

Mangalam Drugs

₹ 99

*The Master of Malaria !***Buy**

Sep 18, 2015

Company Background

Mangalam Drugs & Organics Ltd. (Mangalam) commenced in 1977 its manufacturing of APIs & Intermediates at Vapi - Gujarat. It has a multi-product manufacturing facility on two locations, and an in-house R&D. Over last three decades, the company has acquired worldwide reputation as a single stop destination for frontline Antimalarials. Mangalam has a diversified product range having synergies in operations and economies of scale. It is amongst the top manufacturers in Asia in all the products it manufactures, and is a largest manufacture of some of its products in the world. It has some of the most well known global certifications for its plants. Over the years the Company has also added the manufacturing of Specialty Chemicals in its portfolio.

Key Highlights

- ➔ Mangalam has an agreement with Clinton Health Access Initiatives under its Fight Malaria Program for supply of anti malarial API worldwide.
- ➔ Net profit of the company showed a turnaround to Rs. 61.4 mn for the end of FY15 from a loss of Rs. 30.4 mn for the end of FY14. The company has also shown impressive Quarterly figures which surpass the last years Q-o-Q figures in the reported quarter for the financial year 2015-16.
- ➔ The molecules under development with the Company are retrovirals for treatment for HIV which fall in the Government Programm or Hepatitis drugs which command a premium. Both will benefit in the long run.
- ➔ In the last year ar the company has expanded its anti-retroviral (AIDS) API portfolio which has established market demand and the stringent regulatory agency like WHO-GENEVA considers it as a reliable contributor to their interventions in public health upgradation.
- ➔ Recently in AGM it was resolved that upto 26,50,000 preferential Warrants at Rs.65/- (Premium of Rs 55/-) can be issued to Shri. J B Pharma LLP, an entity forming part of the promoter group. These warrants are convertible into 1 equity share of Rs.10/- each within a period of 18 months in one or more tranches from the date of allotment of warrants. This shows the promoter group is also bullish on the company and is increasing its stake.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	1,275.0	1,229.7	2,192.4
Rev. growth (%)	(16.7)	(3.6)	78.3
EBITDA (INR mn)	(28.3)	98.6	204.8
Net profit (INR mn)	(118.0)	(30.4)	61.4
Shares outstanding (mn)	13.2	13.2	13.2
EPS (INR)	(9.0)	(2.3)	4.7
EPS growth (%)	(211.9)	(74.2)	(302.0)
P/E (x)	(0.7)	(2.0)	5.7
RONW (%)	(36.8)	(12.2)	23.7
ROCE (%)	(12.0)	(3.0)	6.0

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Info Codes

Reuters	: MADR.BO
Bloomberg	: MDOL@IN
NSE	: MANGALAM
BSE	: 532637

Market Data

52 Wk Range (₹)	: 16 / 101
Shares in Issue (mn)	: 13.2
Mkt. Cap (₹ bn)	: 1.32
BSE 2 Wk Avg Vol	: 42000

Share Holding Pattern (%)

Promoters	: 42.18
FIIs	: 0.00
DIIIs	: 0.00
Others	: 57.82

Investment Theme

Mangalam, is one of the fastest growing Anti-Malarial API Companies. Its plants are located in Gujarat which is another fastest growing Pharma Belt. All plants are certified to be of International GMP standards & have WHO GMP Certificate from Geneva. One of its plant is audited & approved by European Directorate for the Quality of Medicines and Healthcare. The company is certified ISO 9001-2008 compliant. Mangalam Drugs is approved by Clinton Foundation USA under their fight against Malaria program for supply of bulk anti malarials worldwide. Also at present Mangalam have 10 ARVs and 6 other development candidates populating the pipeline. The renewed focus set by the Indian Government and Global Organizations to combat malaria will benefit the company in the long run. We therefore recommend a Buy on the stock though its nearly at a 52 week high.

Its always better to keep an Anti-Malarial handy!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	1297.8	1273.8	(1.85)	2253.6	76.92
Other Income	4.9	0.2	(95.92)	(0.7)	(450.00)
Change in Stocks	(200.5)	54.5	(127.18)	74.6	36.88
Raw Material Con.	820.4	849.4	3.53	1646.7	93.87
Employee Exp.	87.5	103.1	17.83	110.2	6.89
Indirect Taxes	40.7	62.1	52.58	93.8	51.05
Other Exp.	181.9	215.3	18.36	272.0	26.34
Operating Exp.	1331.0	1175.4	(11.69)	2048.1	74.25
Operating Profit	(33.2)	98.4	(396.39)	205.5	108.84
Total Interest	100.3	97.6	(2.69)	103.2	5.74
Gross Profit	(128.6)	1.0	(100.78)	101.6	10060.00
Net Dep.	39.4	40.1	1.78	41.5	3.49
Total Taxation	(50.0)	(8.7)	(82.60)	(1.3)	(85.06)
Net Profit/Loss	(118.0)	(30.4)	(74.24)	61.4	(301.97)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	990.2	992.0	1,007.6	1,076.0
Equity Share capital	131.8	131.8	131.8	131.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	248.8	130.8	100.4	161.8
Long Term Loans	283.0	447.4	460.6	461.0
Short Term Loans	326.6	282.0	314.8	321.4
USES OF FUNDS	990.2	992.0	1,007.6	1,076.0
Gross Block	839.2	861.3	882.6	918.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	270.9	309.8	348.9	388.8
Net Block	568.3	551.5	533.7	529.5
Capital Work in Progress	1.5	0.0	0.0	0.0
Investments	1.5	1.8	1.8	2.4
Current Assets	648.2	594.5	719.0	1,167.0
Less : Current Liabilities	229.3	155.8	246.9	622.9
Total Net Current Assets	418.9	438.7	472.1	544.1
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.3	0.6	0.6	1.2
Mkt Val. Quoted Investments	8.9	4.8	3.8	13.0
Contingent Liabilities	10.7	11.1	9.8	10.2
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	434.9	629.5	755.8	695.9
Cost Of Sales	376.8	579.5	695.4	631.5
Operating Profit	58.1	50.0	60.4	64.4
Other Income	0.3	0.0	0.0	7.1
Adjusted PBDIT	58.4	50.0	60.4	71.5
Financial Expenses	27.4	27.1	21.3	23.2
Depreciation	9.4	10.0	11.5	10.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	21.6	12.9	27.6	37.5
Tax Charges	1.5	4.5	0.0	7.0
Adjusted PAT	20.1	8.4	27.6	30.5
Non Recurring Items	0.0	0.0	7.3	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	20.1	8.4	34.9	30.5

52 Week Index Relative Percentage Appreciation



Mangalam vs SENSEX

Risks Associated

- ➔ The Company has operations in many countries around the world. Each such country poses its own challenges in terms of the economic and political conditions of that country. Any adverse political and/or economic development in these countries may affect the business of the Company in those countries.
- ➔ The Company is present in the generics segment of pharmaceutical markets in different countries. The generics market is characterized by the presence of a large number of players who compete with each other continuously to increase their respective market shares. This competition puts constant pressure on the prices which the Company charges to its customers. Apart from this, the governments of different countries apply periodic price cuts on the pharmaceutical products so as to keep the healthcare cost under control.
- ➔ Stringent regulations and quality standards are prescribed by the regulatory authorities across the globe for the pharmaceutical products and their manufacturing and supply chain processes in order to protect the interests of the patients. Any deviation from the prescribed regulations or any variation in the quality from the prescribed standards may lead to punitive actions by the regulatory authorities.
- ➔ Competitors and innovator pharmaceutical companies holding patents for products and processes may sue the Company if the Company's products or processes are claimed to be infringing upon their intellectual property rights.

Mangalam

In a Nutshell

The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years, as per India Ratings, a Fitch Group company. Indian pharmaceutical manufacturing facilities registered with US Food and Drug Administration (FDA) as on March 2014 was the highest at 523 for any country outside the US. We expect the domestic pharma market to grow at 10-12 per cent in FY15 as compared to 9 per cent in FY14. Going further the Indian pharma market size is expected to grow to US\$ 85 bn by 2020. The growth in Indian domestic market will be on back of increasing consumer spending, rapid urbanisation, raising healthcare insurance and so on. Going forward, better growth in domestic sales will depend on the ability of companies to align their product portfolio towards therapies for diseases such as such as malaria, dengue HIV, etc which are caused due to rapid urbanization. The government has been taking several cost effective measures in order to bring down healthcare expenses. Governments are focusing on speedy introduction of generic drugs into the market. This too will benefit Indian pharma companies. Mangalam is among the many companies with a good manufacturing portfolio and expertise. Its plant is located in the state of Gujarat where Pharma growth is the highest. In the past year it has also demonstrated a turnaround performance and the quarterly results surpass the last years figures. This spells out that the near future of the company is bright.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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