

# Gland Pharma

Estimate change



TP change



Rating change



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Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	623.2 / 8.4
52-Week Range (INR)	3998 / 1701
1, 6, 12 Rel. Per (%)	24/62/-
12M Avg Val (INR M)	1186

## Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	34.6	48.7	59.8
EBITDA	13.0	18.2	22.7
Adj. PAT	10.0	14.2	18.1
EBITDA Margin (%)	34.8	35.1	35.8
Cons. Adj. EPS (INR)	60.9	86.7	110.9
EPS Gr. (%)	29.0	42.2	28.0
BV/Sh. (INR)	360.9	447.5	558.4

## Ratios

Net D:E	-0.5	-0.5	-0.5
RoE (%)	20.9	21.4	22.0
RoCE (%)	20.9	21.5	22.1
Payout (%)	0.0	0.0	0.0

## Valuations

P/E (x)	62.4	43.9	34.3
EV/EBITDA (x)	45.4	32.3	25.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.6	0.3	1.4
EV/Sales (x)	17.1	12.1	9.7

## Shareholding pattern (%)

As On	Jun-21	Mar-21
Promoter	58.1	58.3
DII	12.1	11.3
FII	10.4	11.9
Others	19.3	18.6

FII Includes depository receipts

**CMP: INR3,802**
**TP: INR4,460 (+17%)**
**BUY**

## Complex products/newer markets to fortify growth pace

### Progressing well on scaling up manufacturing of the vaccine

- GLAND's 1QFY22 performance was ahead of our expectation, led by robust revenue growth across all geographies. It is progressing well on scaling up manufacturing of the COVID-19 vaccine. It is concurrently developing products/undertaking capex related to complex product as well as enhancing its geographical diversification.
- We raise our FY22E/FY23E EPS estimate by 8% each to factor in: a) increased reach as well as penetration in the RoW/India markets, b) better outlook for the US market, c) higher offtake of Remdesivir/Enoxaparin, and d) continued manufacturing efficiency driving better operating leverage. We value GLAND at 35x its 12 months forward earnings to arrive at our TP of INR4,460.
- We remain positive on GLAND due to its: a) superior ramp-up in existing products, b) healthy build-up in the complex product pipeline, c) ongoing investment in the vaccine/Biological space, and d) enough scope for inorganic growth as well. We reiterate our Buy rating.

### Strong beat on earnings led by superior revenue growth

- Revenue grew 31% YoY to INR11.5b (est: INR9.9b) in 1QFY22.
- India/RoW sales rose 77%/51% YoY to INR2.3b/INR2.2b (20%/19% of sales). Sales in core markets grew 16% YoY to INR7b (61% of sales).
- Gross margin contracted by ~1,030bp YoY to 53.5% as 1QFY21 had benefitted from niche launches. GM fell 240bp QoQ due to changes in the geographic mix.
- EBITDA margin decreased at a lower rate (890bp YoY) to 37.8% (est. 37.1%) due to better operating leverage (employee cost/other expenses fell 120bp YoY/30bp YoY as a percentage of sales). In fact, EBITDA margin expanded 90bp on a QoQ basis.
- EBITDA was up 6% YoY to INR4.4b (est. INR3.7b)
- Adjusted PAT grew at a higher rate (~12% YoY) to INR3.5b (est. INR2.8b), aided by higher other income.

### Highlights from the management commentary

- GLAND expects US sales to grow by 18-20% YoY in FY22.
- It is working on 14 complex products, of which two/three will be filed in FY22/FY23. It is developing 25-30 complex products over the next 2-3 years.
- The management indicated a capex of INR5.7b for FY22, of which INR3b is to be spent on the vaccine facility (INR1.2b spent till date). It has guided at an overall capex of INR3.5b in FY23.
- The management expects to sustain fixed asset turn at 3.5-3.6x, including the upcoming investments in the Biological segments.
- It has signed a contract with Hetero for the Sputnik vaccine. Trial batches of the same were completed recently. Manufacturing would start from Sep'21.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

- We raise our FY22E/FY23E EPS estimate by 8% each to factor in: a) faster growth in core markets in FY22, b) geographical expansion and new product launches in RoW markets, and c) operating leverage, especially in RoW markets.
- We expect 35% earnings CAGR over FY21-23E, led by 18%/44%/48% sales CAGR in its core markets/India/RoW and a 40bp margin expansion.
- We value GLAND at 35x its 12 months forward earnings to arrive at our TP of INR4,460. We remain positive on GLAND on the back of: a) continued growth momentum in core markets, b) increasing reach and expanding product portfolio for the RoW segment, c) product pipeline build-up for the Chinese market, d) consistent compliance, and e) an adequate war chest to tap inorganic opportunities. We reiterate our BUY rating.

**Consolidated quarterly performance**

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var. (%)
<b>Net Sales</b>	<b>8,842</b>	<b>8,315</b>	<b>8,594</b>	<b>8,877</b>	<b>11,539</b>	<b>11,750</b>	<b>12,100</b>	<b>13,308</b>	<b>34,629</b>	<b>48,697</b>	<b>9,900</b>	16.6
YoY Change (%)	31.1	22.7	33.1	39.8	30.5	41.3	40.8	49.9	31.5	40.6	12.0	
Total Expenditure	4,716	5,338	5,952	5,601	7,176	7,344	7,599	8,366	21,607	30,484	6,227	
<b>EBITDA</b>	<b>4,126</b>	<b>2,977</b>	<b>2,642</b>	<b>3,277</b>	<b>4,363</b>	<b>4,406</b>	<b>4,501</b>	<b>4,942</b>	<b>13,022</b>	<b>18,213</b>	<b>3,673</b>	18.8
YoY Change (%)	56.8	23.7	24.8	36.6	5.7	48.0	70.4	50.8	36.3	39.9	-11.0	
Margin (%)	46.7	35.8	30.7	36.9	37.8	37.5	37.2	37.1	37.6	37.4	37.1	
Depreciation	242	247	250	249	253	260	280	319	988	1,112	278	
Interest	5	8	12	10	10	10	10	17	34	47	12	
Other Income	321	204	351	472	618	350	460	520	1,348	1,948	350	
<b>PBT before EO expense</b>	<b>4,200</b>	<b>2,926</b>	<b>2,732</b>	<b>3,489</b>	<b>4,718</b>	<b>4,486</b>	<b>4,671</b>	<b>5,126</b>	<b>13,348</b>	<b>19,002</b>	<b>3,733</b>	26.4
One-off income/(expense)	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT</b>	<b>4,200</b>	<b>2,926</b>	<b>2,732</b>	<b>3,489</b>	<b>4,718</b>	<b>4,486</b>	<b>4,671</b>	<b>5,126</b>	<b>13,348</b>	<b>19,002</b>	<b>3,733</b>	26.4
Tax	1,064	738	691	885	1,212	1,140	1,200	1,275	3,378	4,826	937	
Rate (%)	25.3	25.2	25.3	25.4	25.7	25.4	25.7	24.9	25.3	25.4	25.1	
<b>Reported PAT</b>	<b>3,136</b>	<b>2,189</b>	<b>2,041</b>	<b>2,604</b>	<b>3,506</b>	<b>3,347</b>	<b>3,471</b>	<b>3,852</b>	<b>9,970</b>	<b>14,175</b>	<b>2,796</b>	25.4
<b>Adj. PAT</b>	<b>3,136</b>	<b>2,189</b>	<b>2,041</b>	<b>2,604</b>	<b>3,506</b>	<b>3,347</b>	<b>3,471</b>	<b>3,852</b>	<b>9,970</b>	<b>14,175</b>	<b>2,796</b>	25.4
YoY Change (%)	45.5	-8.9	32.5	59.8	11.8	52.9	70.0	47.9	29.0	42.2	-10.8	

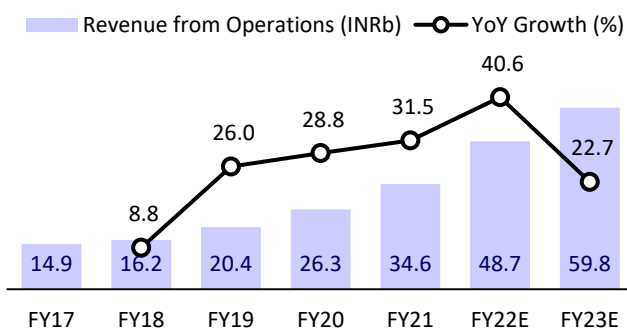
**Highlights from the management commentary**

- Around INR300m of India sales in 1QFY22 were due to COVID-related products. However, as COVID-related sales subside, the non-COVID products business would pick-up, sustaining the momentum in India sales.
- Gross margin for the India business is ~40%.
- It expects R&D expense to be 3.5-4% of sales in FY22 (excluding partner funding).
- It has filed six products in China, with two products closer to approval. It expects to file few more products in China over the next few months. The market size of the first six products is ~USD550m.
- GLAND remains on track for commercial production of Sputnik vaccine by Oct'21.
- The company had INR31b in cash reserve at the end of 1QFY22.
- It undertook 13 exhibit batches, driving R&D spend during 1QFY22.
- At the end of 1QFY21, it filed 286 ANDAs and 47 are awaiting approval.



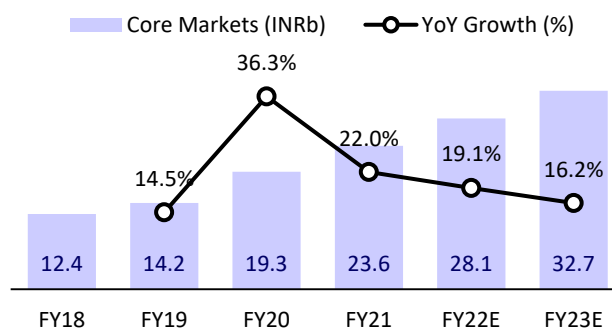
## Story in charts

**Exhibit 1: Expect 31% revenue CAGR over FY21-23E**



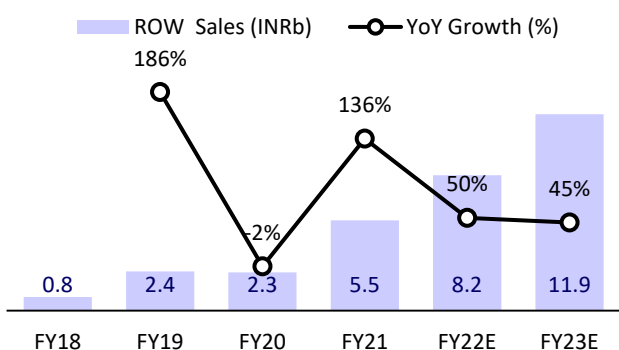
Source: Company, MOFSL

**Exhibit 2: Expect 18% sales CAGR in core markets over FY21-23E**



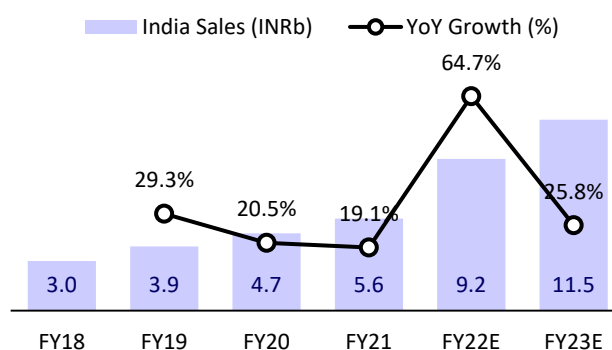
Source: Company, MOFSL

**Exhibit 3: Expect 48% CAGR in RoW sales over FY21-23E**



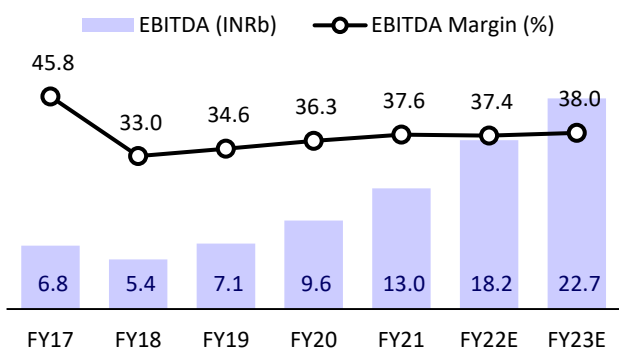
Source: Company, MOFSL

**Exhibit 4: Expect 48% CAGR in India sales over FY21-23E**



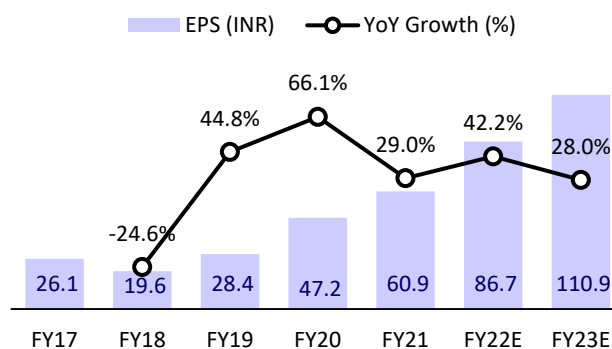
Source: Company, MOFSL

**Exhibit 5: Expect EBITDA margin to remain ~38% over FY21-23E**



Source: Company, MOFSL

**Exhibit 6: Expect ~35% EPS CAGR over FY21-23E**



Source: Company, MOFSL

## Newer markets/enhanced product portfolio to sustain earnings growth momentum

### Existing products and new launches drive growth in core markets

- Sales in GLAND's core markets grew ~16% YoY to INR7b in 1QFY22, accounting for 61% of total sales. US accounted for 54% of total sales in core markets.
- Growth in core markets was driven by key products such as Micafungin, Enoxaperin, Heparin, Dexmedetomidine, and new launches, especially penem products like Ertapenem and Meropenem. Benefits from the single source supply contract with the distributor for Enoxaperin, by replacing the innovator, would start from 4QFY22 onwards. Other recently launched products in the US are also expected to continue to ramp-up in the remaining part of FY22.
- GLAND is strengthening its product pipeline of peptides, long acting injectables, suspensions, and hormonals. While it is working on 14 products currently, it intends to enhance the pipeline by 20-25 products over the next 2-3 years.
- Given the launch momentum and better traction in existing products, we expect 18% sales CAGR in core markets to INR29b over FY21-23E.

### Strong performance in RoW markets on the back of new partnerships

- Sales in RoW markets grew 51% YoY to INR2.2b in 1QFY22, led by new partnerships that helped grow its existing product portfolio and led to geographic expansion. Growth was aided by new product registrations such as Ertapenem in the LatAm region.
- It has filed six products in China, with a total market size of USD550m. Approval for the first product is expected towards the end of FY22, with revenue kicking in from 1QFY23E. We expect sales from newer markets and product launches in existing markets to drive 48% sales CAGR to INR12b over FY21-23E.

### Vaccine on track; biopharma CDMO expansion progressing well

- GLAND is on track with respect to scale-up in manufacturing of Sputnik V vaccine. With process improvements and changes, GLAND is working to increase yields on both doses of vaccine.
- It has also signed a fill and finish contract with Hetero for Sputnik V, and expects manufacturing to start from Sep'21.
- It is in discussions with Fosun's other subsidiaries for potential CDMO contracts in Biologics/Biosimilars for global markets.
- GLAND's move to expand into the Biologics CDMO space through the vaccine contract, leveraging parent Fosun's relations, and strong compliance track record could add a new lever of growth to its existing business, providing further upside to our current estimates.

### Multiple levers to drive 35% earnings CAGR over FY21-23E

- We raise our FY22E/FY23E EPS estimate by 8% each to factor in: a) faster growth in core markets in FY22, b) geographical expansion and new product launches in RoW markets, and c) operating leverage, especially in RoW markets.
- We expect 35% earnings CAGR over FY21-23E, led by 18%/44%/48% sales CAGR in its core markets/India/RoW and a 40bp margin expansion.
- We value GLAND at a P/E multiple of 35x to arrive at our TP of INR4,460. We remain positive on GLAND on the back of: a) continued growth momentum in core markets, b) geographical expansion and new product launches in the RoW segment, c) operating cost efficiency, d) consistent compliance, and e) an adequate war chest to tap inorganic opportunities. We reiterate our BUY rating.

## Financials and valuations

Consolidated Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	
<b>Total Income from Operations</b>	<b>14,916</b>	<b>16,229</b>	<b>20,442</b>	<b>26,332</b>	<b>34,629</b>	<b>48,697</b>	<b>59,767</b>	
Change (%)	9.9	8.8	26.0	28.8	31.5	40.6	22.7	
<b>Total Expenditure</b>	<b>8,542</b>	<b>10,876</b>	<b>13,376</b>	<b>16,778</b>	<b>21,607</b>	<b>30,484</b>	<b>37,055</b>	
% of Sales	57.3	67.0	65.4	63.7	62.4	62.6	62.0	
<b>EBITDA</b>	<b>6,374</b>	<b>5,353</b>	<b>7,066</b>	<b>9,554</b>	<b>13,022</b>	<b>18,213</b>	<b>22,711</b>	
Margin (%)	42.7	33.0	34.6	36.3	37.6	37.4	38.0	
Depreciation	742	782	820	946	988	1,112	1,330	
<b>EBIT</b>	<b>5,633</b>	<b>4,571</b>	<b>6,246</b>	<b>8,608</b>	<b>12,034</b>	<b>17,101</b>	<b>21,382</b>	
Int. and Finance Charges	64	41	36	72	34	47	43	
Other Income	336	488	856	1,392	1,348	1,948	2,690	
<b>PBT bef. EO Exp.</b>	<b>5,905</b>	<b>5,017</b>	<b>7,067</b>	<b>9,928</b>	<b>13,348</b>	<b>19,002</b>	<b>24,028</b>	
EO Items	0	0	-200	0	0	0	0	
<b>PBT after EO Exp.</b>	<b>5,905</b>	<b>5,018</b>	<b>6,867</b>	<b>9,928</b>	<b>13,348</b>	<b>19,002</b>	<b>24,028</b>	
Total Tax	1,643	1,804	2,345	2,200	3,378	4,826	5,887	
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.4	24.5	
<b>Reported PAT</b>	<b>4,262</b>	<b>3,213</b>	<b>4,522</b>	<b>7,728</b>	<b>9,970</b>	<b>14,175</b>	<b>18,141</b>	
<b>Adjusted PAT</b>	<b>4,262</b>	<b>3,213</b>	<b>4,654</b>	<b>7,728</b>	<b>9,970</b>	<b>14,175</b>	<b>18,141</b>	
Change (%)	28.1	-24.6	44.8	66.1	29.0	42.2	28.0	
Margin (%)	28.6	19.8	22.8	29.3	28.8	29.1	30.4	

Consolidated Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	
Equity Share Capital	155	155	155	155	164	164	164	
Preference Capital	63	63	63	63	0	0	0	
Total Reserves	20,743	23,949	28,466	36,307	58,869	73,044	91,185	
<b>Net Worth</b>	<b>20,898</b>	<b>24,104</b>	<b>28,621</b>	<b>36,462</b>	<b>59,032</b>	<b>73,208</b>	<b>91,349</b>	
Total Loans	64	59	55	50	39	39	39	
Deferred Tax Liabilities	854	958	1,076	741	739	739	739	
<b>Capital Employed</b>	<b>21,816</b>	<b>25,121</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>73,985</b>	<b>92,126</b>	
Gross Block	10,055	10,545	12,196	13,478	14,327	19,880	24,450	
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,897	7,227	
<b>Net Fixed Assets</b>	<b>8,716</b>	<b>8,426</b>	<b>9,288</b>	<b>9,681</b>	<b>9,542</b>	<b>13,983</b>	<b>17,224</b>	
Goodwill on Consolidation	0	0	0	0	0	0	0	
Capital WIP	1,612	1,989	1,232	1,885	3,378	3,526	2,455	
<b>Curr. Assets, Loans and Adv.</b>	<b>14,410</b>	<b>18,868</b>	<b>24,707</b>	<b>29,295</b>	<b>52,040</b>	<b>63,738</b>	<b>81,293</b>	
Inventory	3,787	5,128	9,119	7,563	12,752	15,451	18,274	
Account Receivables	4,179	4,752	5,061	6,018	6,710	11,074	13,755	
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	33,668	44,913	
Loans and Advances	1,113	2,476	2,994	2,462	2,521	3,546	4,351	
<b>Curr. Liability and Prov.</b>	<b>2,922</b>	<b>4,163</b>	<b>5,473</b>	<b>3,608</b>	<b>5,150</b>	<b>7,261</b>	<b>8,845</b>	
Account Payables	2,003	3,057	4,568	2,677	4,007	5,654	6,872	
Other Current Liabilities	896	956	765	649	892	1,254	1,539	
Provisions	22	150	139	282	251	353	434	
<b>Net Current Assets</b>	<b>11,488</b>	<b>14,706</b>	<b>19,234</b>	<b>25,687</b>	<b>46,890</b>	<b>56,477</b>	<b>72,448</b>	
<b>Appl. of Funds</b>	<b>21,816</b>	<b>25,121</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>73,985</b>	<b>92,126</b>	

## Financials and valuations

Ratios							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>							
EPS	26.1	19.6	28.4	47.2	60.9	86.7	110.9
Cash EPS	32.3	25.8	35.3	56.0	67.0	93.4	119.0
BV/Share	134.8	155.5	184.7	235.2	360.9	447.5	558.4
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>							
P/E	145.9	193.5	133.6	80.4	62.4	43.9	34.3
Cash P/E	117.7	147.4	107.6	67.9	56.7	40.7	31.9
P/BV	28.2	24.4	20.6	16.2	10.5	8.5	6.8
EV/Sales	39.1	35.9	28.4	21.9	17.1	12.1	9.7
EV/EBITDA	91.6	108.8	82.3	60.3	45.4	32.3	25.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	23.3	7.5	3.2	34.2	23.0	10.5	52.6
<b>Return Ratios (%)</b>							
RoE	22.6	14.3	17.7	23.7	20.9	21.4	22.0
RoCE	22.1	14.4	17.7	23.9	20.9	21.5	22.1
RoIC	28.4	18.7	21.9	31.2	37.1	40.4	39.6
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.4	2.4
Inventory (Days)	93	115	163	116	134	116	112
Debtor (Days)	102	107	90	83	71	83	84
Creditor (Days)	49	69	82	37	42	42	42
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	-0.3	-0.3	-0.3	-0.4	-0.5	-0.46	-0.5

Consolidated Cash Flow Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	19,002	24,028
Depreciation	742	782	820	946	988	1,112	1,330
Interest and Finance Charges/(Income)	-128	-240	-408	-452	28	-1,901	-2,646
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,826	-5,887
(Inc.)/Dec. in WC	-109	-1,934	-3,540	-799	-4,358	-5,977	-4,726
<b>CF from Operations</b>	<b>4,671</b>	<b>2,052</b>	<b>1,501</b>	<b>7,181</b>	<b>6,893</b>	<b>7,410</b>	<b>12,099</b>
Others	94	-32	350	-172	-843	0	0
<b>CF from Operating incl. EO</b>	<b>4,765</b>	<b>2,019</b>	<b>1,851</b>	<b>7,009</b>	<b>6,049</b>	<b>7,410</b>	<b>12,099</b>
(Inc.)/Dec. in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,700	-3,500
<b>Free Cash Flow</b>	<b>3,604</b>	<b>1,169</b>	<b>499</b>	<b>5,302</b>	<b>3,766</b>	<b>1,710</b>	<b>8,599</b>
(Pur.)/Sale of Investments	0	0	0	0	-13,576	0	0
Others	159	-2,736	-1,834	-5,902	619	1,948	2,690
<b>CF from Investments</b>	<b>-1,002</b>	<b>-3,587</b>	<b>-3,186</b>	<b>-7,610</b>	<b>-15,240</b>	<b>-3,752</b>	<b>-810</b>
Issue of Shares	0	3,977	0	0	12,250	0	0
Inc./(Dec.) in Debt	-1,107	-5	-4	-7	-9	0	0
Interest Paid	-58	-31	-25	-62	-23	-47	-43
Dividend Paid	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,164</b>	<b>-36</b>	<b>-29</b>	<b>-69</b>	<b>12,386</b>	<b>-47</b>	<b>-43</b>
<b>Inc./Dec. in Cash</b>	<b>2,599</b>	<b>-1,603</b>	<b>-1,364</b>	<b>-669</b>	<b>3,195</b>	<b>3,610</b>	<b>11,245</b>
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	8,499
<b>Closing Balance</b>	<b>5,331</b>	<b>3,728</b>	<b>2,363</b>	<b>1,694</b>	<b>4,889</b>	<b>8,499</b>	<b>19,745</b>
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	25,168	25,168
<b>Total Cash and Cash Eq.</b>	<b>5,331</b>	<b>6,512</b>	<b>7,533</b>	<b>13,252</b>	<b>30,057</b>	<b>33,667</b>	<b>44,913</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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