

RETAIL EQUITY RESEARCH
Glenmark Life Sciences Ltd.

Pharmaceuticals

SENSEX: 52,976
NIFTY: 15,856

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Price Range Rs. 695- Rs. 720

An R&D driven API player...

Glenmark Life Sciences Limited (GLSL), a wholly-owned subsidiary of Glenmark Pharmaceuticals Limited, is a leading developer and manufacturer of select high value, non-commoditized active pharmaceutical ingredients (APIs) in chronic therapeutic areas, including cardiovascular disease (CVS), central nervous system disease (CNS), pain management and diabetes. As of March 31st, 2021, they had a portfolio of 120 molecules and are adding on average 8-10 new molecules annually. They are also providing contract development and manufacturing operations (CDMO) services to pharmaceutical companies.

- The global API market was estimated to be around US\$181.3 billion in FY 20 and is expected to grow at a CAGR of 6.2% by FY26.
- GLSL's key customers include Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, Krka etc.
- As of May 31st, 2021, GLSL owned or co-owned 39 granted patents and had 41 pending patent applications in several countries and six pending provisional applications in India.
- GLSL currently operates 4 manufacturing facilities with an aggregate annual total installed capacity of 726.6KL (Kilo-Litres) as of March 31st, 2021 with an average capacity utilization of 81%.
- Expected to increase API manufacturing capabilities by expanding current facilities by 200 KL by FY22-23 to further expand generic API production and grow the oncology product pipeline.
- A new manufacturing facility expected to become operational by FY23 with an aggregate capacity of 800 KL will provide a platform for the growth of CDMO business (currently 8% to revenue) and also add capacity for the generic API business.
- For FY19-21 revenue grew at ~46% CAGR while PAT growth stood at ~34% CAGR during the same period with an average EBITDA Margin of 30% .
- China Plus One strategy by global formulation makers to de-risk their procurement strategies led to a spike in demand for APIs is good for companies like GLSL.
- The company has Debt to equity of 1.3x with a debt of Rs.916cr which includes Rs.800cr payable to Glenmark Pharmaceuticals Ltd, post IPO debt will be negligible.
- At the upper price band of Rs.720, GLSL is available at a P/E of 25x (diluted) which appears fairly priced. We assign a "Subscribe" rating for the issue on a long-term basis considering its strong focus on R&D, expansion plans (1726.6KL when completed), growth opportunity in CDMO services and expanding complex API portfolio.

Purpose of IPO

The Offer comprises of the Fresh Issue and the Offer for Sale. The proceeds from the offer for sale will go to the selling shareholders, while the amount received from the sale of fresh issue will be utilized for Payment of outstanding purchase consideration to the Promoter for the spin-off of the API business(Rs.800cr),Funding capital expenditure requirements(Rs.153cr) and General corporate purposes.

Key Risks

- Five largest customers accounted for ~55% of the total revenue from operations, and the Promoter is the largest customer(~40%).
- GLSL generates a significant portion of the total revenue from the API business from the sale of products in a limited number of therapeutic categories.

Peer Valuation

Company	MCap (₹ cr)	Revenue (₹ cr)	EBITDA Margin (%)	EPS(₹)	RoE (%)	P/E(x)
Glenmark Life Sciences Ltd.	8,822	1,885	31.4	29	46.7	25.1
Divis Laboratories Limited	1,27,102	6,969	41.0	75	23.9	64.0
Laurus Labs Limited	3,5566	4,723	32.8	18	45.0	36.2
Shilpa Medicare Limited	5,395	901	20.2	18	10.5	36.5
Solara Active Pharma Sciences	5,987	1,617	17.2	62	16.6	27.0

Source: Geojit Research, Bloomberg; Valuations of GLSL are based on upper end of the price band, Financials as per FY21 Consolidated.

Issue Details	
Date of opening	July 27, 2021
Date of closing	July 29, 2021
Total No. of shares offered (Cr.)	2.1
Post Issue No. of shares (cr)	12.25
Price Band	₹695- ₹720
Face Value	₹2
Bid Lot	20 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,400
Maximum application for retail (upper price band for 14 lot)	₹ 1,87,200
Listing	BSE,NSE
Lead Manager	Kotak Mahindra Capital, BofA Securities, GoldmanSachs (India) Securities, DAM Capital Advisors, BOB Capital Markets, SBI Capital,
Registrars	KFin Technologies Pvt. Ltd.

Issue size (upper price)	₹.Cr
Fresh Issue	1,060.0
OFS	453.6
Total Issue	1,513.6

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promoter group	100	82.8
Public	0	17.2
Total	100	100

Issue structure	Allocation %	Size ₹.cr
Retail	35	529.8
Non-Institutional	15	227.0
QIB	50	756.8
Emp. Reservation	-	-
Total	100	1,513.6

Y.E March (Rs cr) Consol.	FY19	FY20	FY21
Sales	886.4	1,537.3	1,885.2
Growth (%)	-	73.4	22.6
EBITDA	247.7	472.0	591.1
Margin%	27.9	30.7	31.4
PAT Adj.	195.6	313.1	351.6
Growth (%)	-	60.1	12.3
EPS (diluted)	16	26	29
P/E (x)	45.1	28.2	25.1
EV/EBITDA	40.4	21.0	16.5
RoE (%)	-	77.9	46.7



Description of the Business

GLSL is a wholly-owned subsidiary of the Promoter, Glenmark Pharmaceuticals Ltd (Glenmark), a research oriented, innovation led, global pharmaceutical company, which was established in 1977. Glenmark launched the API manufacturing business by setting up a manufacturing facility in Kurkumbh in the state of Maharashtra, India. In 2019, the API manufacturing business of Glenmark was sold and spun off into GLSL as part of a broader reorganization designed to place Glenmark on an accelerated trajectory to attain its objectives in three different verticals, with GLSL focusing on the API business. Following the Spin-off, GLSL operates as an independent, professionally-managed global API business.

GLSL operates two business lines – Generic APIs (generics and complex APIs) and CDMO (including specialty). Company's API business comprises of the development, manufacture and sale of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. The CDMO business currently comprises of applying for and procuring permission to market products in regulated markets as well as contract manufacturing of APIs for utilization by pharmaceutical companies to make formulations.

Split of revenue from Generic APIs and CDMO& regulated markets and emerging markets in FY21(%)



Source: Geojit Research, RHP

Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas

As of March 31, 2021, GLSL had a portfolio of 120 molecules globally. The total market size in terms of sales for the portfolio of 120 molecules globally was estimated to be around US\$142 billion in 2020 and is expected to grow by about 6.8% over the next five years to reach to about US\$211 billion by 2026. The chronic therapeutic areas covered by the portfolio of 120 molecules accounted for 84% of the US\$142 billion end-market size and is expected to become 91% by 2026. GLSL work towards developing eight to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, they had filed 403 DMFs and CEPs across various major markets (i.e. United States, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia).

Strong Relationships with Leading Global Generic Companies

As of March 31, 2021, 16 of the 20 largest generic companies globally were GLSL's customers. They also have a long history with many of the key customers, including Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, Krka and another company which is a global leader in generic pharmaceuticals and biosimilars.

Quality-Focused Compliant Manufacturing and R&D Infrastructure

GLSL currently operate four multi-purpose manufacturing facilities which are situated on leasehold properties located at Ankleshwar and Dahej in the state of Gujarat, India, and Mohol and Kurkumbh in the state of Maharashtra, India with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021.

Key Strategies

- ◆ Expand the Geographic Focus, API Portfolio and Scope of the Operations
- ◆ Grow the CDMO Business
- ◆ Expand the Production Capacities

Industry Outlook

The global API market was estimated to be around US\$181.3 billion in FY 2020 and is expected to grow at a CAGR of 6.2% to reach to about US\$259.3 billion by FY 2026. The Indian API industry has been on a high growth trajectory over the past few decades. The Indian bulk drug industry, ranked third in the world, has grown at a CAGR of around 9% over FY 2016–2020. It is further expected to expand and grow at a CAGR of around 9.6% during FY 2021–2026, signifying its future potential and evolving global importance. The API supply chain is shaped by changing demand in the pharmaceutical industry, with price and regulatory enforcement being two of the most significant drivers of change.

Promoter and promoter group

Glenmark Pharmaceuticals Limited is the Promoter of the Company. The Promoter, along with its nominees, currently holds an aggregate of 10,78,04,950 Equity Shares, aggregating to 100% of the pre- Offer issued, subscribed and paid-up Equity Share capital of the Company.

Brief Biographies of directors

- ◆ **Glenn Saldanha** is the Chairman and non-executive director of the company. He is also the chairman and managing director of the Promoter, Glenmark Pharmaceuticals Ltd.
- ◆ **V.S Mani** is the non-executive director of the company.
- ◆ **Yasir Rawjee** is the Managing Director and Chief Executive Officer of the company.
- ◆ **Sumantra Mitra** is the executive director and vice president – human resources department of the company
- ◆ **Sridhar Gorthi** is the independent director of the company.
- ◆ **Manju Agarwal** is the independent director of the company.
- ◆ **Taruvai Laxminarayanan Easwar** is the independent director of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY19	FY20	FY21
Sales	886.4	1537.3	1,885.2
% change	-	73.4	22.6
EBITDA	247.7	472.0	591.1
% change	-	91	25
Depreciation	19.3	29.4	33.4
EBIT	228.5	442.6	557.7
Interest	0.6	33.5	87.5
Other Income	0.4	12.0	0.8
Exceptional Items	-	-	-
PBT	228.3	421.1	470.9
% change	-	84	11.8
Tax	32.7	108.0	119.4
Tax Rate (%)	14	26	25
Reported PAT	195.6	313.1	351.6
Adj	-	-	-
Adj. PAT	195.6	313.1	351.6
% change	-	60.1	12.3
No. of shares (cr)	12.25	12.25	12.25
Adj EPS (Rs)	16	26	29
% change	-	60.1	12.3

CASH FLOW

Y.E March	FY19	FY20	FY21
PBT	228	421	470.9
Non-cash adj.	-101.15	56.7	133.3
Changes in W.C	-116.8	-282.8	-216.1
C.F.Operating	10.4	195.0	388.1
Capital expenditure	-9	-50.9	-66
Change in investment	-	-	-3
Sale of investment	-	-	-
Other invest.CF	0.41	0.36	0.43
C.F - investing	-8.91	-50.5	-68.73
Issue of equity	1.50	-	-
Issue/repay debt	-1	-136.6	-213.8
Dividends paid	-	-	-
Other finance.CF	-	-	-
C.F - Financing	0.54	-136.6	-213.8
Change. in cash	1.98	7.9	106
Closing cash	1.99	10.0	115.6

BALANCE SHEET

Y.E March (Rs cr)	FY19	FY20	FY21
Cash	2.1	10.0	115.6
Accounts Receivable	448.1	638.6	619.5
Inventories	400.8	412.8	513.4
Other Cur. Assets	73.9	77.9	122.9
Investments	13.8	29.3	36.2
Deff. Tax Assets	-	-	1.2
Net Fixed Assets	450.0	539.1	564.9
CWIP	80.3	10.7	14.1
Intangible Assets	6.4	7.2	7.9
Other Assets	0.0	0.0	1.4
Total Assets	1,475	1,726	1,997
Current Liabilities	187.7	211.4	232.8
Provisions	20.9	30.4	42.8
Debt Funds	1,176.3	1,073.7	955.1
Minority Interests	-	-	-
Def. Tax Liabilities	2.4	8.4	13.7
Equity Capital	2.0	2.0	2.0
Reserves & Surplus	86.2	399.7	750.8
Shareholder's Fund	88.1	401.7	752.7
Total Liabilities	1,475	1,726	1,997
BVPS (Rs)	7	33	61

RATIOS

Y.E March	FY19	FY20	FY21
Profitab. & Return			
EBITDA margin (%)	27.9	30.7	31.4
EBIT margin (%)	25.8	28.8	29.6
Net profit mgn.(%)	22.1	20.4	18.6
ROE (%)	222.0	77.9	46.7
ROCE (%)	15.5	12.3	13.1
W.C & Liquidity			
Receivables (days)	185	129	110
Inventory (days)	415	215	178
Payables (days)	75	48	43
Current ratio (x)	4.5	4.8	5.1
Quick ratio (x)	2.4	3.1	3.2
Turnover &Levg.			
Net asset T.O (x)	2.0	3.1	3.6
Total asset T.O (x)	0.6	1.0	1.1
Int. covge. ratio (x)	377.6	13.2	6.4
Adj. debt/equity (x)	13.3	2.7	1.3
Valuation ratios			
EV/Sales (x)	11.3	6.4	5.2
EV/EBITDA (x)	40.4	21.0	16.5
P/E (x)	45.1	28.2	25.1
P/BV (x)	100.1	22.0	11.7



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