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Issue Offer

Fresh Issue of 14,722,222 equity shares upto INR 1,060Cr and OFS of 6,300,000 shares by Promoters group taking the total issue size at INR 1,513.6cr

Issue Summary

Price Band (INR)	695-720
Face Value (INR)	2
Implied Market Cap (INR Cr)	8,822
Market Lot	20
Issue Opens on	July,27, 2021
Issue Close on	July,29, 2021
No. of share pre-issue	107,804,950
No. of share post issue	122,527,172
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Kotak Mahindra Capital, BofA Securities
Goldman Sachs (India), DAM Capital
BOB Capital, SBI Capital

Registrar

KFin Technologies Private Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100.00%	82.84%
Public & Others	0.00%	17.16%

Objects of the issue

- To make payment of outstanding purchase consideration to the promoter for the spin-off of the API business from the promoter into the company
- To finance capital expenditure requirements & to meet general corporate purposes.

Glenmark Life Sciences Ltd (GLS) is a subsidiary of Glenmark pharmaceuticals Ltd. Glenmark Pharma acquired Zorg Laboratories Ltd in July,2018 via share purchase agreement, pursuant to the acquisition the company name was changed to Glenmark Life Sciences Ltd. Glenmark life sciences is the leading developer and manufacturer of Active Pharmaceutical Ingredients (APIs).The company deriving ~35% of revenue from Glenmark Pharma (Promoter Company) and remaining from other pharma companies. Majority of revenue (65.64%) derived from regulated markets by the company as on FY21. GLS exports its products to 60-70 countries across the world. It has strong relationship with customers, currently working with 16 out of 20 largest generic companies globally. It has four manufacturing facilities with an aggregate annual capacity of 726.6 KL as on Mar,21. Currently having 120 Portfolio molecules and working towards to developing 8-10 molecules each year.

Key Highlights:

Leading API Manufacturer: GLS Focused on High value Non-Commoditized APIs focusing on Chronic Therapeutic Areas. GLS develops, manufactures and supplies API's for Cardiovascular disease (CVS), Central Nervous System disease (CNS), Pain management, diabetes, anti-infectives, gastrointestinal disorders and other therapeutic areas. Its also having business in Contract Development and Manufacturing Areas (CDMO) to offer wide range of services to pharmaceutical companies.

Quality-Focused Compliant Manufacturing and R&D Infrastructure: GLS has four multi-purpose manufacturing facilities at Ankleshwar and Dahej in Gujarat and Mohol and Kurkumbh in Maharashtra. It has 726.6 KL annual installed capacity with average utilization of ~82% as on 31st Mar,21. they are focused to new product development, development in complex molecules, cost improvement programs, oncology development and process improvement through robust R&D infrastructure.

Strong Relationships with Leading Global Generic Companies: GLS have established strong relationship with global generic pharma companies, helps to expand product offerings and geographic expansion. 16 out of 20 largest global generic players are customers of GLS and able to maintain high customer loyalty and high rate of repeat purchases. In FY19-21, ~69% of customers were period-on-period repeat customers.

Focusing on Exports: GLS focused on regulated markets, currently exporting APIs to 60-70 countries including Europe, North & Latin America and Japan.

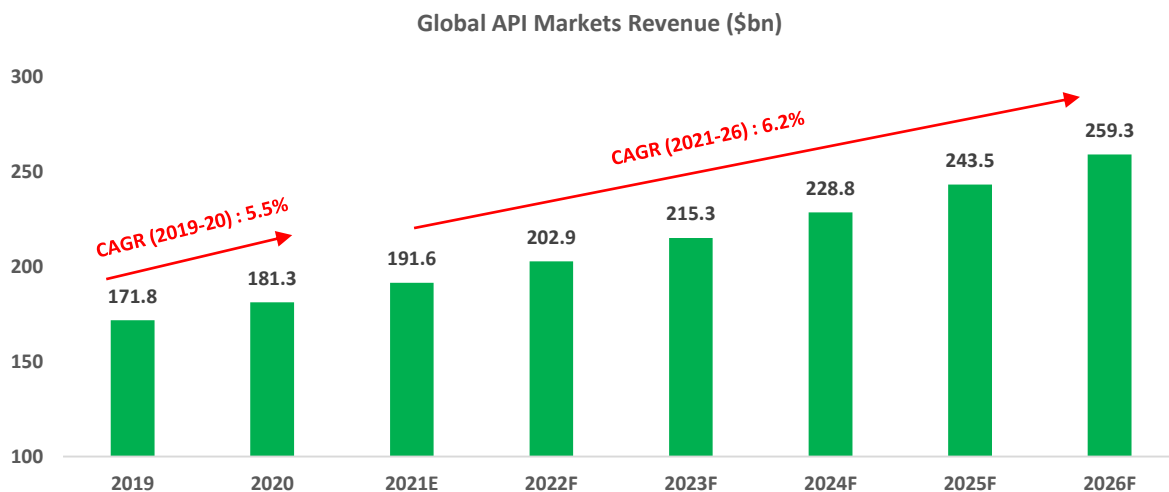
Cost Leadership across Products: Long term relationship with global generic players helps to plan for capex and enhancing ability to increasing scale of economies with stronger purchasing power for raw materials, leads maintain competitive cost structure which enables to achieve sustainable growth and profitability.

Valuation and View:

At a upper price band of INR 720 stock is trading at a P/E multiple of 22.1(x). We believe Glenmark Life Sciences Ltd is a good long term proven business model with strong product portfolio, strong and long term relationship with key customers, experienced management team with consistent track record supported by strong performance, timely execution and clean regulatory track record. We are recommending "Subscribe for long term" for this issue.

Industry Overview

Overview of Global API Market: Global API Market was estimated US\$181.3 bn in FY20 and expected to grow at a CAGR rate of 6.2% to reach US\$259.3 bn from the period of FY21-26. The rising prevalence of chronic disorders, increasing demand for self administrated medicine and emergence of novel drug delivery devices are the key factors expected to drive API market in next over five years. The Global API market outlook remains positive due to high growth in development of innovative therapeutic drugs by industry biotech and pharma companies.



Source: Frost & Sullivan, RHP, Aриhant Capital Research

Global API Market Growth over next 5 years: Global API market grew 5.5% CAGR during 2019-20 and expected to grow 6.2% CAGR from the period of 2021-2026. India market share grew 9.1% CAGR during 2019-20 and expected to show higher growth rate of 9.5% CAGR from the period of 2021-26, which is higher growth rate compared to other countries. Followed by China and USA expected to grow CAGR of 7.5% and 6.5% respectively in same period. Russia and EU5 countries are expected to show healthy growth rate of 6.2% and 5.6% during same period.

Many countries have implemented stringent regulations for developing high quality APIs, leading towards to manufacture potential clinical effectiveness of the high quality products and maintain environment safety standards at the same time. The mandatory regulations will increase the costs of in-house API manufacturing, so many countries outsourcing API manufacturing and APAC region was witnessed higher growth in previous years and visibility of future potential opportunity due to low cost effectiveness. Majorly, India and China have large number of API players, those are in CDMO partnership with global pharma companies due to know-how capabilities for large scale of manufacturing. This will lead the growth for API market in going forward.

Global API Market CAGR (%), by Region

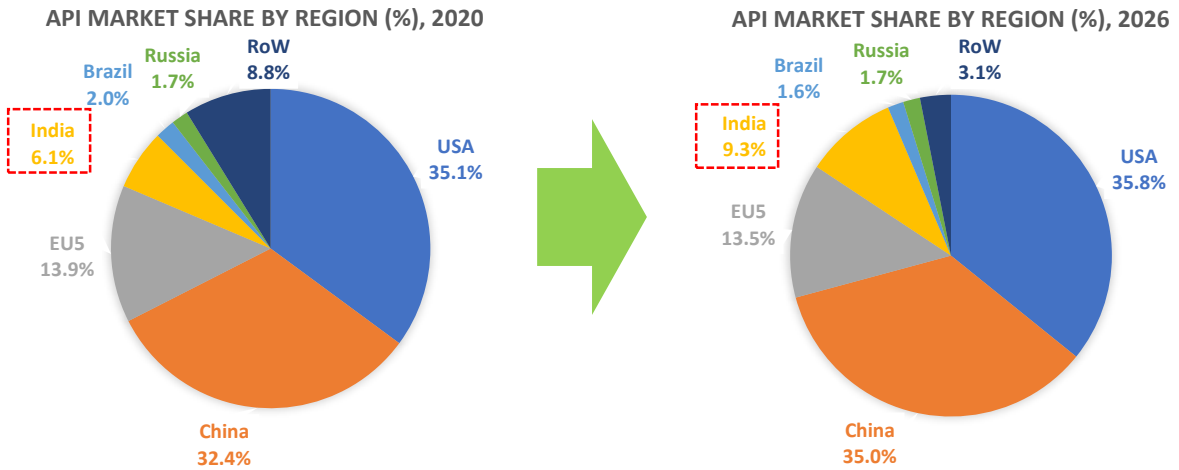
Global API	CAGR (2019-20)	CAGR (2021-26)
India	9.1%	9.5%
China	8.5%	7.5%
EU5	8.6%	5.6%
USA	8.6%	6.5%
Russia	5.5%	6.2%
Brazil	0.5%	1.6%
Others	-17.1%	-6.9%

Source: RHP, Aриhant Capital Research

Industry Overview

Indian API Market have a room for capture Global Market Share: US will retain the largest market share of 35.8% of global API Market, followed by China is expected to hold 2nd position with market share of 35% in 2026. EU5, India, Russia, Brazil and RoW countries markets shares are 13.5%, 9.3%, 1.7%, 1.6% and 3.1% respectively in the year of 2026.

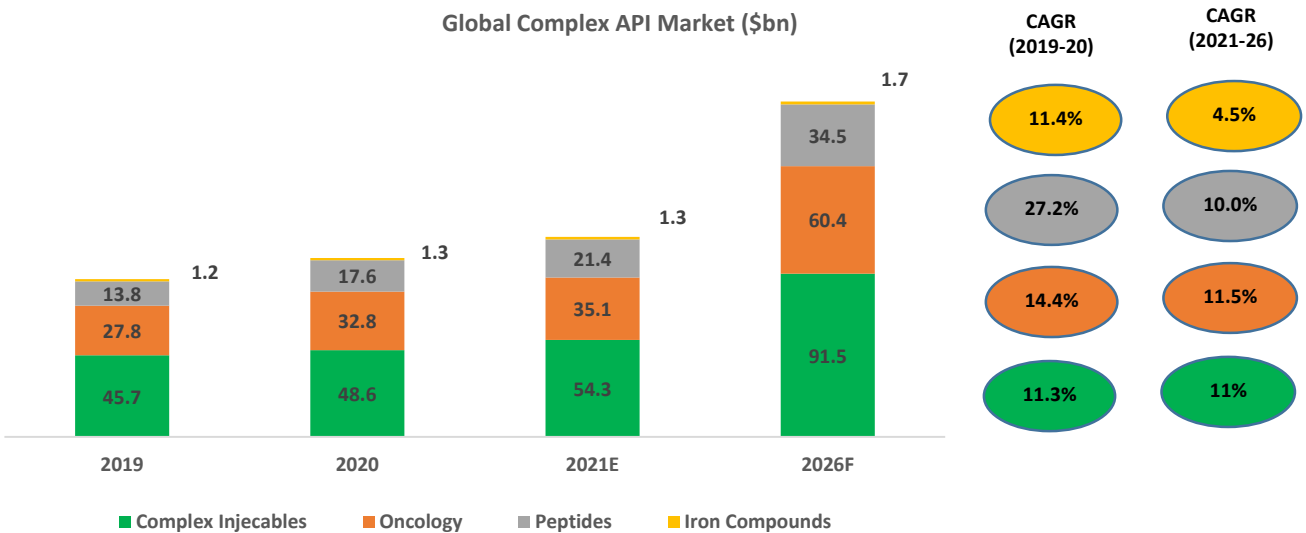
Indian API Markets are expected to grow at higher rate of 9.5% CAGR during 2021-2026, Indian players are expected to penetrate newer geographies in the global pharma industry, specially API & Specialty segments and domestic demand also expected to grow strongly in going forward.



Source: RHP, Arihant Capital Research

Overview of Global Complex API Market: historically drugs such as diabetes, anti-infectives, pain relive drugs, cardiovascular are dominated API Markets, However, based on R&D trends clearly indicates the market is moving towards complex APIs used in noval formulations, targeted by therapeutic areas. Complex APIs are consists of complex injectables, Oncology, Peptides and Iron Compounds.

Complex Injectables, Oncology, Peptides, Iron compounds are grew at a CAGR 11.3%, 14.4%, 27.2%, 11.4% respectively during the period of 2019-20 and expected to grow at a CAGR 11%, 11.5%, 10%, 4.5% during the period of 2021-2026.

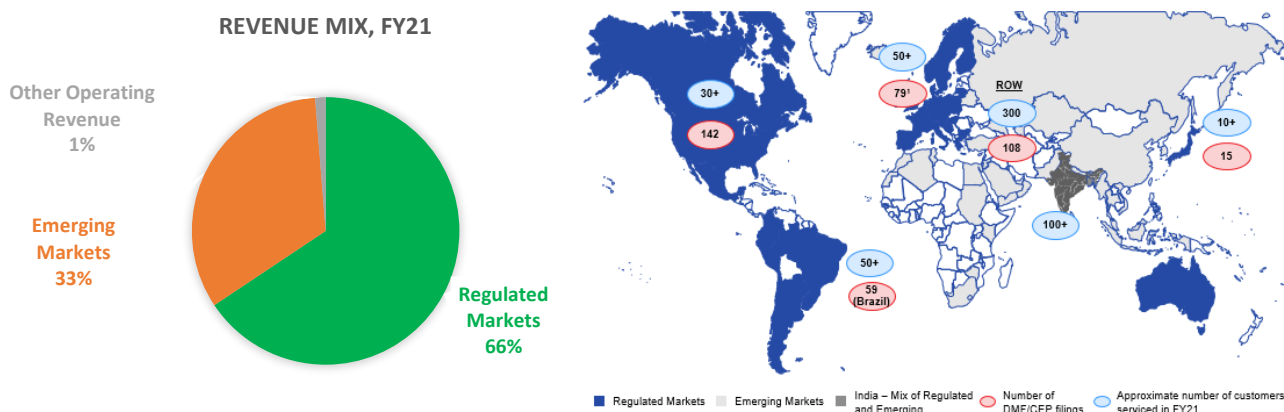


Source: Company Reports, Arihant Capital Research

GLS Key Strengths

Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas: GLS Focused on High value Non-Commoditized APIs focusing on Chronic Therapeutic Areas. GLS develops, manufactures and supplies API's for Cardiovascular disease (CVS), Central Nervous System disease (CNS), Pain management, diabetes, anti-infectives, gastrointestinal disorders and other therapeutic areas. Its also having business in Contract Development and Manufacturing Areas (CDMO) to offer wide range of services to pharmaceutical companies.

The total market size of GLS portfolio of 120 molecules, globally estimated ~US\$142 bn in 2020 and expected to grow at a CAGR 6.8% during the period of 2021-26, to reach about US\$211 bn by 2026. The growth expected to be robust due to increasing prevalence of non-communicable diseases, growing demand from regulated markets for drugs and an ageing population. The market size in terms of volume for 120 molecules was estimated at 9,959 tonnes and expected to grow at a CAGR 6% during the period of 2021-2026. GLS moving towards 8-10 molecules per year, filed 403 DMF and CEPs across various markets including US, Europe, Russia, Japan, Brazil etc. as on 31st March 2021. They gradually build scale, reach API offerings to across globe, robust portfolio buildup enables to enter new markets and explore new product & service offerings to customers. GLS enabled by high standards of quality of process innovation, products are sold in regulated and emerging markets.



Source: Company Reports, Arihant Capital Research

Market Share	Quantity Contribution	Value Contribution	Key Products
< 10%	27.26%	35.58%	Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole
10-20%	30.97%	17.82%	Telmisartan, Etoricoxib, Teneligliptin
20-30%	1.04%	2.99%	Desloratadine, Rituzole, Cilazapril
> 30%	40.73%	43.61%	Atvoquone, Perindopril, Adapalene, Zonisamide

Source: Company Reports, Arihant Capital Research

Strong Relationships with Leading Global Generic Companies: GLS have established strong relationship with global generic pharma companies, helps to expand product offerings and geographic expansion. 16 out of 20 largest global generic players are customers of GLS and able to maintain high customer loyalty and high rate of repeat purchases. In FY19-21, ~69% of customers were period-on-period repeat customers. The largest 7 customers are averagely 5 to 15 years relationship with GLS. The key customers are Glenmark, Teva Pharma, Torrent Pharma, Aurobindo Pharma, KrKa.

Strong Focus on Sustainability in Operations: GLS focused on sustainability in operations through environment management, Safety Initiatives in operations and occupational health of workforce. They established various standard operating procedures for handling various categories of waste and manufacturing facilities have zero liquid discharge capabilities. GLS Waste management strategy including monitoring, control procedures for waste categorization, segregation, minimization, safe handling and disposal of waste, also implemented solvent recovery systems at Dahej and Ankleshwar facilities.

Cost Leadership across Products through Careful Monitoring and Continuous Effort: Long term relationship with global generic players helps to plan for capex and enhancing ability to increasing scale of economies with stronger purchasing power for raw materials leads to maintain competitive cost structure which enables to achieve sustainable growth and profitability. R&D initiatives enables productivity improvement of existing processes through constant optimization, time reduction for process cycle, qualifying lower cost processes for regulated markets, better recovery & recycling and backward integration for key sourcing materials. Sourcing initiatives enables ongoing negotiations with vendors based on market conditions and alternate vendor qualification. Operating initiatives enables increase in batch sizes, solvent recovery & recycling and yield improvement. Based on above initiatives, GLS would reduce costs, improve efficiencies and reallocate resources to support growth opportunities in diverse markets.

GLS Key Strengths

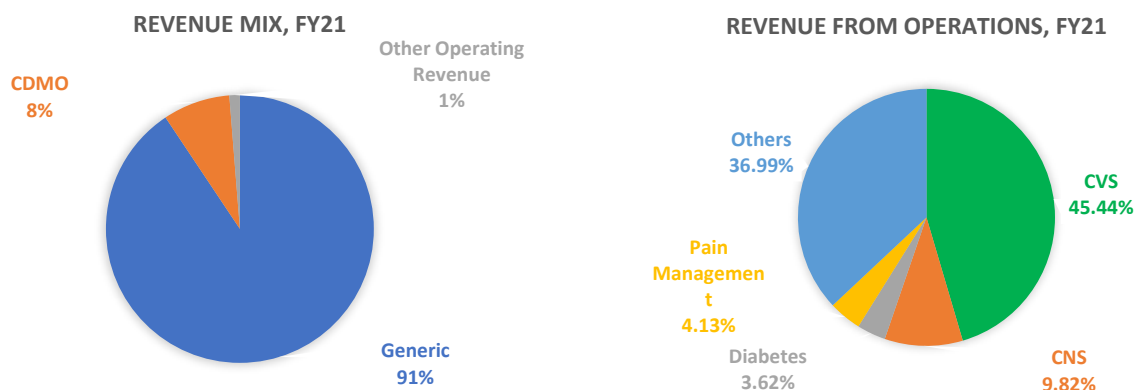
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Plant	Annual Installed Capacity (Mar-21)	Capacity Utilization (FY21)	Top Products (Therapeutic Area)	Approvals
Ankleshwar, Gujarat	511.0 KL	86.0%	Amiodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	USFDA, MHRA (UK), FIMEA (Finland), Romania (Europe), PMDA (Japan), COFEPRIS (Mexico), Health Canada, KFDA (South Korea), Gujarat FDCA
Dahej, Gujarat	141.9 KL	88.0%	Amiodarone (CVS), Etoricoxib (Pain Management), Omeprazole (Gastro-intestinal), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA, EDQM (Europe), PMDA (Japan), KFDA (South Korea)
Mohol, Maharashtra	49.1 KL	85.8%	Telmisartan (CVS), Rosuvastatin (CVS), Vildagliptin (diabetes)	USFDA, Maharashtra FDA
Kurkumbh, Maharashtra	24.6 KL	67.5%	Glimepiride (diabetes), Sertaconazole (dermatology), Adapalene (dermatology)	Maharashtra FDA

Source: Company Reports, Arihant Capital Research

GLS Key Strategies

Expand the Geographic Focus, API Portfolio and Scope of the Operations: GLS focused on diversifying customer base in existing markets and increasing newer geographies. They intend to expand presence in well regulated markets such as south korea, Russia, Brazil, Saudi Arabia, Taiwan and Mexico and creating newer opportunities in RoW markets by utilizing manufacturing through local partnerships. The company also focused to grow Base Generic Business by the way of deepening presence in existing markets through new generic product launches, leverage R&D infrastructure, expertise in synthetic chemistry & analytical characterization to help existing technology expansion, manufacture & grow complex API portfolios, increasing newly commercialized products revenue over next 5 years.



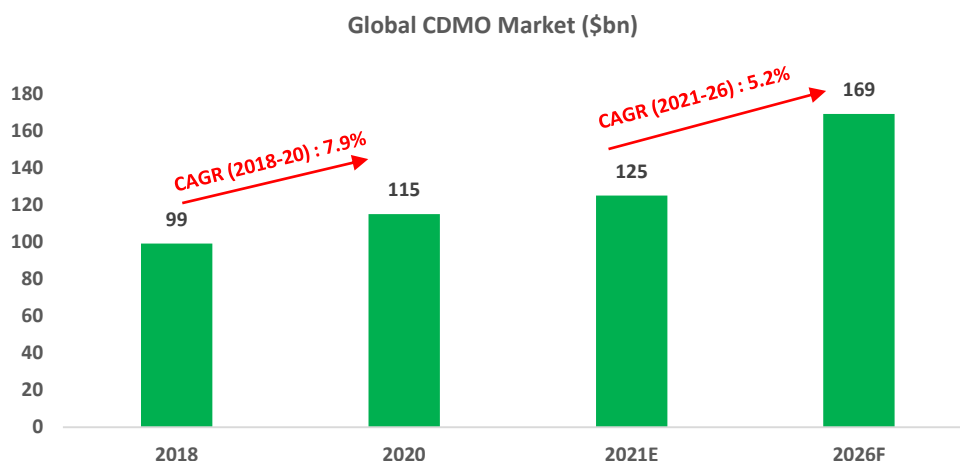
Source: Company Reports, Arihant Capital Research

Expansion of Production Facilities: GLS currently operates four multi-purpose manufacturing facilities in the state of Guraraj and Maharashtra, with an aggregate annual total installed capacity of 726.6 KL as on March 31, 2021. They intend to increase the API production capacities in Ankleshwar facility during FY22 and Dahej facility during FY22 and FY23 by an annual aggregate capacity of 200 KL. This additional capacity is expected to help further expand generic API production and also grow oncology product pipeline. GLS intends to develop a new greenfield manufacturing facility on a 40-acre footprint in India from FY22, planned to manufacture both API and Intermediates with mid and high volume capacity also provides platform for the growth of CDMO business. It will include high degree of automation and comply with global regulatory standards. This facility is expected to become operations in Q4FY23 and the facility will have aggregate capacity of 800KL over next 3 to 4 years.

GLS Key Strategies

Grow the CDMO Business: Global CDMO Market grew at a CAGR 7.9% during the period of 2018-20 and expected to grow at a CAGR of 5.2% to reach US\$169 bn over next 5 years.

In last 3 years, GLS entered into CDMO business, started working with innovator pharma companies in CDMO's areas. GLS established ability to attract innovator pharma companies by the way of providing unique solutions tailored to the needs of the innovators over the span of 3 years. its also providing lifecycle management solutions for customers portfolios. GLS has strong relationship with global generic pharma companies and exploring opportunities by undertaking contract development manufacturing for new molecules across various product segments. Specialty business is a key growth opportunity, offers higher business stability with relatively higher margins due to the complex nature of the products which leads to high customer stickiness.



Source: Frost & Sullivan, Company Reports, Arihant Capital Research

Improving Financial Performance through Focus on Operational Efficiencies: GLS continuously aim to improve financial performance by focusing on enhancing operational efficiencies and implementation of sourcing initiatives. Also aimed sustainable business opportunities by the way of reinforce R&D Capabilities through prudent investments. The company focused De-risk operations by continuing to diversify procurement base, reduce the amount of materials imported and procure more materials from domestic suppliers.

Key Risks

- Pricing pressure from customers due to competitions.
- Raw material volatility adversely affects margin levels.
- customer concentration, in FY21 top five contributes more than 50% revenues and promoter contributes ~35% revenue. If any customer starts in-house manufacturing or deterioration of financial conditions or moving towards other alternatives result in significant revenue declines from customers.
- Product concentration, GLS top 10 products constitutes of ~66% of revenue in FY21, if any decline in market growth or margin levels on the products adverse impact the top line and bottom lines.
- Regulatory Concerns, The company is required to comply with regulations and quality standards in multiple regulators such as USFDA and other countries regulatory agencies. If any warning letter from agencies for non compliant of company facilities and products adversely affect the business and new product approvals.

Peer Comparison

Company (in Cr.)	CMP	Revenue	EBITDA	EBITDA M (%)	PAT	D/E	EPS	RoE (%)	P/E
Glenmark Life Sciences Ltd [^]	720	1,885	591	31%	352	1.27	32.6	46.7%	22.1
Aarti Drugs Ltd	717	2,155	437	20%	280	0.33	30.1	30.7%	23.8
Granules India Ltd	379	3,238	856	26%	549	0.39	22.2	25.3%	17.1
Solara Active Pharma Sciences Ltd	1,709	1,617	386	24%	221	0.33	61.6	13.9%	27.7
Shilpa Medicare Ltd	631	901	180	20%	148	0.49	18.1	10.0%	34.8
Laurus Labs Ltd	648	4,814	1,551	32%	984	0.57	18.3	38.0%	35.4

Financials are as on FY21; [^] at upper price band

CMP as on 23-07-2021

Management

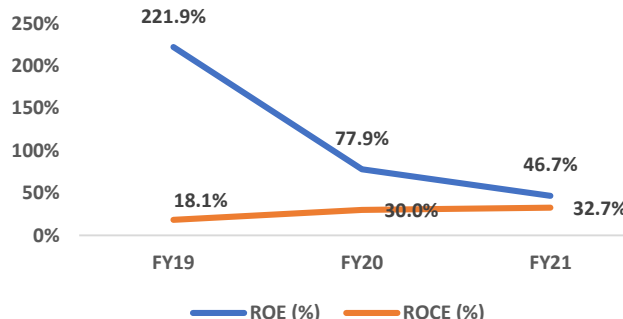
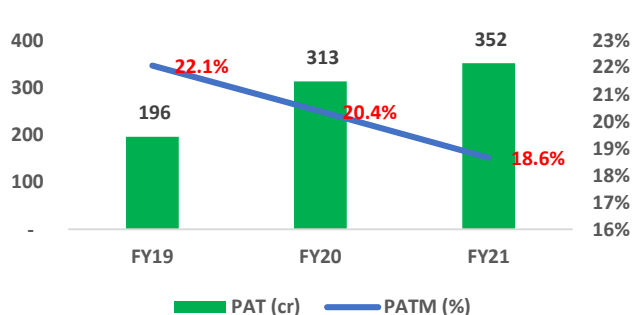
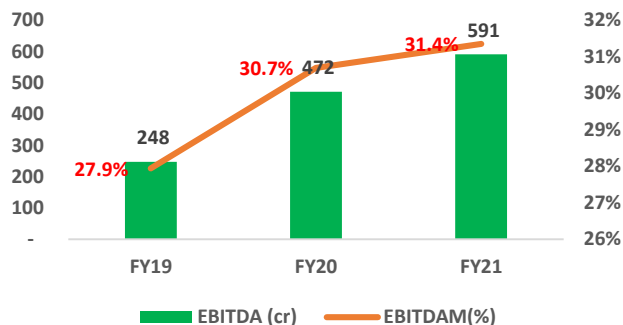
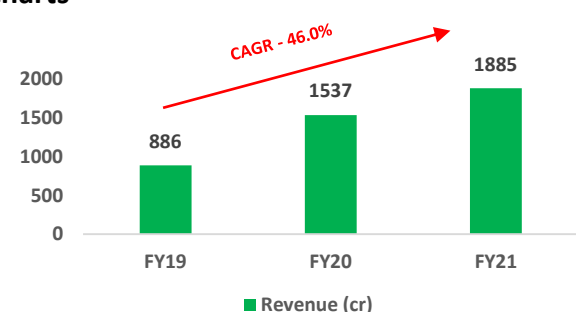
Key Person	Description
Yasir Rawjee	Yasir Rawjee is the Managing Director and CEO of the company, having more than 25 years of experience in API Markets, He leads overall operations of the company and responsible for overall business strategy of the company. Prior to GLS, he has been associated with Mylan, Matrix Labs and GlaxoSmithKine.
Vinod Naik	Vinod Naik is the VP and Head of Technical Operation Department, having 20+ years of relevance experience, responsible for daily operations of manufacturing plants and supply chain of the company. Prior to GLS, he has been associated with Cipla, Sun Pharma and Micro Labs.
Palle V R Acharyulu	Palle V R Acharyulu is the Group VP of the research and Development Departments, having several years of experience, leads research & development team, leads project management and intellectual property of the company. Prior to GLS, he has been associated with Biocon, Dr Reddy's and Sun Pharma.
Bhavesh Pujara	Bhavesh Pujara is the Senior Vice President and CFO of the company, having 15+ years of experience, responsible for overall finance function for the company. Prior to GLS, he has been associated with Lupin, Eli Lilly and Dr Reddy's.

Financial Performance

Particulars (in cr.)	FY19	FY20	FY21
Revenue	886	1,537	1,885
EBITDA	248	472	591
EBITDAM(%)	27.9%	30.7%	31.4%
PAT	196	313	352
PATM (%)	22.1%	20.4%	18.6%
EPS (as reported)	24.6	29.0	32.6
Net Worth	88	402	753
Total Debt	1,176	1,074	955
Total Assets	1,475	1,726	1,997
ROE (%)	221.9%	77.9%	46.7%
ROCE (%)	18.1%	30.0%	32.7%

Source: RHP, Arihant Capital Research

Charts



Source: RHP, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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