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07th November, 2020
IPO NOTE

RETAIL EQUITY RESEARCH

Gland Pharma Ltd.

Pharmaceuticals

Sensex: 41,893

Nifty: 12,264

SUBSCRIBE

Price Range Rs. 1,490 - Rs. 1,500

A China-backed U.S-Focused B2B Business…

Gland Pharma Ltd (GPL), incorporated in 1978, is one of the fastest growing generic injectables-focused companies, developing products primarily for the U.S. Headquartered in Hyderabad, the company sells products mainly under a Business to Business ("B2B") model in over 60 countries. The 7 manufacturing facilities are situated in Andhra Pradesh & Telangana and includes 2 sterile injectables facilities, 1 dedicated Penems facility, 1 oncology facility and 3 Active Pharmaceutical Ingredient (API) facilities. In 2017, Shanghai Fosun Pharma, a global pharmaceutical major with established presence in China and Africa, which are key growth markets for injectables, acquired 74% stake in the Company.

- **In B2B model, GPL has tie ups with leading pharmaceutical companies such as Sagent Pharmaceuticals, Inc. and Apotex Inc. In India, the company operates on a B2C model.**
- **As of June 30, 2020, GPL along with its partners had 267 ANDA filings in the United States, of which 215 were approved and 52 were pending approval.**
- **Consistent regulatory compliance track record and all facilities approved by the USFDA, with no warning letters since the inception of each facility.**
- **For FY18-20, revenue grew at a CAGR of 27% while PAT grew by 55% CAGR. In FY20, GPL reported PAT of Rs.773cr on revenue of Rs.2,633cr.**
- **EBITDA margin was at 36% as of FY20. Minimal debt with debt/equity ratio at 0.01 in FY20.**
- **As of June 30, 2020, 67% of the revenue is generated from US, 15% from India and rest from other countries.**
- **Top five customers in FY20 accounted for 49%, of the total revenue from operations.**
- **The Enforcement Directorate has instructed GPL to transfer the six million shares (3.87%) owned by companies promoted by the erstwhile Satyam Computers to an escrow account.**
- **Strong record of new launches with 51 products launched in FY20 and 18 in Q1FY21.**
- **At the upper price band of Rs.1500, GPL is available at a PE of 20x on an annualized basis, which appears attractive. With a solid business model, no listed peers and the positive outlook for pharma, we assign a Subscribe rating for the issue.**

Purpose of IPO

The offer comprises of fresh issue and offer for sale. The proceeds of the offer for sale shall be received by the selling shareholders. The net proceeds of the fresh issue will be utilized for funding working capital requirements, capital expenditure requirements and General corporate purposes.

Key Risks

- Failure or delay in obtaining necessary permits or approvals.
- Raw material supply disruptions due to COVID-19 pandemic and the strained India-China relations.

Issue Details	
Date of Opening	09 th November, 2020
Date of Closing	11th November, 2020
Total no. of Shares offered(cr)	4.32
Post Issue No. of shares (cr)	16.33
Price Band	Rs. 1,490- 1,500
Face Value	Rs. 1
Bid Lot	10 shares
Minimum application for retail (upper price band for 1 lot)	Rs. 15,000
Maximum application for retail (upper price band for 13 lot)	Rs. 1,95,000
Listing	BSE & NSE
Lead Manager	Kotak Mahindra Capital Company Ltd, Citigroup Global Markets India Pvt Ltd, Haitong Securities India Pvt Ltd & Nomura Financial Advisory and Securities (India) Pvt Ltd.
Registrars	Link Intime India Pvt Ltd.

Issue size (upper price)	Rs. Cr
Fresh Issue	1,250.0
OFS	5,229.5
Total Issue	**6,479.5**

Shareholding (%)	Pre Issue	Post Issue
Promoters	74	58
Others	26	42
Total	100	100

Issue structure	Allocation %	Size Rs.cr
Retail	35	2,267.8
Non -Institutional	15	971.9
QIB	50	3,239.8
Total	**100**	**6,479.5**

Y.E March (Rs cr)	FY19	FY20	Q1FY21
Sales	**2,044**	**2,633**	**884**
Growth (%)	26	29	-
EBITDA	707	955	413
Margin%	**34.6**	**36.3**	**46.7**
PAT Adj	452	773	314
Growth (%)	**41**	**71**	**-**
EPS	28	47	77*
P/E (x)	54.2	31.7	20*
EV/EBITDA	34.7	25.7	14.9*
RoE (%)	17.1	23.8	35.8*

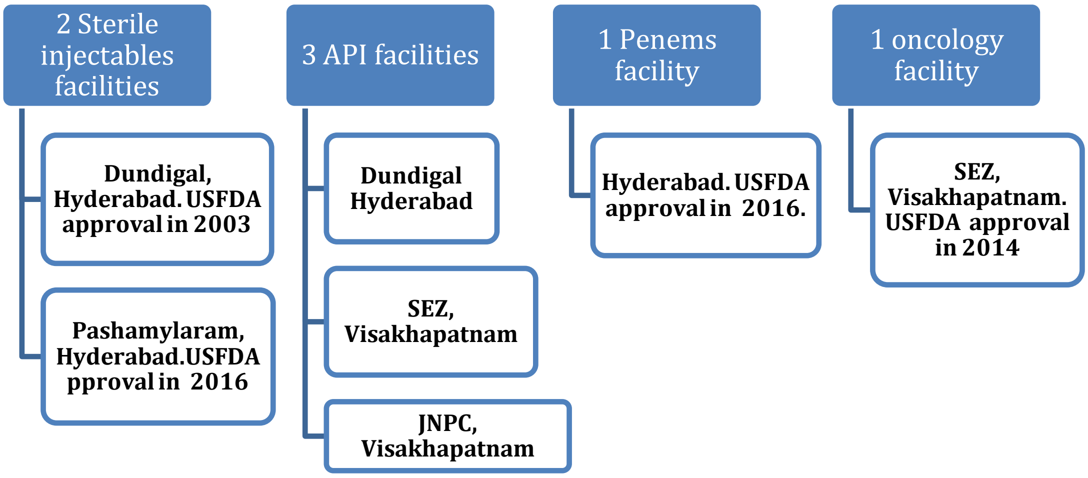
***Annualised**

Company Description

Gland Pharma Ltd (GPL), incorporated in 1978, is one of the fastest growing generic injectables-focused companies developing products primarily for the U.S. **Headquartered in Hyderabad, the company** sells products primarily under a Business to Business ("**B2B**") model in over 60 countries including the United States, Europe, Canada, Australia, India and the Rest of the world. The company has expanded from liquid parenterals to cover other elements of the injectables value chain, including contract development, own development, dossier preparation and filing, technology transfer and manufacturing across a range of delivery systems. They have presence in sterile injectables, oncology and ophthalmics, and focus on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. The seven manufacturing facilities are situated in Andhra Pradesh & Telangana including two sterile injectables facilities, one dedicated Penems facility, one oncology facility and three Active Pharmaceutical Ingredient (API) facilities. The API facilities provide with in-house manufacturing capabilities for critical APIs. The finished formulation manufacturing facilities with a total of 22 production lines possess the flexibility to accommodate different product requirements without the need to install new production lines. As of June 30, 2020, they had manufacturing capacity for finished formulations of approximately 755 million units per annum. In 2017, Fosun Singapore acquired 74% stake in the Company. Promoters, Shanghai Fosun Pharma, is a global pharmaceutical major with established presence in China and Africa, which are key growth markets for injectables.

Products and Operations

GPL has seven manufacturing facilities situated in southern India including four finished formulation facilities (two sterile injectables facilities, one dedicated Penems facility, one oncology facility) and three API facilities. The four finished formulation manufacturing facilities with a total of 22 production lines possess the flexibility to accommodate different product requirements without the need to install new production lines.



Source: RHP, Company website

The advantage of multiple manufacturing units for key products is that it mitigates the exposure to regulatory risk with respect to any particular unit and provides increased certainty of supply. The flagship sterile injectables facility in Dundigal, Hyderabad, possesses capabilities across various delivery formats. The other sterile injectables facility in Pashamylaram, substantially increased the manufacturing capacity.

The three API facilities provide in-house manufacturing capabilities for critical APIs. 24 of the ANDAs covering key products are supported by in-house APIs. The ability to integrate backwards to manufacture own critical APIs allows GPL to develop products that other companies may not focus on due to the uncertainty of API supply and also allows to achieve greater control over the manufacturing processes to meet required standards, increase operating efficiencies, accelerate product development, strengthen product quality control and improve supply chain efficiencies.

Business Model

The primary business model of GPL is B2B, covering IP-led, technology transfer and contract manufacturing models, complemented by a B2C model in the home market of India.

As per the company the B2B model helps them to grow market share in key markets such as the United States, Europe, Canada and Australia, particularly the United States, while reducing the marketing investments. In Fiscals 2018, 2019 and 2020, the revenue generated from the B2B model constituted 96.27%, 95.57% and 95.99%, respectively, of the total revenue from operations for the relevant year. In the three months ended June 30, 2020, the revenue generated from the B2B model constituted 96.94% of the total revenue from operations for the relevant period.

- ***B2B IP-Led***

Under B2B IP-led model, GPL enters into long-term development, licensing, manufacturing and supply agreements with its marketing partners. GPL typically receives licensing fee together with milestone payments tied to completion of specific stages in the product development. Upon commercialisation of the product, GPL receive the selling price per unit dose of the product and may additionally receive a profit share or royalties based on the net profit or net sales of the product, depending on the relevant terms of the agreements.

❖ ***B2B Technology Transfer***

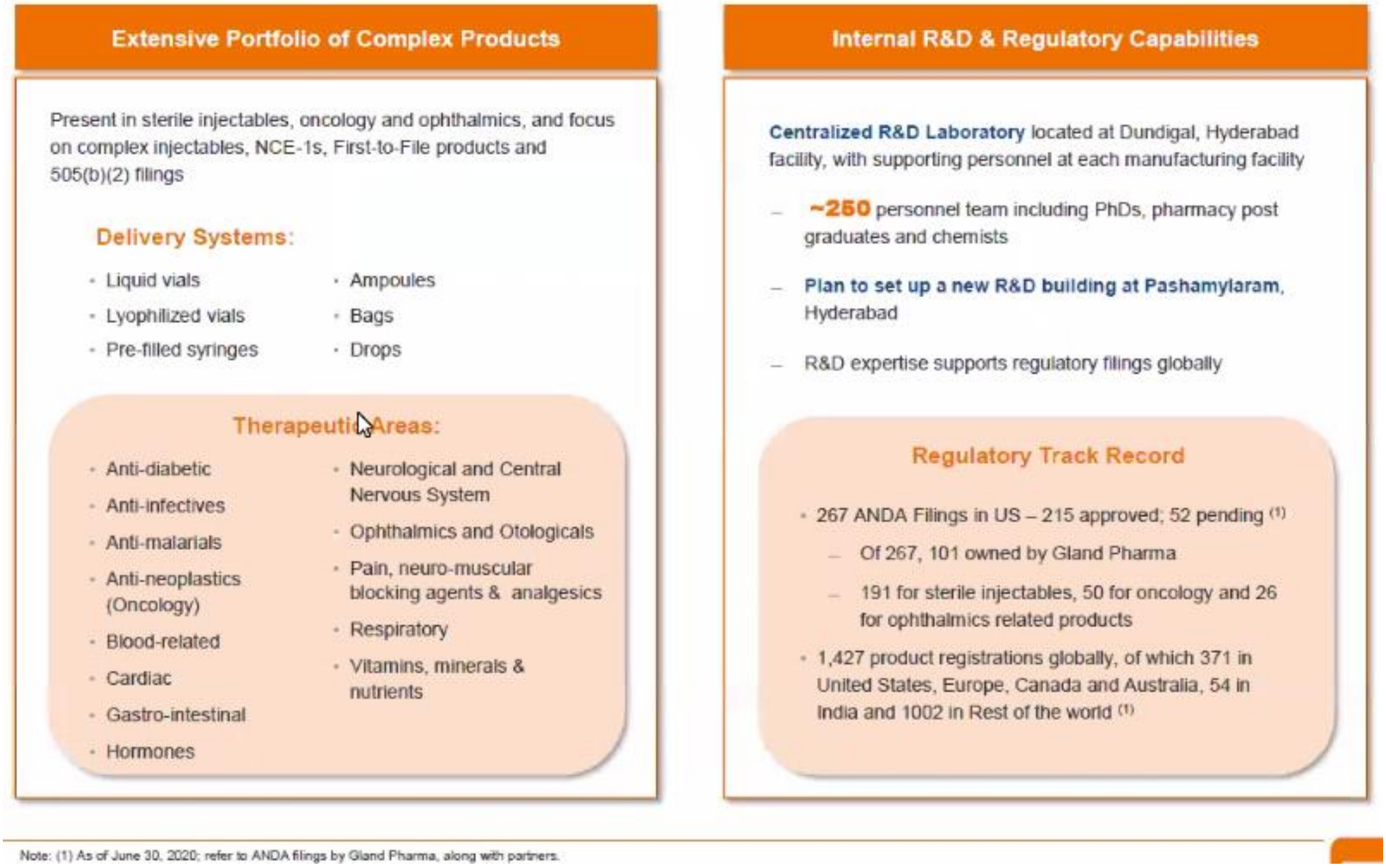
Under B2B technology transfer model, the product is partially developed by the partner and the technology required for the manufacture, testing and packaging of such product is subsequently transferred to GPL. The company generally receives a technology transfer fee and may also receive royalties representing a percentage of the net sales revenue or profit, after the commercialisation of the product.

❖ ***B2B CMO***

Under the B2B (Contract manufacturing) CMO model which is primarily for the India market, GPL provides fill and finish services for aseptically or terminally sterilised injectables to other pharmaceutical companies for already approved products. GPL enter into loan and license agreements with these pharmaceutical companies and receive manufacturing and packaging payments per unit manufactured. Under the B2B CMO model, GPL's customer retains ownership of the relevant dossier as well as development, intellectual property and marketing rights of a product, while GPL retain the manufacturing right during the term of the agreement.

❖ ***B2C***

GPL's primary business model in the India market is B2C, where its products are primarily marketed and sold to institutions such as hospitals, long-term care facilities and clinics through stockists and distributors.



Source: RHP,company website

GPL in B2B model, works closely in association with leading pharmaceutical companies such as Sagent Pharmaceuticals, Inc. and Apotex Inc. as well as Fresenius Kabi USA, LLC and Athenex Pharmaceutical Division, LLC in the United States and the Rest of the world using long-term development, licensing and manufacturing and supply agreements.

Focus on key injectables formulations

Key injectables formulations are the main revenue generator for GPL. In Fiscal 2018, 99.99% of the revenue from operations came from injectables income and this figure stood at 99.96% in Fiscal 2019, 99.64% in Fiscal 2020 and 99.51% in the three months ended June 30, 2020. GPL's key injectables formulations vary from year to year as a result of market demand and opportunities. Since many of the company's products are directly injected into the blood-stream of the person, the consequences of expired or faulty pharmaceutical products could result in product liability claims against the company. Most of the GPL's products are generic injectable versions of branded products and the company is dependent on the loss of patent protection and exclusivity for the commercialisation of such products.

Expansion plans in China

In China, GPL will continue the relationship with Shanghai Fosun Pharma to grow the business in the Chinese generics drug market and develop China-specific products. According to the IQVIA Report, the Chinese pharmaceutical market was estimated to be US$90 billion in 2020, accounting for approximately 11% of the global injectables market at an estimated US$47 billion. The Chinese pharmaceutical market is expected to grow to US$116 billion in 2025. To tap this market potential, GPL has filed six products in Fiscal 2020 and plan to accelerate the rate of filings.

GPL is currently developing products specifically for the Chinese market so as to expand the product offerings there. Furthermore, to access the Chinese market effectively, the company intends to leverage the existing infrastructure and marketing network of Shanghai Fosun Pharma.

Raw material supply disruptions

GPL's raw materials imported from China constituted 37.26% of the total raw material purchases in Fiscal 2018, 52.27% of the total raw material purchases in Fiscal 2019 and 33.27% of the total raw material purchases in Fiscal 2020. There are chances of disruptions as a result of the COVID-19 pandemic or India-China relations which can negatively affect the company's revenue generation.

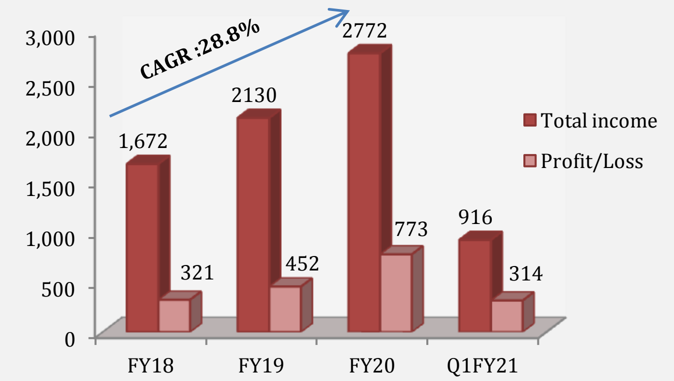
Any degradation in India-China political relations or any future military confrontations could result in curbs or delays on the import of materials and equipment that GPL requires to operate the business, increases in duties on imports from China into India, curbs on the export of finished products from India to China, and negative public sentiment within India toward Chinese-owned companies such as GPL.

Financial track record…

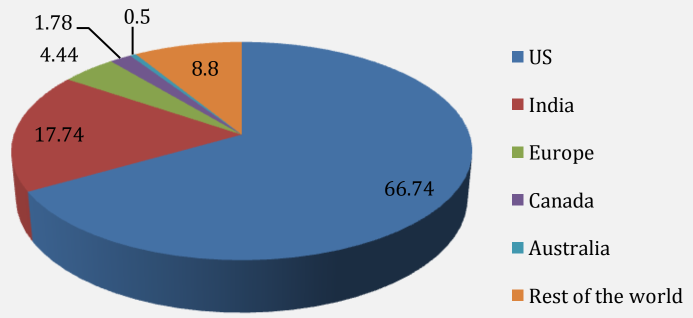
GPL's products are developed and manufactured in India which has R&D and manufacturing cost advantages compared to their competitors in higher cost markets. In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, the debt equity ratio was 0.002, 0.002, 0.001, and 0.001, respectively. The company does not have any significant borrowings.

The revenue base is diversified by business model as well as by key customers and markets. The top five customers in Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020 accounted for 49.92%, 47.86%, 48.86%, and 44.45%% respectively, of the total revenue from operations for the relevant period. In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, GPL's revenue from operations in the United States, Europe, Canada and Australia accounted for 76.41%, 69.44%, 73.46%, and 68.78% respectively, of the total revenue from operations. In the same periods, the revenue from operations in India accounted for 18.49%, 18.97%, 17.74%, and 14.52% respectively, of the total revenue from operations. In the same periods, the revenue from operations in the Rest of the world accounted for 5.10%, 11.59% 8.80%, and 16.70% respectively, of the total revenue from operations.

Total income and Profit/Loss(Rs.Cr)



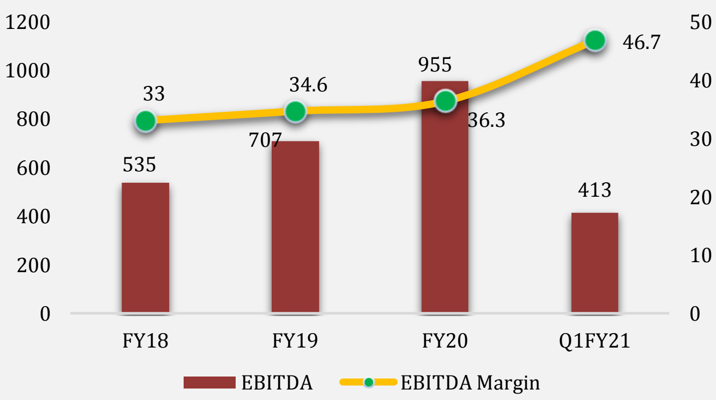
Revenue split in FY20(%)



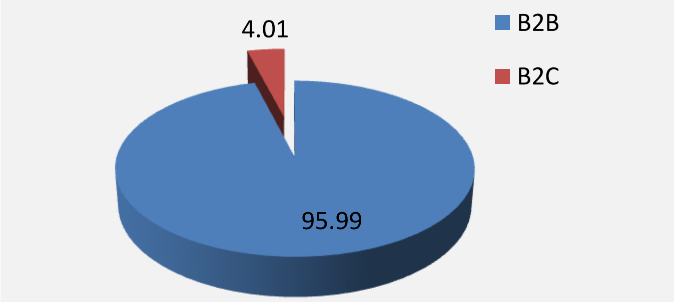
Source: RHP,Geojit research

GPL's revenue from new product launches, which amounted to Rs.349.3cr,Rs.271.7cr,Rs. 229.2cr and Rs73.4cr in Fiscals 2018, 2019, 2020 and the three months ended June 30, 2020, respectively, as the company consistently received regulatory approvals and commercialized its pipeline to achieve market penetration.

EBITDA(Rs. Cr)&EBITDA Margin(%)



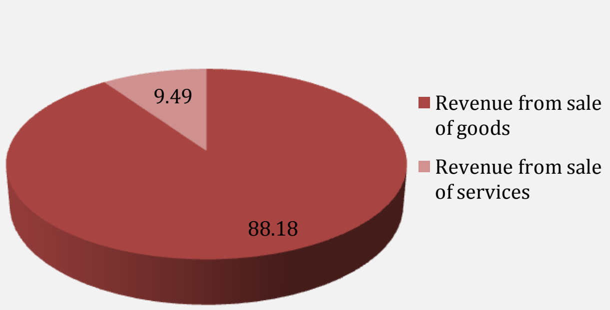
FY20 - Revenue - Business model wise(%)



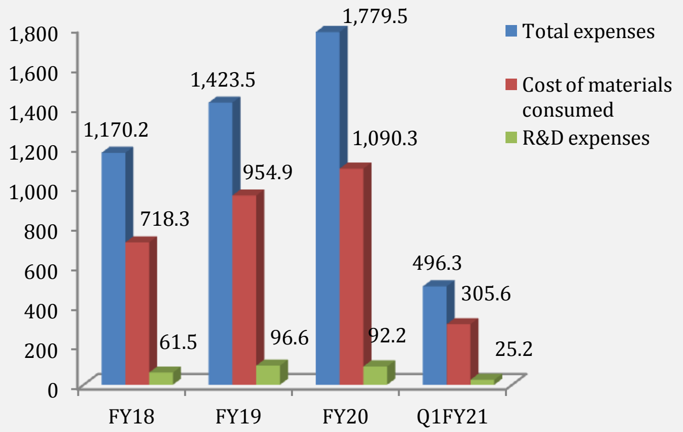
Source: RHP,Geojit research

Revenue from sale of goods and services constitutes a significant portion of the revenue from operations. The revenue from sale of goods constituted 88.18% and 89.67% of the total revenue from operations and the revenue from sale of services constituted 9.49% and 7.95% of the total revenue from operations in Fiscal 2020 and the three months ended June 30, 2020, respectively. Sale of services include sale of dossiers/licenses/services.

Revenue from sale of goods and services in FY20(% of total revenue)



Total expense, Cost of materials and R&D expenses(Rs.Cr)



Source: RHP,Geojit research

The costs of raw materials, fuel, labour and other inputs constitute a significant part of GPL's total expenses. In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, the cost of materials consumed amounted to Rs.718.3cr, Rs.954.9cr and Rs.1090.3cr, and Rs.305.6cr respectively.

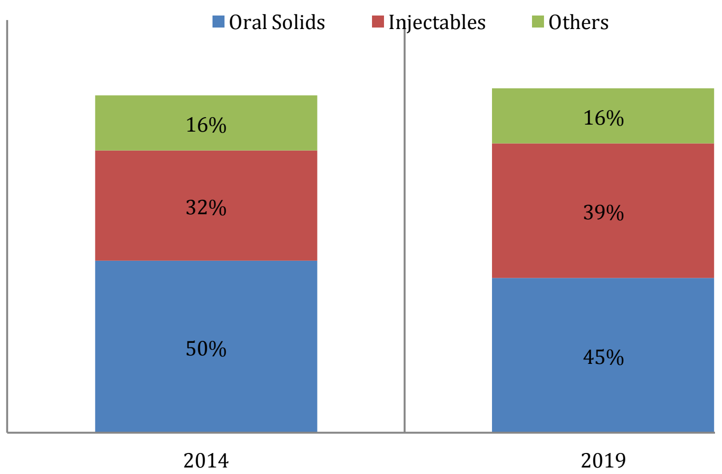
In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, the research and development expenses were Rs.61.5cr, Rs.96.6cr and Rs.92.2cr and Rs.25.2cr, constituting 5.25%, 6.69% and 5.18% and 5.08% of the total expenses for the relevant periods, respectively

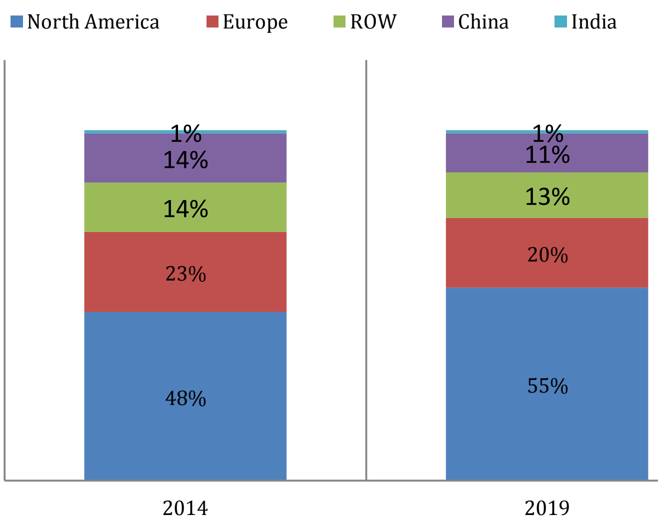
Industry Outlook

The global pharmaceutical market has witnessed significant growth in the recent years with a CAGR growth of approx. 5.8% from 2014 reaching US$1,096 billion in 2019. This is a significant increase from 2001 when the market was valued at just US$390 billion. The market is expected to continue its growth and reach US$1,359 billion by 2024 according to estimates. Globally, US and Europe are the front-runners in the pharmaceutical markets. North America continued to secure a major share of the global pharmaceutical market in 2019 with a market value of US$531 and a growth rate of 6.3%. India held the least market share by value but has been growing at a fast rate of 11.6% between 2014 and 2019.

Oral solids, growing at a CAGR of 3.5% is the largest delivery format in the market followed by injectables with a growth rate of 10.1% approximately. The market share by value of injectables rose from 32% in 2014 to 39% in 2019.

Global sales of injectables compared to other dosage forms, 2014-2019

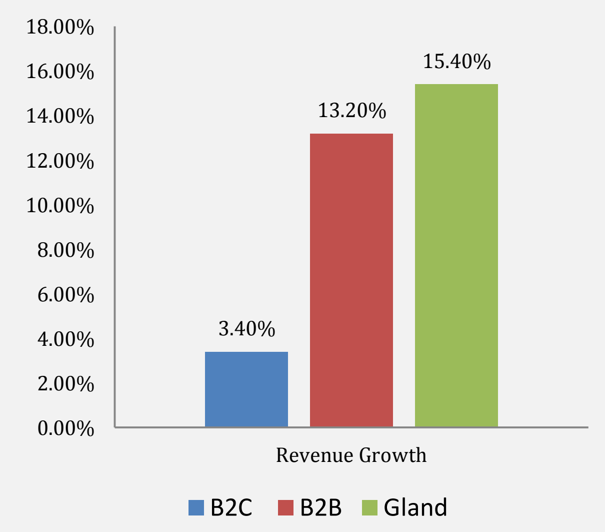


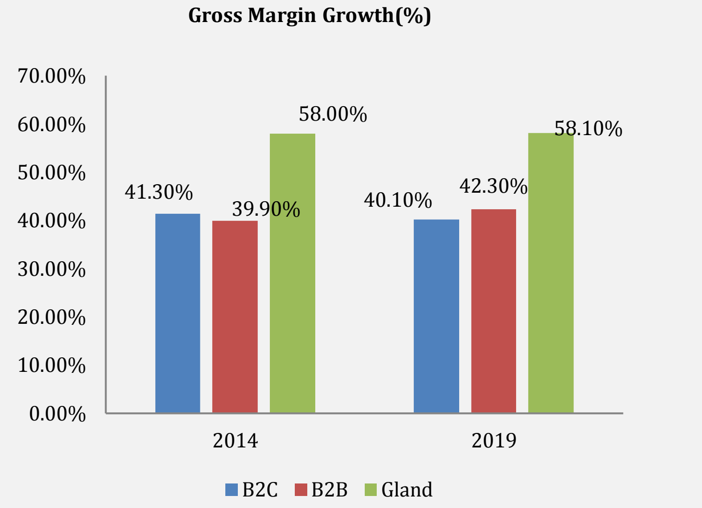


Source: RHP,Geojit research

The rising prevalence of chronic diseases, new market opportunities, NDDS and high capital investments have made the growth of injectables the fastest among all delivery formats. Due to the high entry barriers, there is less competition in the injectables segment. Injectable plants require 1.3-1.5 times more capital expenditure as compared to oral solid plants. Globally, North America accounts for majority of the share by value of 55% in 2019, followed by Europe with a market share of 20%. Japan, Russia, Korea and Saudi Arabia are the key markets contributing to 68%of the overall ROW injectables market.

As per reports, B2B players indicated faster growth in revenue at a CAGR of approx. 13% in the past five years as compared to their B2C peers with a CAGR of 3% during the same period. Comparatively, Gland's revenue grew at a faster rate than the industry at 15.4% CAGR between 2014-2019.





Source: RHP,Geojit research

Promoter and promoter group

Fosun Singapore and Shanghai Fosun Pharma are the Promoters of the Company. Fosun Singapore holds 114,662,620 Equity Shares, including 10 Equity Shares each held by Fosun Industrial Co., Limited, Ample Up Limited, Regal Gesture Limited and Lustrous Star Limited for the benefit of Fosun Singapore, which aggregates to 74% of the pre-Offer, issued, subscribed and paid-up Equity Share capital of the Company.

Brief profiles of Directors

- **Yiu Kwan Stanley Lau** is the Chairman and Independent Director of the Company. He is a director on the board of directors Solasia Pharma K. K. and TaiLai Bioscience Ltd.
- **Srinivas Sadu** is the MD and CEO of the Company. He has previously worked at Natco Pharma Limited at Hyderabad, India, and is presently a director on the board of Sadu Advisory Services Private Limited. He has over 21 years of experience in business operations and management. He joined the Company as the general manager – exports in 2000.
- **Qiyu Chen** is a Non-Executive Nominee Director of the Company. He is the global partner of the Fosun group. He is also a non-executive director on the board of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., chairman of Shanghai Fosun High Technology (Group) Co., Ltd, and an executive director and co-chief executive officer on the board of Fosun International Limited,
- **Dongming Li** is a Non-Executive Nominee Director of the Company. He has served as the vice president of Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd since September 2020. He is also the co-president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
- **Xiaohui Guan** is a Non-Executive Nominee Director of the Company.
- **Yifang Wu** is a Non-Executive Nominee Director of the Company.

Financials

Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	Q1FY21
Sales	**2,044**	**2,633**	**884**
% change	*26*	*29*	31
EBITDA	**707**	**955**	**413**
% change	*32*	*35*	*57*
Depreciation	**82.1**	**94.6**	**24.2**
EBIT	624	861	388.4
Interest	3.7	7	0.47
Other Income	85.6	139.2	32.1
Exceptional Items	20	0	0
PBT	**686**	**993**	**420**
% change	*37*	*45*	*53*
Tax	234	220	106
Tax Rate (%)	*34*	*22*	*25*
Reported PAT	**452**	**773**	**314**
Adj	-	-	-
Adj PAT	**452**	**773**	**314**
% change	*41*	*71*	*71*
No. of shares (cr)	16.33	16.33	16.33
Adj EPS (Rs)	**28**	**47**	**77***

Balance Sheet

Y.E March (Rscr)	FY19	FY20	Q1FY21
Cash	753	1,325	1,529
Accounts Receivable	506	602	674
Inventories	912	756	1,009
Other Cur. Assets	186	153	158
Investments	0	0	0
Net Fixed Assets	929	967	950
CWIP	123	188	254
Intangible Assets	1	1	0.9
Other Assets	94	82	114
Total Assets	**3,524**	**4,086**	**4,691**
Current Liabilities	497	300	523
Provisions	19	20	24
Debt Funds	27	34	32
Minority Interests	0	0	0
Def. Tax	119	85	149
Equity Capital	15	15	15
Reserves & Surplus	2,847	3,631	3,948
Shareholder's Fund	2,862	3,646	3,963
Total Liabilities	**3,524**	**4,086**	**4,691**
BVPS (Rs)	175	223	319

Cash Flow

Y.E March (Rscr)	FY19	FY20	Q1FY21
PBT	686	993	420
Non-cash adj.	76.3	32.1	9.4
Changes in W.C	(577)	(324)	(136)
C.F.O	**185**	**701**	**293**
Capital exp.	(135)	(171)	(55)
Change in inv.	(218.7)	(639)	(42)
Sale of investment	0	0	0
Other invest.CF	40	43	17
C.F - investing	**(314)**	**(766)**	**(80)**
Issue of equity	0	0	0
Issue/repay debt	(0.6)	(0.7)	0.1
Dividends paid	-	-	-
Other finance.CF	(2.5)	(6)	(0.3)
C.F - Financing	**(3.1)**	**(6.8)**	**(0.4)**
Chg. in cash	(132)	(72)	212
Closing cash	236	170	382

Ratios

Y.E March	FY19	FY20	Q1FY21
Profitab. & Return			
EBITDA margin (%)	34.6	36.3	46.7
EBIT margin (%)	30.5	32.7	43.9
Net profit mgn.(%)	22.1	29.4	35.5
ROE (%)	17.1	23.8	35.8*
ROCE (%)	17.1	23.7	35.5*
W.C & Liquidity			
Receivables (days)	87.6	76.8	67.5
Inventory (days)	303.4	276.3	270.0
Payables (days)	65.9	48.2	37.0
Current ratio (x)	4.57	8.85	6.17
Quick ratio (x)	2.53	6.41	4.21
Turnover &Levg.			
Net asset T.O (x)	2.3	2.8	0.9
Total asset T.O (x)	0.6	0.7	0.2
Int. covge. ratio (x)	170	120	824
Adj. debt/equity (x)	0.0	0.0	0.0
Valuation ratios			
EV/Sales (x)	12.0	9.3	6.9*
EV/EBITDA (x)	34.7	25.7	14.9*
P/E (x)	54.2	31.7	20*
P/BV (x)	8.6	6.7	1.2*

**Annualized*

General Disclosures and Disclaimers

CERTIFICATION

We, Mithun T Joseph and Sheen.G author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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