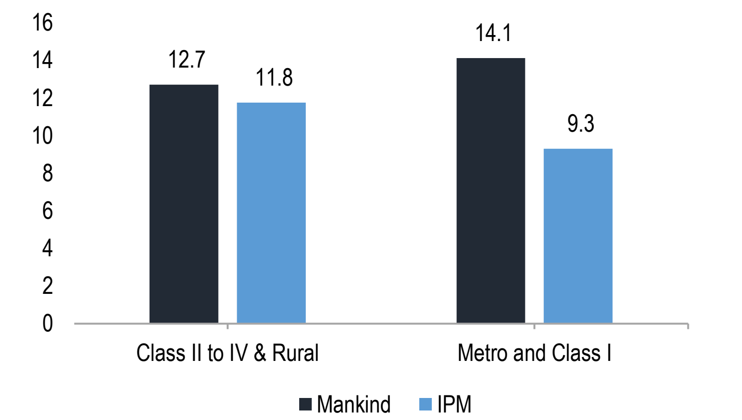
Post establishing a formidable presence in the price-sensitive Class II-IV cities and rural markets, Mankind has enhanced its presence in Metro and Tier-I cities with greater focus on the Chronic segment and deeper penetration. Consequently, growth from these cities came in at 14.1% CAGR over FY18-FY22 against 12.7% CAGR in Class II & beyond cities. Apart from this, the recent acquisition of Panacea is likely to further augment its presence in Metros and Chronic Specialist segments.

Exhibit 15: Penetration in Metro & Tier-I cities is lower than industry (%)



Source: RHP, Nirmal Bang Institutional Equities Research

Exhibit 16: However, increasing focus has led to better growth in Metro & Tier-I cities – 5yr Domestic Sales CAGR (%)



Source: RHP, Nirmal Bang Institutional Equities Research

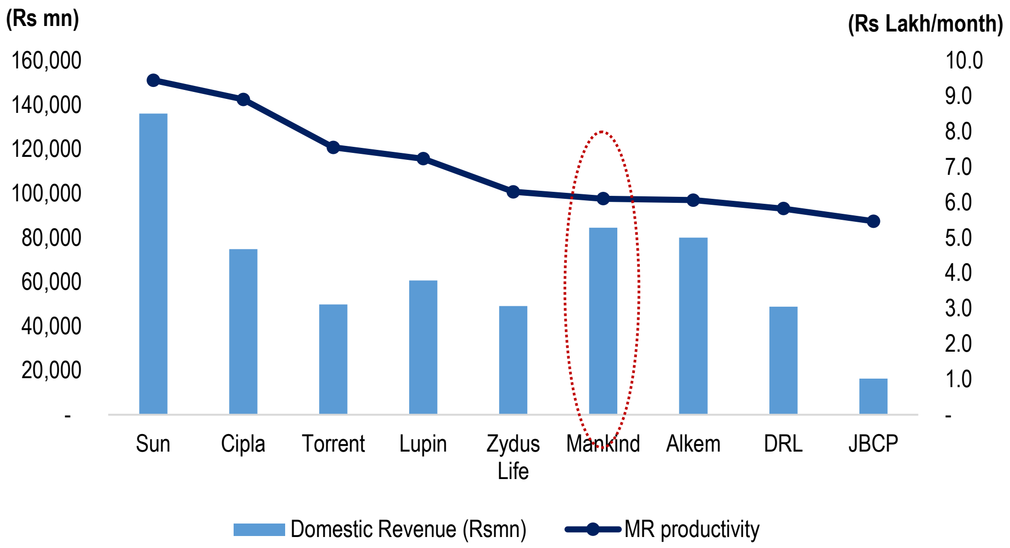
Panacea acquisition – to enhance presence in Specialist therapeutic areas

In Feb'22, under an asset purchase agreement, Mankind acquired Panacea Biotec's branded formulations business in India and Nepal for a consideration of Rs18.7bn (~7x Price/Sales). Despite the acquisition being at the higher end of the valuation spectrum, it would enable Mankind to explore new super-specialty therapeutic areas such as Transplant and Oncology, which would further drive future growth. As per the management, gross margin of the acquired portfolio is higher than Mankind's and once manufacturing is shifted in-house, the gross margin will have further scope for improvement.

Extensive distribution reach through a strong MR network

As of March'23, Mankind has one of the largest and extensive distribution networks in IPM, which consists of ~11,541+ MRs and 3,500+ field managers, which help it to penetrate the domestic market across Metro as well as rural markets. As of March'23, the MR productivity stood at Rs0.6mn, lower compared to its peers given the higher contribution from the Acute therapy. The company's focus continues to remain on increasing penetration in Metro & Class-I cities, which constitute 53% of the company's total domestic sales (Source: IQVIA MAT Mar'23).

Exhibit 17: Domestic sales and MR productivity of select companies (FY23)



Source: Company, Nirmal Bang Institutional Equities Research; Note: For Cipla considered only Rx business

Established Consumer Health franchise

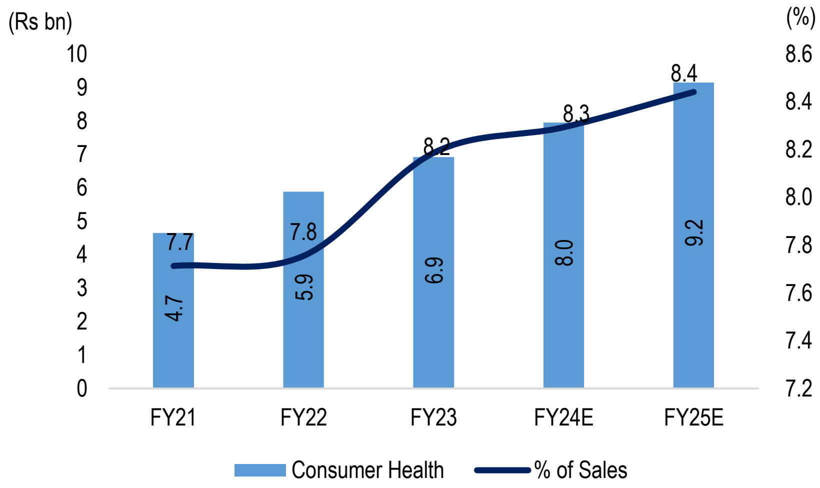
Mankind entered the Consumer Health industry in 2007 and has since established several brands in condoms, pregnancy detection, emergency contraceptives, antacid powders, vitamin & mineral supplements and anti-acne preparation categories. As per the management, the Consumer Health segment contributes ~8% to total domestic revenue. According to IQVIA, the Consumer Health market is growing at a strong pace and is expected to grow by ~10-11% annually. Mankind also plans to further grow the Consumer Health business by leveraging its existing brand equity to launch brand extensions. For instance, the company recently launched “PregaNews Advance”, an advanced version of the existing Prega News pregnancy detection kit. We expect the Consumer Health business to grow at 15% CAGR over FY23-FY25E, driven by continuous growth in existing brands and new launches, including line extension, Rx to OTC shift and likely launch of Nimulid OTC from the Panacea portfolio.

Exhibit 18: Leadership position in Consumer Health brands

Key brands	Category	MAT Dec’22 sales (Rsmn)	Rank	Market Share
Manforce	Condoms	4,616	1	30%
Unwanted Kit	Medical termination of pregnancy	2,047	1	49%
PregaNews	Pregnancy Test Kit	1,844	1	80%
Gas-O-Fast	Antacid	1,230	5	4%
Unwanted-72	Emergency Contraceptive	1,083	1	62%
Health OK	VMN	798	5	3%
Acne Star	Acne	701	2	13%

Source: RHP, Nirmal Bang Institutional Equities Research

Exhibit 19: Consumer Healthcare business



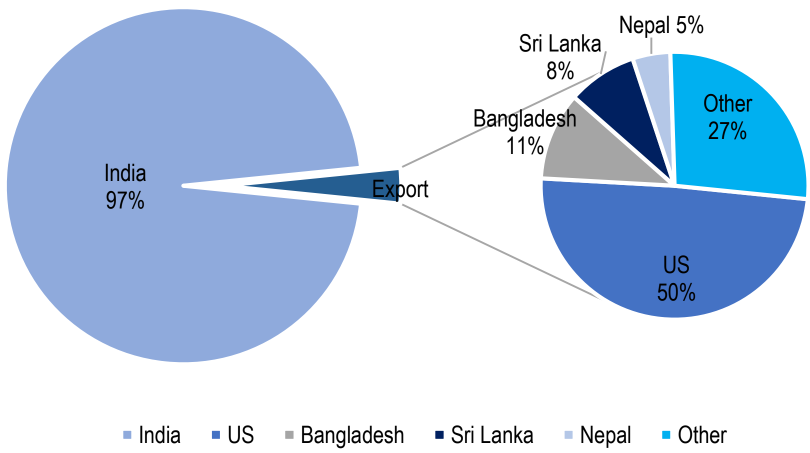
Source: Company, Nirmal Bang Institutional Equities Research

Strong growth in exports

Mankind established its international business in 2011, but it is still a negligible part of overall sales (3.4% of revenue in FY23). Although international business is growing at a strong pace, we expect contribution from this business to remain low, at least in the near to medium term as the company's major focus remains on the secular domestic market. The company exports to 21 countries, including regulated markets like the US and semi-regulated Emerging Markets (EM) in Latin America, Southeast Asia, Africa, the Middle East and the Commonwealth of Independent States (CIS).

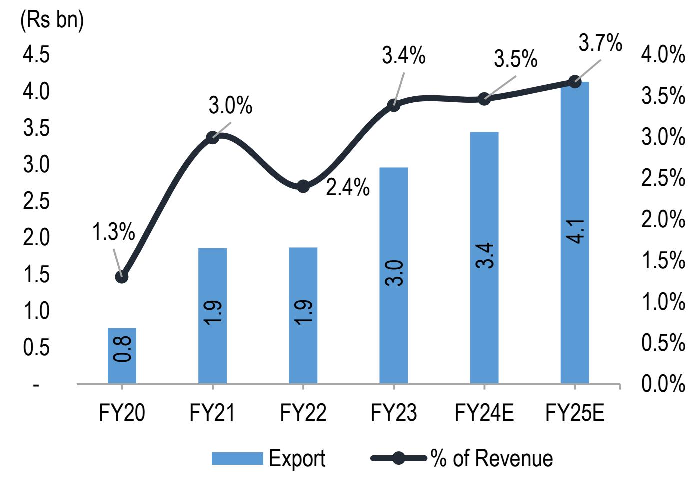
Majority of the export revenue is derived from the US, which accounted for ~50% of the total export revenue for FY23. Over FY20-FY23, the company has 4x its export revenue to ~Rs3bn, albeit on a small base with the US and Bangladesh recording the fastest growth in the process. We believe that given the nascent size and long runway for growth, the export business will continue to grow at a robust 18.1% CAGR over FY23-FY25E. Exports' contribution in FY25E is expected to be ~3.7% of total sales.

Exhibit 20: Geography-wise revenue split



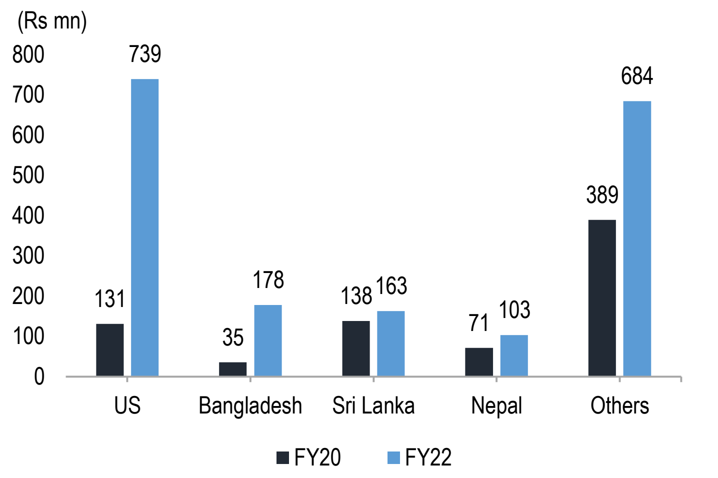
Source: RHP, Nirmal Bang Institutional Equities Research

Exhibit 21: Export contribution to sales is expected to remain miniscule



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: All export geographies have registered strong growth



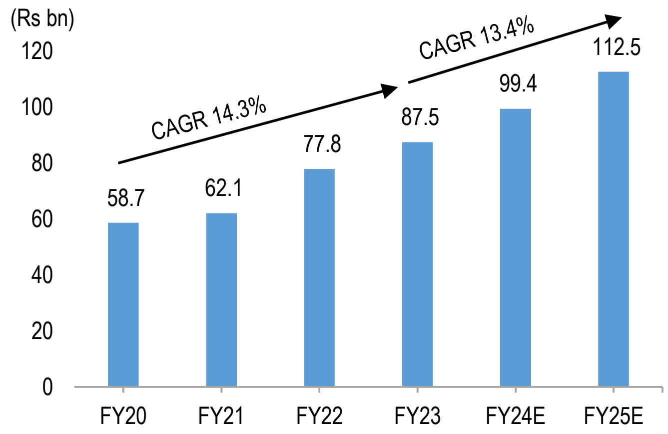
Source: RHP, Nirmal Bang Institutional Equities Research

Healthy Financials

Revenue is expected to grow at ~13.4% CAGR over FY23-FY25E

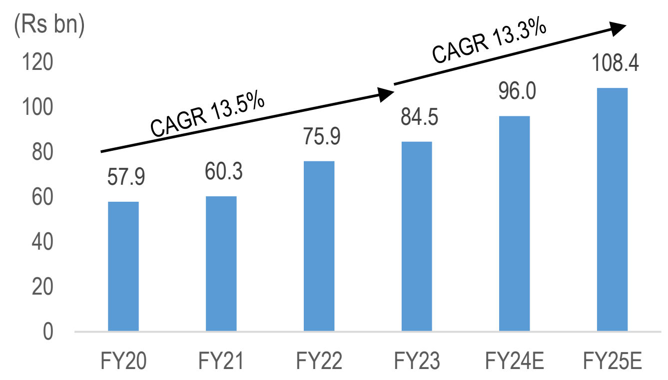
Mankind's revenue grew at ~14% CAGR over FY20-FY23, led by 13.5% growth in the domestic business and 57.1% growth in the exports business (albeit on a small base). Domestic revenue grew at 13.5% CAGR over FY20-FY23 on the back of: (1) Robust growth in the Chronic segment (2) Market-beating growth in the Acute segment (3) Launch of Dydrogesteron and (4) Covid-related tailwinds. Exports registered a robust growth on a small base with the US and Bangladesh recording the fastest growth. While exports growth is expected to remain strong due to a lower base, domestic market growth will mainly be driven by the Chronic segment, supported by consolidation of Panacea and continuous outpacing of industry growth in the Acute segment. We are building in 13.4% revenue CAGR over FY23-FY25E, driven by 13.3% growth in the domestic market and 18.1% growth in the export market.

Exhibit 23: Revenue to grow at 13.4% CAGR over FY23-FY25E



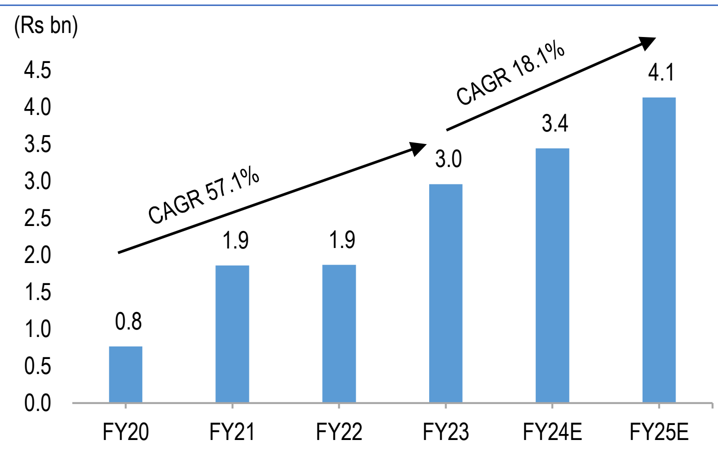
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Domestic business to grow at ~13% CAGR over FY23-FY25E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Exports to grow at ~18% CAGR over FY23-FY25E

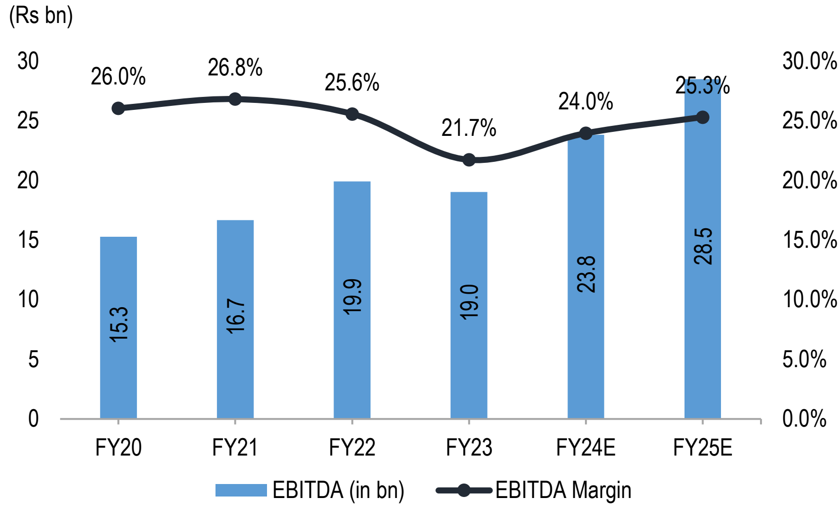


Source: Company, Nirmal Bang Institutional Equities Research

EBITDA margin to recover

Over FY20-FY22, EBITDA grew by 14.1% whereas EBITDA margin remained range-bound ~25-26%. However, for FY23, EBITDA margin has compressed by ~384bps, owing to cost inflation and one-off expenditure towards the acquisition & consolidation of Panacea Biotec's formulation brands and higher employee cost due to MR addition. EBITDA margin is expected to improve by 358bps over FY23-FY25E to 25.3% mainly on the back of normalizing cost inflation, increase MR productivity, price hikes and change in the product mix towards Chronic & Specialist segments.

Exhibit 26: EBITDA margin is expected to improve by ~360bps over FY23-FY25E

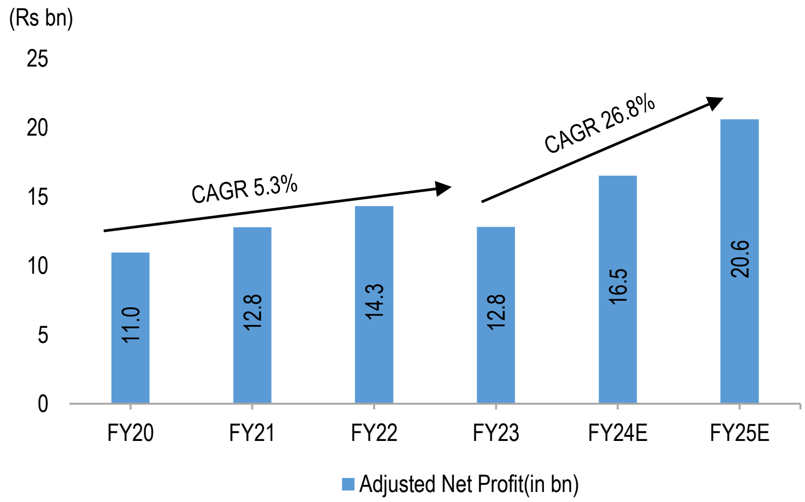


feSource: Company, Nirmal Bang Institutional Equities Research

Adjusted net profit is expected to grow at ~27% CAGR over FY23-FY25E

The company's adjusted PAT grew at 5.3% CAGR over FY20-FY23 mainly in sync with the operational performance and additional amortization due to acquisitions. We are building in 26.8% PAT CAGR over FY23-FY25E against EBITDA growth of 22.4%. Delta vs EBITDA is expected mainly due to a higher other income and decline in interest cost.

Exhibit 27: Adjusted net profit is expected to grow at ~27% CAGR over FY23-FY25E

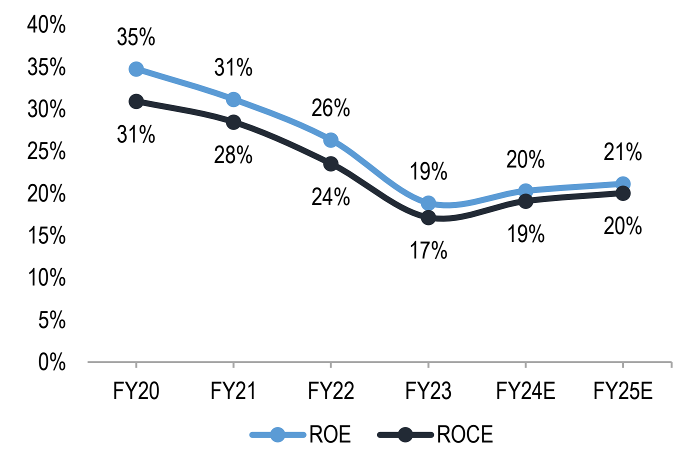


Source: Company, Nirmal Bang Institutional Equities Research

Robust return ratios

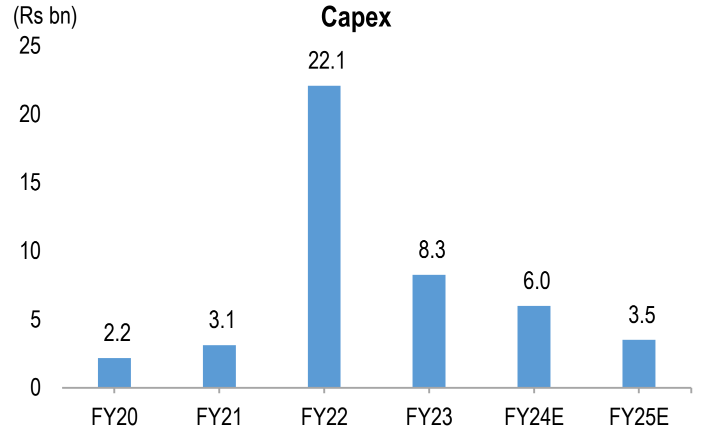
Mankind has a strong balance sheet with a net cash position. As of March'23, it had a fixed asset turnover of ~3x. In FY23, the company's ROE and ROCE declined to 18.9% and 17.2% from 34.8% and 30.9% in FY20, respectively mainly due to the acquisition of Panacea's formulations brands and margins pressure in FY23. We expect the company's ROE and ROCE at 21.1% and 20.1%, respectively by FY25-end. Going forward, the return ratios are expected to improve in tandem with revenue growth and improvement in margins.

Exhibit 28: ROE and ROCE trends



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: No major large capex plan expected in near term



Source: Company, Nirmal Bang Institutional Equities Research

Du Pont Analysis

ROE decreased from 34.8% in FY20 to 18.9% in FY23 due to lower EBITDA margin and increased depreciation & amortization charges owing to acquisitions. We expect ROE to improve by ~220bps over FY23-25E, primarily due to improvement in EBITDA margin.

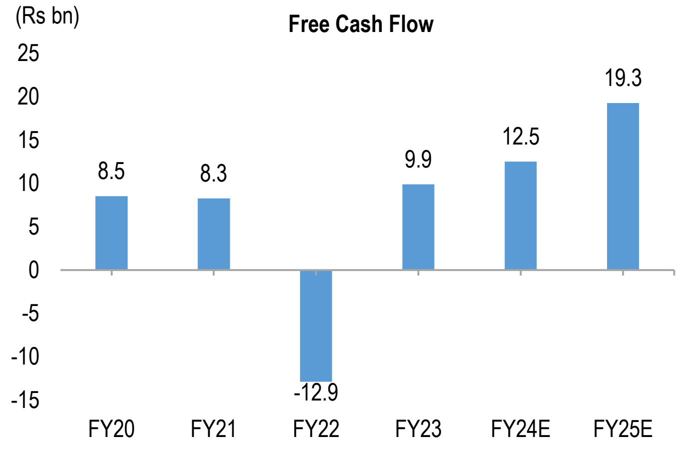
	FY20	FY21	FY22	FY23	FY24E	FY25E
Tax burden (Net income/PBT) (%)	76.9	76.1	73.1	77.3	76.7	76.8
Interest burden (PBT/EBIT) (%)	99.9	108.6	107.5	105.3	107.3	109.8
EBIT margin (EBIT/Revenues) (%)	24.4	24.9	23.4	18.0	20.2	21.7
Asset Turnover (Revenues/ Total Assets) (x)	1.3	1.1	1.0	0.9	0.9	0.9
Leverage (Total Assets/ equtiy) (x)	1.5	1.4	1.4	1.4	1.3	1.3
Du Pont RoE	**34.8**	**31.2**	**26.4**	**18.9**	**20.3**	**21.1**

Source: Company, Nirmal Bang Institutional Equities Research

Working capital cycle expected to remain at ~45 days

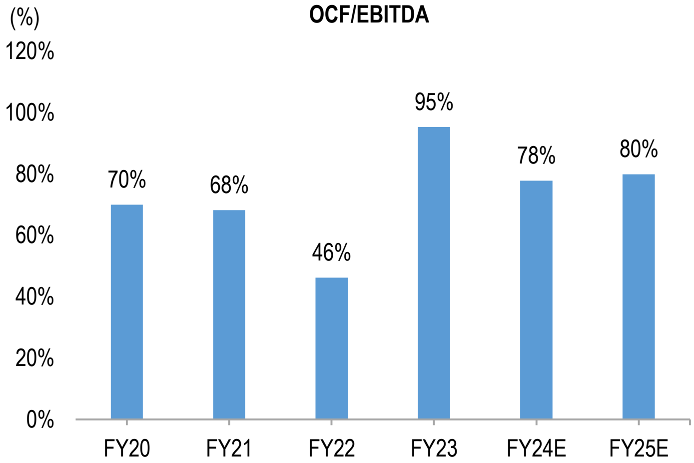
Mankind had a working capital cycle of 50 days in FY22. Working capital cycle was higher in FY22 mainly due to stocked up inventories amid supply chain constraints. The working capital cycle has normalized to 44 days in FY23 and we believe it will remain same for the foreseeable future. The company is consistently generating healthy operating cash flows; OCF/EBITDA also remains high, which indicates strong cash generation.

Exhibit 30: ~Rs32bn FCF expected over FY24E-FY25E



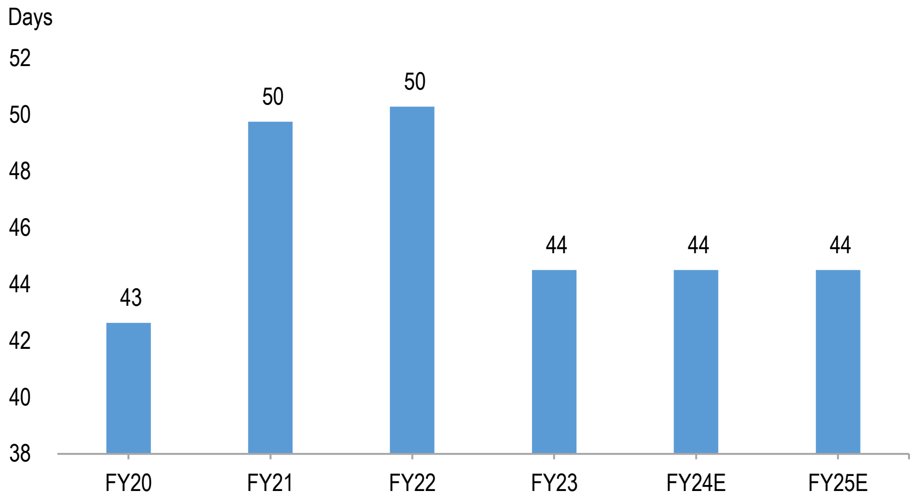
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Strong OFC/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Working capital days



Source: Company, Nirmal Bang Institutional Equities Research

Valuation Summary

Mankind's adjusted net profit is expected to grow at 26.8% CAGR over FY23-FY25E, mainly driven by 13.4% CAGR in revenue with 358bps improvement in EBITDA margin. Revenue growth will mainly be driven by: **(1) Increased covered market presence, especially in the Chronic segment (2) Gaining scale in the Consumer Health business (3) Increasing penetration in Metro & Class-I cities and (4) Increasing doctor engagements.** EBITDA margin is expected to improve by ~360bps over FY23-FY25E to 25.3%, mainly driven by normalizing cost inflation, price hikes and change in the product mix towards Chronic & Specialist segments.

The company is currently trading at 33.2x/26.6x PE on FY24E/FY25E and 22x/17.9x EV/EBITDA on FY24E/FY25E. We like Mankind due to its domestic-centric portfolio, strong growth prospects, improving mix towards Chronic & Specialist segments with strong financials. We initiate coverage on Mankind with a ACCUMULATE rating with a TP of Rs1,440, valuing it at 28x March'FY25E EPS.

Peer comparison table

Mankind's P/E multiple reflects ~22% premium to large cap peers (~16% discount to Torrent Pharma). We believe a premium multiple is justified because Mankind is the only listed large cap company which is a pure-play domestic story (~97% domestic contribution) and higher domestic contribution always gives greater visibility against uncertain export growth, especially in the generic segment. In addition, Mankind trades at multiples closer to the average of MNC stocks despite continuous outperformance in revenue growth in the domestic market.

	RATING	CMP	TP	M Cap	PE (x)			EV/EBITDA (x)			ROE (%)			RoCE (%)			Net D/E (x)		
		(Rs)	(Rs)	(Rsbn)	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Large Cap																			
Cipla	Buy	951	1,097	768	26.2	21.1	17.8	14.4	12.3	10.3	13.2	14.6	15.2	12.6	13.9	14.5	(0.2)	(0.2)	(0.3)
Dr Reddy's	Acc	4,546	4,762	755	16.7	18.2	19.2	11.1	11.0	11.1	21.4	16.7	14.0	19.0	15.8	13.5	(0.0)	(0.2)	(0.2)
Lupin	Sell	813	705	370	86.0	31.3	23.1	23.2	14.7	12.0	3.5	9.1	11.4	3.5	7.3	9.0	0.4	0.3	0.2
Sun	Buy	981	1,130	2,354	27.3	26.3	22.6	19.5	17.3	15.1	16.6	15.1	15.8	14.6	13.4	14.5	(0.1)	(0.2)	(0.3)
Zydus	Buy	505	600	511	23.7	19.6	18.3	14.5	11.9	10.8	12.5	13.9	13.2	10.0	12.0	11.6	0.1	(0.0)	(0.1)
Alkem	Buy	3,386	3,800	405	38.1	25.2	19.6	24.4	18.5	14.5	12.0	16.6	18.7	9.9	14.0	16.5	(0.1)	(0.2)	(0.3)
Torrent Pharma	Buy	1,794	1,981	606	48.7	39.8	31.8	23.3	19.3	16.4	20.5	22.7	24.4	12.8	14.5	17.6	0.9	0.6	0.3
Average					**38.1**	**26.0**	**21.8**	**18.6**	**15.0**	**12.9**	**14.2**	**15.6**	**16.1**	**11.8**	**13.0**	**13.9**	**0.1**	**(0.0)**	**(0.1)**
MNC																			
Pfizer	Acc	3,823	4,217	175	29.2	27.1	23.6	19.5	17.7	15.7	19.7	18.9	19.2	18.8	18.2	18.5	(0.5)	(0.6)	(0.7)
Sanofi	Buy	6,835	7,666	157	29.9	23.5	21.4	20.9	16.7	14.5	30.0	47.4	43.5	28.8	45.4	41.9	(0.8)	(0.9)	(0.9)
Abbott*	Not Rated	21,805	NA	464	48.8	42.4	36.7	37.4	31.8	27.7	31.6	30.8	30.2	26.1	28.4	38.7	NA	NA	NA
GSK*	Not Rated	1,311	NA	222	36.4	35.0	31.3	25.8	25.5	22.7	27.7	33.7	38.0	25.9	95.8	32.0	NA	NA	NA
Average					**36.0**	**31.0**	**28.2**	**25.9**	**22.9**	**19.3**	**27.1**	**32.4**	**30.9**	**24.6**	**30.7**	**33.1**	**(0.7)**	**(0.8)**	**(0.8)**
Mankind	**Acc**	**1,369**	**1,440**	**548**	**42.8**	**33.2**	**26.6**	**28.1**	**22.0**	**17.9**	**18.9**	**20.3**	**21.1**	**17.2**	**19.1**	**20.1**	**(0.2)**	**(0.3)**	**(0.4)**

	Revenue (Rsbn)				EBITDA Margin (%)				Adjusted PAT (Rsbn)				EPS (Rs)				CAGR FY23-25E		
	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	Rev	EPS	EBITDA
Large Cap																			
Cipla	218	228	257	283	20.9	22.1	22.2	23.0	27	29	36	43	32.8	36.3	45.1	53.4	11.6	21.3	13.8
Dr Reddy's	213	246	262	267	21.3	26.0	24.0	22.3	28	45	41	39	171.5	271.5	249.3	236.2	4.3	(6.7)	(3.3)
Lupin	160	166	184	201	12.4	10.8	15.1	16.6	10	4	12	16	22.1	9.5	25.9	35.3	10.0	93.1	36.4
Sun	387	439	480	524	26.9	26.5	26.6	27.0	67	86	89	104	27.8	36.0	37.3	43.5	9.3	9.9	10.2
Zydus	151	172	187	199	21.1	20.7	22.5	22.4	18	22	26	28	18.2	21.3	25.7	27.6	7.3	13.9	11.5
Alkem	106	116	129	142	19.3	13.9	16.1	18.2	17	11	16	21	138.8	89.0	134.1	172.7	10.5	39.3	26.4
Torrent Pharma	84	96	110	122	27.9	29.5	30.5	31.7	10	12	15	19	29.3	36.8	45.0	56.3	12.5	23.7	16.6
MNC																			
Pfizer	26	24	26	28	32.0	33.4	33.1	33.2	6	6	6	7	133.9	130.9	141.1	162.2	7.7	11.3	7.6
Sanofi	30	28	29	32	25.8	25.4	29.2	30.4	6	5	7	7	250.9	228.6	290.5	319.4	7.4	18.2	17.4
Abbott	49	53	60	68	22.2	25.9	24.0	24.6	8	9	11	13	375.9	446.8	514.0	595.0	12.7	15.4	15.5
GSK	33	33	35	38	23.3	25.1	23.8	24.1	17	6	6	7	100.0	36.0	37.4	41.9	8.1	7.8	6.2
Mankind	78	87	99	113	**25.6**	**21.7**	**24.0**	**25.3**	14	13	17	21	**35.8**	**32.0**	**41.3**	**51.4**	**13.4**	**26.8**	**22.4**

Source: *Company, *Bloomberg, Nirmal Bang Institutional Equities Research*

Exhibit 33: MNCs vs Mankind revenue CAGR over FY15-FY25E

Company	FY15 (Rsbn)	FY25E (Rsbn)	CAGR (%)
Pfizer	18.5	28.1	4.3
Sanofi**	19.8	32.0	4.9
Abbott*	22.4	67.9	11.8
GSK*	26.5	38.0	3.7
Mankind	**33.2**	**112.5**	**13.0**

*Source: Company, Nirmal Bang Institutional Equities Research*Bloomberg estimates, **For Sanofi from CY14-CY24*

Risks and concerns

Drug Price Control: Mankind's ~97% revenue comes from the domestic market. Currently, ~380 drugs and ~900 formulations are covered under the National List of Essential Medicines (NLEM). As of FY22, the company has ~12.7% of total domestic portfolio under price control. It is likely that the Indian government may bring more such drugs and formulations under price control, which in turn will have an adverse impact on the company's domestic value growth.

Competition Risk: IPM is highly competitive, with presence of several major players. As a result, products face intense competition in various therapeutic areas. Hence, any intense competition in the company's key product or segment is likely to affect its future growth.

Third-Party Dependency: The company depends on third-party suppliers for the supply of certain raw materials and third-party manufacturers for some of the finished formulations. More than 95% of the APIs are sourced from outside. In the event of any delays or disruptions like the Covid-19 period the ability of such third parties to adhere to the timelines or quality standards stipulated under their contractual agreements and the ability to deliver certain products may be affected. Consequently, Mankind may face increased costs, delayed payments and damage to its reputation.

Company background

Mankind is India's 4th largest pharmaceutical company in terms of domestic sales and 3rd largest in terms of sales volume. It has presence in several Acute and Chronic therapeutic areas in India, including Anti-infectives, Cardiovascular, Gastrointestinal, Anti-diabetic, Neuro/CNS, Vitamins/Minerals/Nutrients and Respiratory. Additionally, it has presence in Consumer Health category.

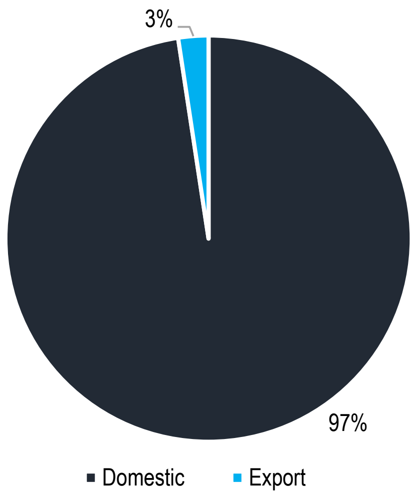
The company has a strong domestic focus; as of March'23, it generated ~97% of its revenue from India, which is one of the highest among listed peers. Mankind commenced its international operations in 2011 with its products being sold in 21 countries, including regulated markets like the US and semi-regulated EMs such as Latin America, Southeast Asia, Africa, the Middle East and the CIS countries.

Mankind operates 25 manufacturing facilities across India in the states of Himachal Pradesh, Sikkim, Rajasthan, Andhra Pradesh and Uttarakhand. The formulation manufacturing facilities have a total installed capacity of 42.05bn units per annum across a wide range of dosage forms, including tablets, capsules, syrups, vials, ampoules, blow fill seal, soft & hard gels, eye drops, creams, contraceptives and other over-the-counter (OTC) products. The company also outsources 25.6% of its production to the third-party manufacturers.

The company has a dedicated R&D center with four units located in IMT Manesar, Gurugram, Haryana and Thane with a dedicated team of 600+ scientists. It has filed 55 ANDAs with the USFDA and has 455 product approvals in various international markets.

Mankind is one of the prominent players in India in the Acute therapy areas of AI, GI, Pain Management and VMN. The company also has a growing presence in the Chronic therapy areas of Neuro/CNS, Cardiac, Anti-diabetes and Dermatology. The company's product portfolio includes mega brands like Nurokind, Telmikind, Manforce and Unwanted, among others, which are some of the largest brands in their respective sub-therapies.

Exhibit 34: Geographical bifurcation (FY23)



Source: Company, Nirmal Bang Institutional Equities Research

Key Management Personnel and Board of Directors

Mr. Ramesh Juneja– Chairman and a Whole-Time Director: Mr. Ramesh Juneja is the founder and promoter of the company. He has been associated with the company since its incorporation as a Director and Promoter. He does not hold any formal educational qualifications. He has experience of over 31 years in the pharmaceutical industry.

Mr. Rajeev Juneja– Vice-Chairman and Managing Director: Mr. Rajeev Juneja is the promoter of the company and has been associated with the company since December 22, 1992. He does not hold any formal educational qualifications. He has experience of over 29 years in the pharmaceutical industry.

Mr. Sheetal Arora – Chief Executive Officer and a Whole-Time Director: Mr. Sheetal Arora is the promoter of the company and has been associated with the company since September 21, 2007. He holds a Bachelor's degree in commerce from the Srikrishnadevaraya University, Anantapur. He has experience of over 14 years in the pharmaceutical industry.

Mr. Satish Kumar Sharma - Whole-Time Director: Mr. Satish Kumar Sharma has been associated with the company since September 23, 2016. He holds a bachelor's degree in pharmacy from the Gulbarga University, Karnataka. He was previously associated with T.C. Health Care Private Limited as senior officer – validation; Nicholas Piramal India Limited as assistant manager – production and Wockhardt Limited as a supervisor.

Exhibit 35: Timeline

Year	Events and Milestones
2004	Entered the chronic pharmaceutical segment with the launch of 'Amlokind' tablets and 'Glimestar' tablets amongst others
2005	Set up our first manufacturing facility at Paonta Sahib, Himachal Pradesh
	Entered the ophthalmic pharmaceutical segment with the launch of 'Lubistar Eye Drops' and 'Tobastar Eye Drops' amongst others
2007	Entered the consumer healthcare segment with the launch of 'Manforce' brand
	Entered the animal healthcare segment with launch of 'Bandykind' and 'Ceftiforce' amongst others
	Raised ₹ 720 million from Monet Limited
2009	Set up our manufacturing facility at Unit II, Paonta Sahib, Himachal Pradesh
2010	Launched 'Preganews' brand in the consumer healthcare segment
2012	Setup our first R&D centre at IMT Manesar, Haryana
2014	Acquired Shree Jee Laboratory Private Limited (along with its API manufacturing site situated at Behror, Rajasthan)
	Set up our manufacturing facility at Unit III, Paonta Sahib, Himachal Pradesh
2015	Incorporated our Subsidiary, LifestarPharma LLC in the US
	Incorporated our Subsidiary, Mankind Pharma Pte. Limited in Singapore
2017	Set up our manufacturing facility in Sikkim
2018	Our manufacturing facility at Paonta Sahib, Himachal Pradesh was inspected by the USFDA for the first time
2019	Entered the female infertility segment with the launch of 'Dydroboon' tablets
2020	Incorporated our Subsidiary, Lifestar Pharmaceuticals Private Limited in Nepal
	Launched a dedicated specialty therapeutic division for cardiovascular diseases drugs segment with launch of 'Cilaheart' tablets and 'Statpure' tablets
	Launched a dedicated specialty therapeutic division for diabetes pharmaceuticals segment with launch of 'Zukanorm' tablets
2021	Incorporated our Subsidiary, Mankind Pharma FZ-LLC in Dubai, UAE
	Launched a specialty division for therapeutic respiratory pharmaceuticals with launch of 'Mlife' tablets
	Entered the specialty therapeutic neuro/central nervous system pharmaceuticals segment with launch of 'Trugaba-NT' tablets and 'Prebris-MNT' tablets
2022	Acquired the pharmaceutical formulations brands in India and Nepal from Panacea BiotecPharma Limited and Panacea Biotec Limited
	Entered into transplant segment with the launch of 'Pangraf Capsules' and 'Mycept' tablets amongst others
	Entered into oncology segment with the launch of 'Pacliall' injection amongst others
	Acquired the brands 'Daffy' and 'Combihale' from Dr. Reddy's Laboratories

Source: RHP, Nirmal Bang Institutional Equities Research

Financials

Exhibit 36: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**62,144**	**77,816**	**87,494**	**99,396**	**1,12,549**
% growth	*6.0*	*25.2*	*12.4*	*13.6*	*13.2*
Raw material costs	17,806	24,217	29,136	32,304	36,016
Staff costs	14,158	16,206	19,185	21,103	23,214
Other expenditure	13,522	17,499	20,167	22,184	24,846
Total expenditure	45,486	57,922	68,488	75,590	84,075
Gross profit	**44,338**	**53,598**	**58,358**	**67,092**	**76,534**
% growth	*11.2*	*20.9*	*8.9*	*15.0*	*14.1*
EBITDA	**16,658**	**19,894**	**19,006**	**23,805**	**28,475**
% growth	*9.1*	*19.4*	*-4.5*	*25.2*	*19.6*
EBITDA margin (%)	*26.8*	*25.6*	*21.7*	*24.0*	*25.3*
Other income	1,709	1,960	1,286	1,590	2,487
Interest costs	201	586	445	124	81
Depreciation	1,190	1,666	3,259	3,709	4,042
Profit before tax & Exceptional Items	**16,976**	**19,602**	**16,588**	**21,563**	**26,839**
Exceptional Items	-177	0	0	0	0
Profit before tax	16,799	19,602	16,588	21,563	26,839
% growth	*11.9*	*15.5*	*-15.4*	*30.0*	*24.5*
Tax	3,986	5,216	3,616	4,852	6,039
Effective tax rate (%)	*23.5*	*26.6*	*21.8*	*22.5*	*22.5*
PAT before Minority Interest	**12,814**	**14,385**	**12,973**	**16,711**	**20,800**
Share of MI	276	195	278	316	358
Share of Profit & Loss in Associates	117	144	124	141	160
Reported PAT	**12,654**	**14,335**	**12,819**	**16,536**	**20,602**
Adjusted PAT	**12,789**	**14,335**	**12,819**	**16,536**	**20,602**
% growth	*16.6*	*12.1*	*-10.6*	*29.0*	*24.6*
Adjusted EPS (Rs)	**31.9**	**35.8**	**32.0**	**41.3**	**51.4**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	16,799	19,602	16,712	21,563	26,839
Depreciation	1,190	1,666	3,259	3,709	4,042
Net Chg in WC	(1,623)	(2,228)	1,667	(1,726)	(1,835)
Taxes	(4,541)	(4,995)	(3,231)	(4,852)	(6,039)
Others	(654)	(5,433)	(720)	(295)	(326)
CFO	**11,171**	**8,612**	**17,688**	**18,399**	**22,681**
Capex	(3,116)	(22,086)	(8,260)	(6,000)	(3,500)
Net Investments made	(6,183)	4,921	(1,892)	(2,622)	(135)
Others	(2,585)	3,274	(389)	-	-
CFI	**(11,883)**	**(13,890)**	**(10,541)**	**(8,622)**	**(3,635)**
Change in Share capital	-	-	-	-	-
Change in Debts	1,094	6,224	(6,978)	(500)	(500)
Div. &Div Tax	-	-	-	(2,480)	(3,090)
Others	(970)	408	(146)	316	358
CFF	**123**	**6,632**	**(7,124)**	**(2,664)**	**(3,232)**
Total Cash Generated	**(589)**	**1,354**	**23**	**7,112**	**15,814**
Cash Opening Balance	**2,261**	**1,672**	**3,025**	**3,048**	**10,161**
Cash Closing Balance	**1,672**	**3,025**	**3,048**	**10,161**	**25,975**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 38: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	401	401	401	401	401
Reserves & Surplus	46,819	61,152	73,952	88,182	1,05,892
Net worth	47,220	61,552	74,352	88,583	1,06,293
Minority Interest	1,409	1,611	1,881	2,197	2,555
Net deferred tax liabilities	-360	163	475	475	475
Total Loans	632	522	283	283	283
Other Long Term Liabilities	801	1,002	1,234	1,402	1,587
Total Equities & Liabilities	**49,702**	**64,850**	**78,225**	**92,940**	**1,11,193**
Net Block	16,201	17,197	25,238	27,529	26,987
CWIP	3,716	6,699	4,932	4,932	4,932
Intangible Assets and Goodwill	392	18,946	17,784	17,784	17,784
Non-Current Investments	2,058	2,350	2,709	2,831	2,966
Other Non Current Assets	1,803	1,824	2,914	3,303	3,733
Inventories	11,835	17,602	14,985	17,023	19,276
Debtors	3,306	3,882	5,764	6,548	7,415
Cash (including other bank balances)	7,007	4,059	4,532	11,644	27,458
Investments	13,062	8,745	10,755	13,255	13,255
Other current assets	3,829	9,750	7,210	8,191	9,275
Total current assets	39,039	44,038	43,246	56,661	76,678
Creditors	6,670	10,764	10,082	11,178	12,462
Other current liabilities	6,864	15,471	8,550	8,956	9,459
Total current liabilities	13,534	26,235	18,631	20,134	21,921
Net current assets	25,505	17,804	24,614	36,527	54,757
Assets held for sale	27	30	33	33	33
Total assets	**49,702**	**64,850**	**78,225**	**92,940**	**1,11,193**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 39: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Profitability & return ratios					
EBITDA margin (%)	26.8	25.6	21.7	24.0	25.3
Net profit margin (%)	20.6	18.4	14.7	16.6	18.3
RoE (%)	31.2	26.4	18.9	20.3	21.1
RoCE (%)	28.5	23.5	17.2	19.1	20.1
RoIC (%)	31.2	24.1	17.7	21.0	23.7
CEPS (Rs)	34.9	39.9	40.1	50.5	61.5
Working capital & liquidity ratios					
Receivables (days)	19	18	24	24	24
Inventory (days)	70	83	63	63	63
Payables (days)	39	50	42	42	42
Current ratio (x)	2.9	1.7	2.3	2.8	3.5
Quick ratio (x)	2.0	1.0	1.5	2.0	2.6
Valuation ratios					
EV/sales (x)	8.5	7.0	6.1	5.3	4.5
EV/EBITDA (x)	31.9	27.4	28.1	22.0	17.9
P/E (x)	42.9	38.3	42.8	33.2	26.6
P/BV (x)	11.3	8.7	7.2	6.0	5.0

Source: Company, Nirmal Bang Institutional Equities Research

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