IPO REPORT

Gland Pharma Ltd -Subscribe

09th Nov 2020

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IPO DETAILS

Issue Date	09th Nov-11th Nov 2020
Price Band	1490-1500 per Share
Bid Lot	10 & in multiplethere
Face Value	Rs 1/Share
Listing	BSE, NSE
Fresh Issue	Rs 1250 Cr
Offer For sale	34,863,635 Eq Shares
Pre Issue Eq Shares	154,949,490 Eq Shares
BRLM	Kotak Mahindra Capital Company Ltd, Citigroup Global Markets India Ltd, Haitong Securities India Pvt Ltd, Nomura Financial Advisory(India) pvt Ltd
Registrar	Link Intime India Private Limited

Company is one of the fastest growing generic injectables-focused companies by revenue in the United States from 2014 to 2019. Company sell its products primarily under a business to business ("**B2B**") model in over 60 countries as of June 30, 2020 including the United States, Europe, Canada, Australia, India and the Rest of the world. Company have a consistent compliance track record with a range of regulatory regimes across these markets. Company also have an extensive track record in complex injectables development, manufacturing and marketing and a close understanding of the related sophisticated scientific, technical and regulatory processes. Company was established in Hyderabad, India in 1978 and have 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. Company have a professional management team and one of its Promoters, Shanghai Fosun Pharma, is a global pharmaceutical major.

As of June 30, 2020, company along with its partners had 267 ANDA filings in the United States, of which 215 were approved and 52 were pending approval. The 267 ANDA filings comprise 191 ANDA filings for sterile injectables, 50 for oncology and 26 for ophthalmics related products. Out of these 267 ANDA filings, 101 represent ANDAs owned by company, of which 71 ANDA filings are approved and 30 are pending approval. Company along with its partners had a total of 1,427 product registrations, comprising 371 product registrations in the United States, Europe, Canada and Australia, 54 in India and 1,002 in the Rest of the world. Company have a consistent regulatory compliance track record and all company's facilities are approved by the USFDA from whom company have had no warning letters since the inception of each facility. Other key regulatory agencies for which certain of company's facilities have approvals include MHRA (UK), TGA (Australia), ANVISA (Brazil), AGES (Austria) and BGV Hamburg (Germany).

Company's total revenue from operations has grown at a CAGR of 27.38% from Fiscals 2018 to 2020. Company's EBITDA has grown at a CAGR of 36.90% from Fiscals 2018 to 2020. Company's restated profit for the year has grown at a CAGR of 55.15% from Fiscals 2018 to 2020. Company's products are developed and manufactured in India which has previously conferred R&D and manufacturing cost advantages on Indian pharmaceuticals manufacturers compared to their competitors in higher cost markets. Company strive to be a capital efficient business. In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, company's debt equity ratio was 0.002, 0.002, 0.001, and 0.001, respectively. Company do not have any significant borrowings.

Valuation

Company is bringing the issue at p/e multiple of approx 30x at higher end of price band of Rs 1490-1500/share on FY20 PAT basis.Company has extensive and vertically integrated injectables manufacturing capabilities with a consistent regulatory compliance track record. .Also company has track record of growth and profitability from a diversified revenue base with healthy cash flows. Hence fundamentals of company looks strong . Looking after current scenario we recommend investor with risk apetite can subscribe issue for short term while investors with long term horizon can subscribe the issue for long term purpose.

COMPANY OVERVIEW

Company have established a portfolio of injectable products across various therapeutic areas and delivery systems. Company is present in sterile injectables, oncology and ophthalmics, and focus on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. Company's delivery systems include liquid vials, lyophilized vials, pre-filled syringes, ampoules, bags and drops. Company is expanding its development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges. Over the years, company have made substantial investments in its manufacturing infrastructure to support company's product portfolio needs and reach. Company have seven manufacturing facilities in India, comprising four finished formulations facilities with a total of 22 production lines and three API facilities. As of June 30, 2020, company had manufacturing capacity for finished formulations of approximately 755 million units per annum. Company's API facilities provide with in-house manufacturing capabilities for critical APIs, enabling company to control costs and quality and mitigate supply chain related risks around its key products. Company's capabilities as a vertically integrated company include internal research and development ("**R&D**") expertise, robust manufacturing capabilities, a strict quality assurance system, extensive regulatory experience and established marketing and distribution relationships.

The following table sets forth company's revenue from operations based on the customer location as a percentage of its total revenue from operations for the years/period specified, per Ind AS 108 – Operating Segments:

	FY18	FY19	FY20	Q3FY20	Q3FY21
United States	71.25	62.50	66.74	65.49	62.61
India	18.49	18.97	17.74	17.13	14.52
Europe	3.39	5.38	4.44	4.85	3.40
Canada	1.08	1.12	1.78	0.78	2.34
Australia	0.69	0.44	0.50	0.16	0.43
Rest of the World	5.10	11.59	8.80	11.59	16.70

INVESTMENT RATIONALE

Extensive and vertically integrated injectables manufacturing capabilities with a consistent regulatory compliance track record

Company's seven manufacturing facilities are situated in southern India including two sterile injectables facilities, one dedicate Penems facility, one oncology facility and three API facilities. Company's manufacturing process is designed to facilitate production flexibility and deliver high and consistent product quality. Company's 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. This allows company to adapt quickly to changes in product specifications, market demand and production requirements. In addition, across company's multiple manufacturing units for its key products mitigates company's exposure to regulatory risk with respect to any particular unit and provides increased certainty of supply.

Diversified B2B-led model across markets, complemented by a targeted B2C model in India

Company's primary business model is B2B, covering IP-led, technology transfer and contract manufacturing models, complemented by a B2C model in company's home market of India. Company consider that its various B2B business models enable company to (i) grow market share in key markets such as the United States, Europe, Canada and Australia, particularly the United States, while reducing the marketing investments company need to make, (ii) leverage the reputation of company's marketing partners in their home markets to build company's own presence in these markets, (iii) build company's own reputation as a complex injectables manufacturer with a consistent compliance record attracting confidence from other potential marketing partners, and (iv) balance profitability and capacity utilisation while continuing to deliver high manufacturing and quality standards to a broad range of customers. In Fiscals 2018,
2019 and 2020, company's revenue generated from the B2B model constituted 96.27%, 95.57% and 95.99%, respectively, of company's total revenue from operations for the relevant year. In the three months ended June 30, 2020, compay's revenue generated from the B2B model constituted 96.94% of company's total revenue from operations for the relevant period.

Extensive portfolio of complex products supported by internal R&D and regulatory capabilities.

Company is a vertically integrated company with demonstrated ability to advance a product from the R&D stage through commercialisation. Company's capabilities include internal research and development expertise, robust manufacturing capabilities (including the ability to synthesise and manufacture critical APIs in-house), a strict quality assurance system, extensive regulatory experience and established marketing and distribution relationships. As of June 30, 2020, company had a total workforce of 3,766 excluding contract labourers across these business divisions, including an in-house R&D team for product development, regulatory affairs for obtaining product registrations, manufacturing, supply chain management, and sales and marketing. Company is present in sterile injectables, oncology and ophthalmics, and focus on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. Company have established a portfolio of injectable products across various therapeutic areas and delivery systems. Company's delivery systems cover liquid vials, lyophilized vials, pre-filled syringes, ampoules, bags and drops. Company is expanding its development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges. As of June 30, 2020, company's products were sold in over 60 countries, including the United States, Europe, Canada, Australia, India and the Rest of the world.

STRATEGIES

Expand product portfolio and delivery systems to drive revenue growth

Company is expanding its development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges. Company intend to continue enhancing its product portfolio to offer a diverse suite of products to cater to the growing demand for injectables. According to the IQVIA Report, injectable manufacturers face high entry barriers such as high capital investments, operational costs, manufacturing complexities, stricter compliance requirement (because of the sterile nature of products) and high-quality standards resulting in limited competition in the market. Company's core expertise across R&D, manufacturing, quality assurance, regulatory experience and market knowledge has supported its aim to offer a diversified portfolio of products and delivery systems that meets company's customers' varying requirements and market demand opportunities. Company will continue to identify, develop and launch new products and delivery systems from company's pipeline to meet market needs and capture growth opportunities to sustain its revenue growth and profitability. In anticipation of suitable market opportunities, company aim to continue investing in its R&D and manufacturing capabilities, particularly for company's sterile API manufacturing technology, to develop products with critical APIs manufactured in-house that have viability for commercialisation in order to gain first-mover advantages. Company will continue to focus on developing products primarily for the U.S. market and leverage this product portfolio to extend across other markets.

Continue to invest in manufacturing and related technological capabilities to meet future demand

Company aim to continue investing in manufacturing technologies to build new capabilities to support the production of its future portfolio of complex injectables, primarily for the U.S. market. To maintain its competitive position, company intend to expand its current manufacturing capacity for key products and continue to invest in new technologies and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges. Company have increased its manufacturing capacities from 670 million units per annum in Fiscal 2018 to 755 million units as of June 30, 2020. Accordingly, company is expanding its manufacturing footprint in order to increase its product development and manufacturing capabilities.

Pursue strategic acquisitions and partnerships

To complement its organic growth and internal expertise, company may also pursue strategic acquisitions of companies, products and technologies to add to company's capabilities and technical expertise or enter into partnerships to strengthen company's product and technology infrastructure in areas including steroidal hormonal products, suspensions, anti-neoplastics and nasal and inhalation products. Company will seek to identify API suppliers that complement its business with niche capabilities including fermentation technology, corticosteroid APIs and hormonal APIs as well as partners with USFDA approved facilities to reduce market entry time. In certain markets where there is a preference for local manufacturers, company may partner with or acquire suitable local manufacturers with manufacturing, R&D and marketing capabilities to complement company's product development capabilities.

Risk Factors:

The majority of company's suppliers of raw materials are based in China, and company have faced disruptions in the supply of raw materials from such suppliers as a result of the novel coronavirus ("**COVID-19**") outbreak. Company may also face supply disruptions in the future arising from India-China political relations which are evolving in the wake of the June 2020 border confrontation between the two countries. Company's raw materials imported from China constituted 37.26% of its total raw material purchases in Fiscal 2018, 52.27% of its total raw material purchases in Fiscal 2019 and 33.27% of its total raw material purchases in Fiscal 2020. Similarly, if any approval or license for company's API production facilities is suspended, the production and supply of APIs and the injectable pharmaceutical products could be adversely affected.

Objects of Issue:

The Offer for Sale
The proceeds of the Offer for Sale shall be received by the Selling Shareholders.

The Objects of the Issue is to raise resources to:
1. Funding incremental Working Capital Requirements;
2. Funding capital expenditure requirement; and
3. General corporate purposes.

Financial Statement

(Rs Cr)

Particulars	FY18	FY19	FY20	Q1FY21
Total Income	1622.89	2044.20	2633.24	884.21
Total Exp	1087.61	1337.70	1677.77	471.59
EBIDTA	535.29	706.50	955.47	412.62
Other Income	48.79	85.55	139.17	32.08
Depreciation	78.37	82.12	94.59	24.23
EBIT	505.71	709.93	1000.05	420.47
Interest	4.24	3.67	7.18	0.47
PBT	501.47	706.26	992.87	420.00
E/O Items	0.00	20.00	0.00	0.00
PBT	501.47	686.26	992.87	420.00
Sh Of Profit in Asso	0.00	0.00	0.00	0.00
PBT	501.47	686.26	992.87	420.00
Tax	180.41	234.42	220.01	106.41
PAT	321.05	451.84	772.86	313.59
Eq Cap	15.50	15.50	15.50	15.50
Net Worth	2,410.36	2,862.00	3,646.24	3,963.47
Eq Shares	15.50	15.50	15.50	15.50
EPS	20.72	29.16	49.88	20.24
ROE	13.30	15.78	21.05	7.89

Source:RHP

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