Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Gland Pharma Ltd

Charting sustainable growth

Pharmaceuticals | Sharekhan code: GLAND | Company Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 3,714**	
Price Target: **Rs. 4,400**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

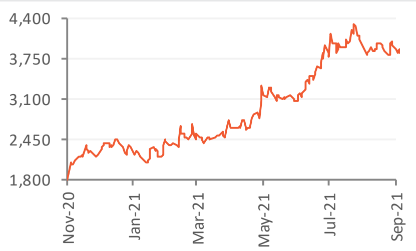
Company details

Market cap:	Rs. 60,997 cr
52-week high/low:	Rs. 4,350 / 1,701
NSE volume: (No of shares)	3.0 lakh
BSE code:	543245
NSE code:	GLAND
Free float: (No of shares)	6.8 cr

Shareholding (%)

Promoters	58.1
FII	12.0
DII	11.3
Others	18.58

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.4	9.2	54.1	-
Relative to Sensex	-11.3	-3.9	32.9	-

Sharekhan Research, Bloomberg
Stock listed on November 20, 2020

Summary

- We re-iterate Buy recommendation on Gland Pharma (Gland) with unchanged PT of Rs 4400. Stock price correction of ~14% from its highs provides a good entry point for investors.
- Well diversified product portfolio, strong product pipeline would drive the Core markets performance, while expanding geographic footprint with plans to enter China bodes well from growth perspective.
- Opportunities from Sputnik Vaccine, and plans to enter the biosimilar CDMO space would be key growth driver for Gland.
- Gland has lined up a Rs 770 crore capex over FY22E-FY23E, which could enable it to cater to increased demand for existing as well as new products.

A confluence of multiple growth drivers is expected to boost Gland Pharma Limited's (Gland) overall performance. A well-diversified and sturdy product portfolio, expansion of geographic footprint with a focus on entering the high potential China markets (leveraging parent company's strength), sustained opportunities from Sputnik vaccine, and foray in to the biosimilar CDMO space would be the key growth drivers for Gland. A sturdy Rs. 770 crore capex plan spread across FY2022-FY2023E and a strong compliance track record coupled with established customer relations are the key positives and provide ample growth visibility.

- **Sustained growth in core markets, entry in new geographies to aid topline growth:** Gland's core markets consist of the US, Europe, Australia and Canada and account for 68% of FY2021 revenue. A well-diversified product portfolio, strong product pipeline and focus to expand geographic footprint are the growth levers for Gland. After a positive response from new markets entered in such as Singapore, Israel, Saudi Arabia, and CIS countries, Gland aims to enter the high-potential China markets by leveraging its parent company's strengths.
- **Sputnik Vaccine opportunity to sustain ahead, paves way for entry in the biosimilar CDMO space:** Gland has successfully completed technical batches for the first dose of Sputnik and is now progressing towards the second dose. It has also commenced manufacturing exhibit batches for Sputnik Light vaccine. Further, with the booster dose requirement emerging, vaccines seem to be an ongoing opportunity now. The vaccine opportunity has turned to be a crucial one as it would take Gland closer to its objective of entering the biosimilar CDMO space.
- **Capex plans to support growth going ahead:** Gland has lined up a strong Rs. 770 crore capacity expansion plan, which includes expanding sterile injectable facility at Hyderabad and enhancing API capacity at Vizag and adding capacity in the oncology facility. Collectively, these could enable Gland to cater to the increasing demand for existing products as well as for planned launches going ahead.

Our Call

Valuation – Re-iterate Buy with unchanged PT of Rs. 4,400: Gland's robust growth prospects across geographies are expected to strengthen further, backed by its resilient presence in the injectables space and strong and clean compliance track record. Well-diversified and expanding product portfolio, increasing geographic footprint, opportunities from Sputnik vaccine paving way for entry in biosimilar CDMO, and a sizeable capex plan lined up are the key growth drivers. Structurally being an established player in injectables, Gland is set to benefit from the rising preference for injectables. At the CMP, the stock is trading at a P/E multiple of 46.2x/30x, its FY2022E/FY2023E EPS, thus pointing towards room for expansion. The stock price has corrected ~14% from its highs and this provides a good entry point for investors. We reiterate our Buy recommendation on the stock with unchanged PT of Rs. 4,400.

Key risk

1) Delay in key product approvals; 2) Any adverse change in the regulatory landscape; and 3) Adverse forex movements.

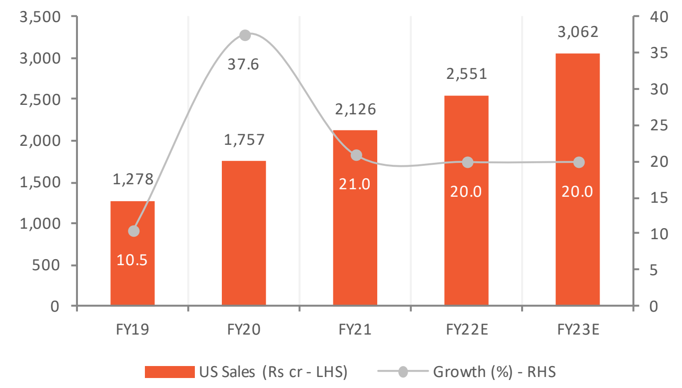
Valuation (Consolidated) Rs cr

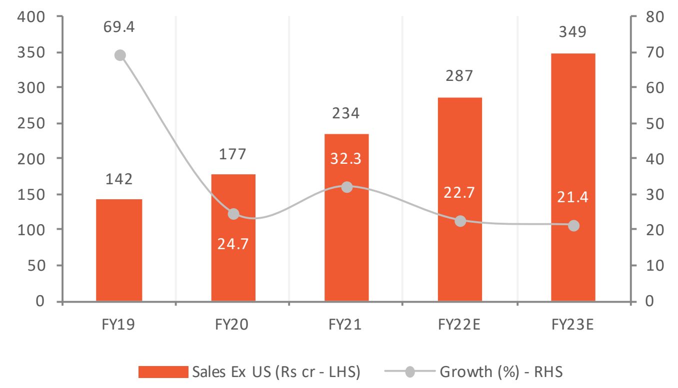
Particulars	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Total Sales	2633.2	3462.9	4519.5	7187.7	6982.1
Operating Profits	1094.6	1437.0	1831.8	2829.6	2852.5
OPM (%)	36.3	37.6	37.4	37.3	38.3
Reported PAT	772.8	997.0	1311.7	2018.5	2085.2
EPS (Rs)	47.3	61.1	80.3	123.6	127.7
PER (x)	78.5	60.8	46.2	30.0	29.1
EV/Ebidta (x)	54.2	40.1	31.0	19.8	18.8
P/BV (x)	16.7	10.3	8.5	6.7	5.4
ROCE (%)	26.8	22.4	23.7	29.3	24.1
RONW (%)	21.2	16.9	18.3	22.1	18.7

Source: Company; Sharekhan estimates

Focus to sustain growth trajectory in core markets; plans to enter new markets to drive revenue: Gland's core markets consists of the US, Europe, Australia and Canada. Collectively, these countries/core markets constitute around 68% of the company's overall FY2021 revenue. Gland's revenue from core markets grew by a handsome 22% for FY2021, with US sales growing by 21% to Rs. 2,126 crore and constituted around 90% of the core market revenue. For Q1FY2022, US sales constituted around 63% to revenue, as compared to 54% in the corresponding quarter of the previous year, thus pointing at the region's strong growth. Growth can be largely attributed to volume pick-up in existing products coupled with new product launches, which offer a significant addressable market opportunity, which is in line with the company's efforts to augment its presence in these areas.

Core Markets Sales – Sales growth (%)

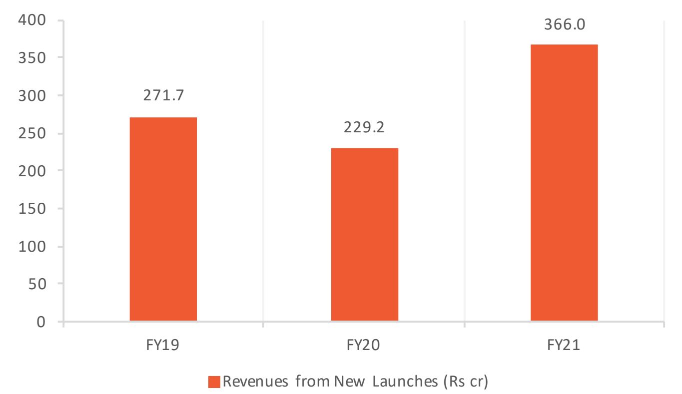


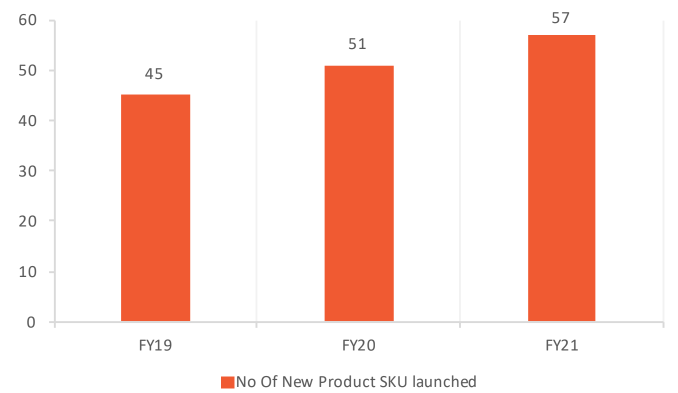


Source: Company, Sharekhan Research

Going ahead, growth in the US markets is expected to be strong, backed by multiple positives. Gland has a strong product pipeline in the US with a total of 286 ANDA fillings done as of June 2021; and of these, Gland has received an approval for 239 ANDAs, while 47 are awaiting approval. Further, in Q1FY2022, the company has launched 17 product SKUs (12 new molecules) in the US. Going ahead, the company expects to launch around 35 molecules in FY2022 and looks to file around 20-22 ANDAs, including complex molecules. Moreover, the share of revenue from new products stands at 11% as of FY2021 as compared to 9% in FY2020 as the company has consistently launched new products. Gland has launched 45, 51 and 57 new product SKUs in FY2019, FY2020 and FY2021, respectively. In addition to this, Gland is likely to benefit from the opportunities originating from loss of exclusivity of molecules over the next 3-5 years, these include peptide injectables/depots. Further, over the years, the company has been supplying quality products to its customers and has built strong relations with its customers, which has made Gland their reliable and trusted partner of choice. Leveraging this and efforts to fortify its position globally, Gland has recently entered new markets like Singapore, Israel, Saudi Arabia and CIS countries and now aims to enter China markets by leveraging its parent company's strengths. Therefore, focus on geographic expansion, strong product pipeline, and growth in existing markets would be the key drivers for Gland.

Revenue from new product launches





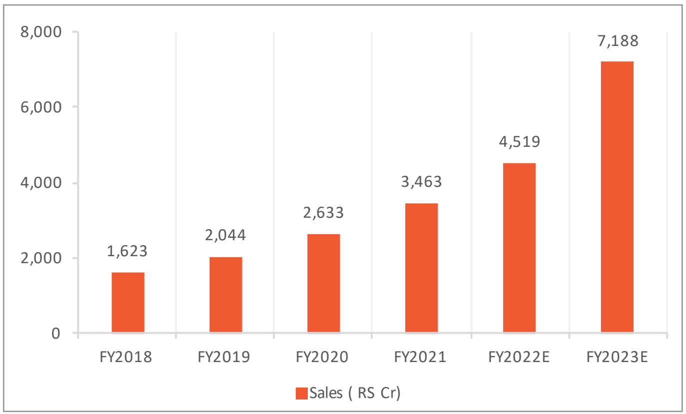
Source: Company; Industry; Sharekhan Research

Sputnik offers sizeable growth opportunities, paves way for entry in the biosimilar CDMO space: Gland has entered in to an arrangement with the Russian RDIF to manufacture 252 million doses of the latter's COVID-19 vaccine – Sputnik V. The company has successfully completed the technical batches for the first dose and is now progressing towards improving the yields for the second dose. Apart from Sputnik V, Gland is also setting its eyes on the single dose Sputnik Light, for which it has already commenced manufacturing the exhibit batches. Overall due to increasing competition, the size of opportunity though could be lower in India, but definitely stays intact in other countries. Also, with the possibility of a booster dose being mandated, the vaccine opportunity seems to be an ongoing one. Further, as Gland has tied up directly with RDIF, reduction in the opportunity in India is unlikely to have any material impact on supplies from Gland and this bodes well. Secondly, post the completion of the contract, the facility could be utilised as a CDMO/CMO plant for biosimilars. The inputs and infrastructure support from the vaccines business would accelerate Gland's strategy of entering into the biosimilar CMO/CDMO space. The company has already acquired a facility capable to manufacture vaccine drug substance, which can be then re-purposed to manufacture biosimilars. Moreover, this opens up significant outsourcing opportunities from the Chinese parent company as Gland could look to leverage the parent's biosimilar subsidiary for its biosimilar CDMO services. Hence, this could be a significant growth driver going ahead for Gland.

Sturdy capex plans provide growth visibility: Gland has drawn up capacity expansion plan amounting to Rs. 770 crore spread over FY2022E-FY2023E. Capex plans include setting up new manufacturing lines at existing plants and expansion of biotech drug substance plant. Gland is increasing capacities by setting up new lines at Pashamylaram facility as well as it is also setting up a new R&D center there. Further, to scale up backward integration, Gland is expanding its API capacity at the Vizag facility by adding a new block. Overall, Gland has incurred total capex of Rs. 229 crore for FY2021 and has lined up sturdy Rs. 770 crore investments over the next two years. Moreover, the company has entered in to an agreement for the purchase of bio-pharmaceutical R&D and manufacturing facility located at Hyderabad. Overall, Gland is expanding its sterile injectable facility located in Hyderabad, enhancing its API production capacity at Vizag and adding capacity in its oncology facility. Collectively, these could enable the company to cater to demand from planned launches going ahead.

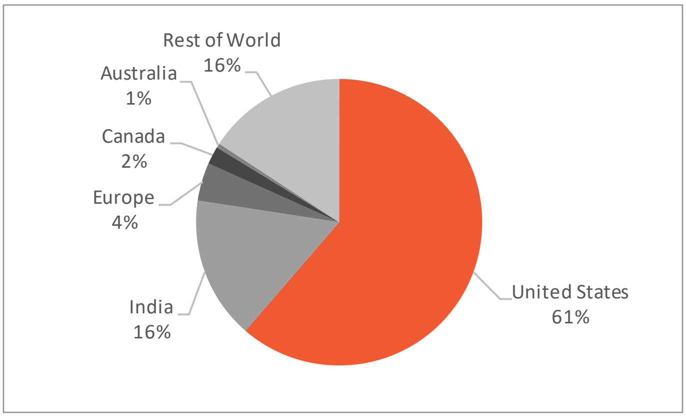
Financials in charts

Sales Trends (Rs Cr)



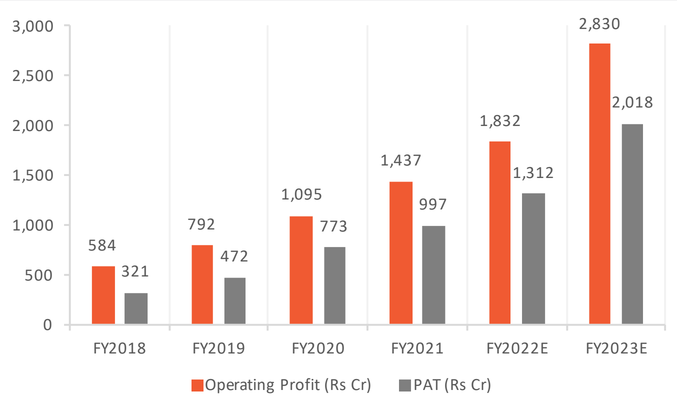
Source: Company, Sharekhan Research

Revenues Mix - Geographywise



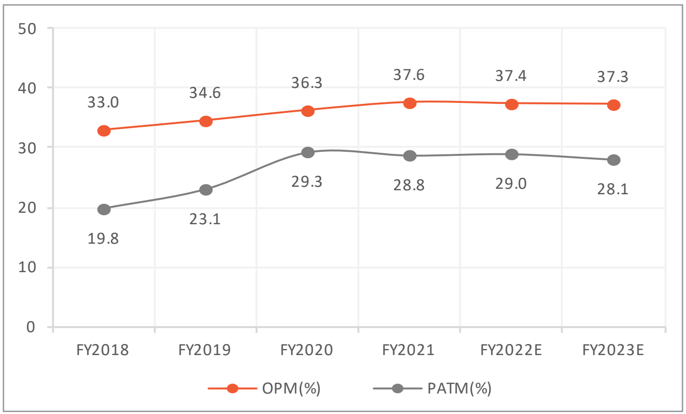
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



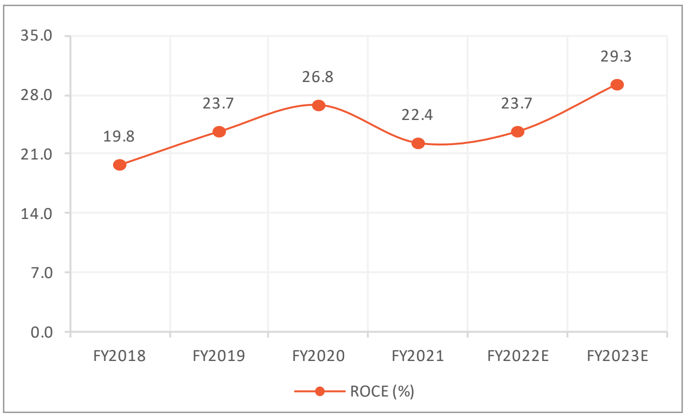
Source: Company, Sharekhan Research

Healthy OPM's



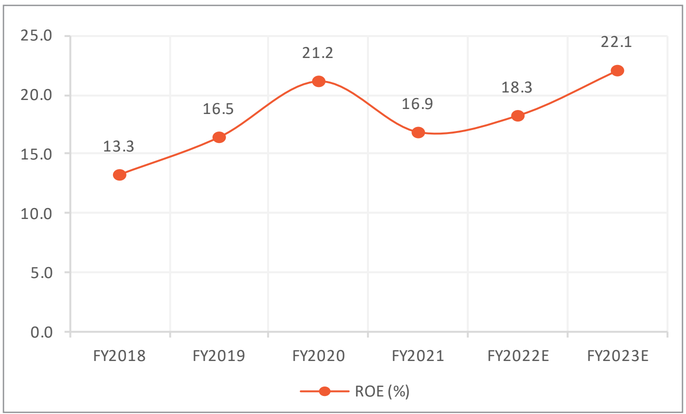
Source: Company, Sharekhan Research

ROCE Trends (%)



Source: Company, Sharekhan Research

RoE Trends (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Better growth prospects

Indian pharmaceutical companies are better placed to harness opportunities and report healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), improving product approvals, and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars, and injectables) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential for Indian pharma companies.

■ Company Outlook – Well placed to harness growth opportunities

Gland is an established player globally in sterile injectables and is one of the fastest-growing generic injectable companies. The injectables space inherently has high-entry barriers, thus pointing to relatively low competition. Gland has extensive and vertically integrated injectables manufacturing capabilities and has a consistent regulatory compliance track record, with no observations received from the USFDA. US markets constitute a lion's share of 67% of sales and, hence, a strong compliance track record augurs well. Improved demand traction and incremental capacities coming on-stream provide ample visibility on growth ahead. Further, the company follows a unique diversified B2B-led model across markets globally, which partially lowers the compliance risk, thus paving the way for faster growth. In domestic markets, Gland follows a B2C model. Gland has an extensive portfolio of complex products (which are well supported by internal R&D), awaiting to be commercialised across markets. Gland has an experienced management team and, over the years, has developed strong capabilities, which would enable the company to stage strong growth in the years ahead. Further, the company is looking to build its presence in the European market through the inorganic route and is open for an acquisition in the complex API space. The recent arrangement to manufacture 252 million doses of Sputnik vaccine would just take the company closer to its long-term strategy to enter the lucrative biosimilar space.

■ Valuation – Re-iterate Buy with unchanged PT of Rs. 4,400

Gland's robust growth prospects across geographies are expected to strengthen further going ahead, backed by its resilient presence in the injectables space and strong and clean compliance track record. Well-diversified and expanding product portfolio, increasing geographic footprint, opportunities from Sputnik vaccine paving way for entry in biosimilar CDMO, and a sizeable capex plan lined up are the key growth drivers. Structurally being an established player in injectables, Gland is set to benefit from the rising preference for injectables. At the CMP, the stock is trading at a P/E multiple of 46.2x/30x, its FY2022E/FY2023E EPS, thus pointing towards room for expansion. The stock price has corrected ~14% from its highs and this provides a good entry point for investors. We reiterate our Buy recommendation on the stock with unchanged PT of Rs. 4,400.

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
AurobindoPharma	729.0	58.6	42,721.0	17.3	11.9	10.4	7.7	6.6	5.2	12.8	15.2	15.1
Gland Pharma	3,714.0	16.3	60,997.0	60.8	46.2	30.0	40.1	31.0	19.8	16.9	18.3	22.1
Cadila	547.0	102.4	56,029.0	24.4	24.5	19.9	18.2	15.1	12.3	17.6	15.6	16.6

Source: Company, Sharekhan estimates

About company

Gland was established in Hyderabad in 1978. The company is a vertically integrated company with capabilities, including internal research and development expertise, robust manufacturing capabilities, a stringent quality assurance system, extensive regulatory experience, and established marketing and distribution relationships. The company has expanded from liquid parenteral 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. Predominantly, Gland has been focusing on the injectables space with negligible or no presence in orals. The company focuses on meeting diverse injectables needs with a stable supply of affordable and high-quality products. Gland follows a unique B2B business model and has a successful track record of operating this model across multiple geographies. Gland has a total of seven manufacturing plants with three of them being API plants. Of the balance, two are sterile injectables plants, while there is one each for oncology and ophthalmology.

Investment theme

The injectables space inherently has high entry barriers, thus pointing to relatively low competition. Gland has extensive and vertically integrated injectable manufacturing capabilities and has a consistent regulatory compliance track record, with no observations received from the USFDA. Improved demand traction and incremental capacities coming on-stream provide ample growth visibility ahead. Further, the company follows a unique diversified B2B-led model across markets globally, which partially lowers the compliance risk, thus paving way for faster growth. In domestic markets, Gland follows a B2C model. Gland has an extensive portfolio of complex products, awaiting to be commercialised across markets. Gland has an experienced management team and, over the years, has developed strong capabilities, which would enable the company to stage strong growth in the years ahead. Moreover, the company is looking to build its presence in the European market through the inorganic route and is open for an acquisition in the complex API space. The recent arrangement of manufacturing doses of Sputnik vaccine would just take the company closer to its long term strategy to enter the lucrative biosimilar space.

Key Risks

1) Delay in key product approvals; 2) Any adverse change in the regulatory landscape; and 3) Adverse forex movements.

Additional Data

Key management personnel

Mr Srinivas Sadu	Managing Director & Chief Executive Officer
Mr Ravi Mitra	Chief Financial Officer
KVGK Raju	Chief Technology Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Pvt Ltd	3.36
2	Republic of Singapore	2.66
3	EMPOWER DISCRETIONARY TR	2.63
4	Axis Asset Management Co Ltd/India	1.88
5	Capital Group Cos Inc/The	1.21
6	NILAY DISCRETIONARY TR	1.15
7	Motilal Oswal Asset Management Co	1.12
8	Ninety One UK Ltd	0.76
9	FIL Ltd	0.47
10	Nippon Life India Asset Management	0.44

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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