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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	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING
Updated Oct 08, 2021 **44.83**

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

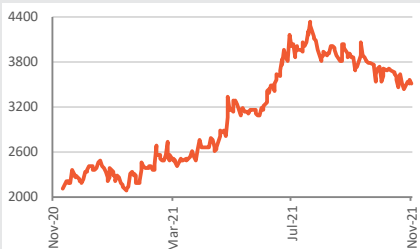
Company details

Market cap:	Rs. 57,488 cr
52-week high/low:	Rs. 4,350 / 2,050
NSE volume: (No of shares)	3.0 lakh
BSE code:	543245
NSE code:	GLAND
Free float: (No of shares)	6.9 cr

Shareholding (%)

Promoters	58.0
FII	12.0
DII	11.3
Others	18.70

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	-9.8	7.5	65.9
Relative to Sensex	5.1	-11.9	-4.5	36.9

Sharekhan Research, Bloomberg

Pharmaceuticals	Sharekhan code: GLAND		
Reco/View: Buy	↔	CMP: Rs. 3,499	Price Target: Rs. 4,400 ↔
↑ Upgrade		↔ Maintain	↓ Downgrade

Summary

- We re-iterate Buy recommendation on Gland Pharma (Gland) with an unchanged PT of Rs 4,400
- Gland plans to increase the share of revenues from RoW markets to 40% (21% Currently) over next 3-4 years led by a strong growth from foray in China markets and increasing penetration in existing Row markets.
- Well diversified product portfolio, strong product pipeline and strengthening of the base business in the US would drive the Core market segment performance
- Vaccine manufacturing opportunity has taken Gland closer to its long term strategy of entering the lucrative biosimilar CDMO space

Gland Pharma Limited (Gland) is witnessing healthy traction across its businesses and sees the Rest of the World (RoW) markets to be a key growth driver. Based on increasing penetration in existing regions and tapping new geographies such as China for growth, Gland aims to increase revenue contribution from RoW markets to 40% over the next 3-4 years from ~21% now. Moreover, strengthening of the base business in core markets and a strong product pipeline in US markets provide ample growth visibility in core markets segment, which constitute more than half of overall revenue. Pursuing Sputnik V vaccine opportunity, albeit with a delay, has taken Gland closer to its long-term strategy of foraying in the lucrative biosimilar CDMO market, which provides strong growth visibility going ahead.

Strong product pipeline to aid US business growth; Emphasis stays on core markets to sustain growth: Gland sees strong growth traction in core markets, fueled by a strong show by the US business. A sturdy product pipeline in the US consisting of a total of 244 filling with 47 products awaiting approvals (translates into an addressable market size of \$4 billion) is substantial. Moreover, the base business has grown strong as Gland has launched 45, 51, and 57 new product SKUs in FY2019, FY2020, and FY2021, respectively, which is expected to gain traction and support growth.

RoW markets on a strong footing, China to be a key growth driver: Gland looks to increase the share of revenue from RoW markets to 40% over the next 3-4 years from 21% now, led by strong growth from China markets, which are expected to contribute around 10% to revenue over the next 3-4 years. Recent regulatory changes being made by China are aimed at promoting generic competition by allowing entry of foreign generic manufacturers bodes well due to a strong presence of the parent company in China and an increasing product pipeline, which could drive the growth in China.

Vaccine opportunity takes Gland closer to biosimilars foray: Gland, initially, plans to focus on single dose vaccine - Sputnik light, which could have a strong demand from foreign markets and is expected to be launched in India in the near term. Further, the likely increase in the adoption of booster doses globally leaves ample scope for the vaccine's demand and this bodes well for Gland. Post the vaccines, Gland looks to foray in the biosimilar CDMO space, which has a sizeable market size of \$12 billion-13 billion, leveraging the vaccine infrastructure. Thus, management sees this vaccine opportunity as one accelerating the company's long-term strategy of entering into biosimilar CDMO.

Valuations: Reiterate Buy with an 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, and opportunities from Sputnik vaccine paving way for entry in the biosimilar CDMO space are key growth drivers. However, higher raw-material costs could exert margin pressures, but is likely to be a transient issue. At the CMP, the stock trades 44.2x/28.6x its FY2022E and FY2023E EPS and the stock price has corrected by ~18% from its highs in the past four months, which provides a good opportunity for investors. We reiterate Buy on the stock with an unchanged price target (PT) of Rs. 4,400.

Key Risks

- Higher raw-material costs pose near-term margin pressures, but is likely to be a transient issue; and 2) any adverse change in the regulatory landscape.

Valuation (Consolidated)

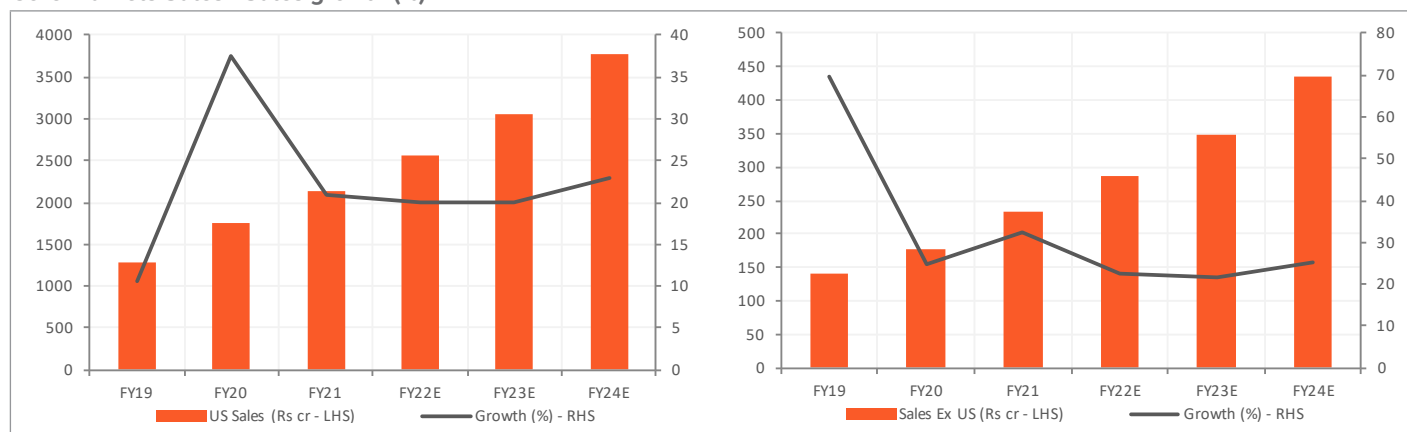
Particulars	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Total Sales	2633.2	3462.9	4519.5	7187.7	6982.1
Operating Profits	1094.6	1437.0	1818.1	2800.2	2792.2
OPM (%)	36.3	37.6	36.5	37.2	38.0
Reported PAT	772.8	997.0	1292.7	1996.4	2038.7
EPS (Rs)	47.3	61.1	79.2	122.3	124.9
PER (x)	73.9	57.3	44.2	28.6	28.0
EV/Ebitda (x)	51.0	37.7	29.3	18.7	18.0
P/BV (x)	15.7	9.7	8.0	6.3	5.2
ROCE (%)	26.8	22.4	23.6	29.1	23.8
RONW (%)	21.2	16.9	18.1	22.0	18.4

Source: Company; Sharekhan estimates

Focus to sustain growth trajectory in core markets; Strong product pipeline to aid growth in US markets:

Gland's core markets consist 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 handsome 22% for FY2021, with US sales growing by 21% to Rs. 2,126 crore and constituted around 90% of the core market revenue. Further, as of 1HFY2022, revenue from core markets stood at Rs. 1,368 crore, up strongly by 20% y-o-y and accounted for 61.3% of overall sales; and US continues to be a key growth driver for the core market segment.

Core Markets Sales - Sales growth (%)



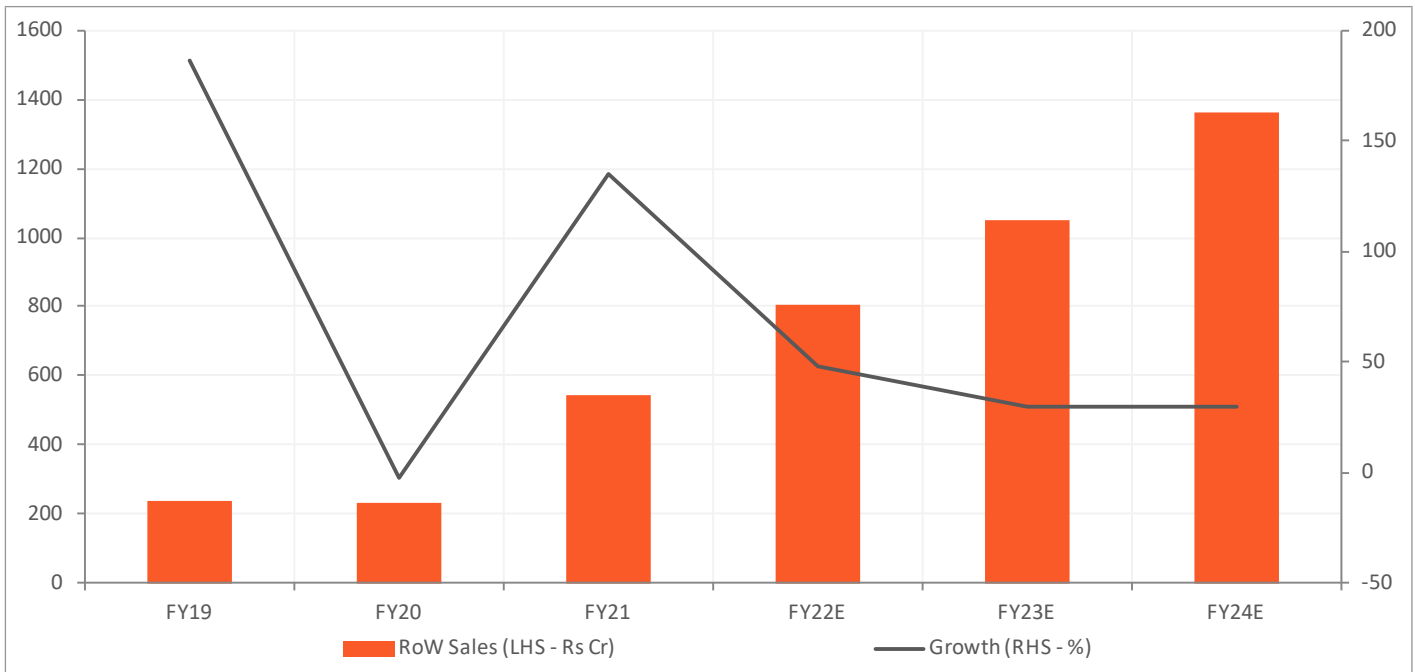
Source: Sharekhan Research

Going ahead, growth in core markets is expected to be strong. For US markets, which is one of the key constituents of core markets, Gland has had a strong product pipeline that provides growth visibility ahead. Moreover, Gland has launched 23 product SKUs (12 molecules) during Q2FY2022 and filed for five ANDAs and three DMFs. The company also received approval for five ANDAs. Overall, Gland has 244 filings in the US and is awaiting approvals for 47 products, which translates to a market size of ~\$4 billion, which is substantial. In addition to this, the base business has also grown strongly as Gland has launched 45, 51, and 57 new product SKUs in FY2019, FY2020, and FY2021, respectively, which is expected to gain traction and support growth. Further, Gland is likely to benefit from opportunities originating from the 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 and this bodes well for Gland from a growth perspective.

RoW markets on a strong footing; Management sees China as a key growth driver:

Gland's performance in RoW markets has been impressive with 1HFY2022 revenue growing phenomenally at 55% y-o-y to Rs. 454.9 crore, hence share of revenue, therefore, has increased to 20.3% as compared to 15% as of FY2021. Over the period of the past three years from FY2018 to FY2021, revenue from RoW markets has staged a strong 87% CAGR, which is impressive. Going ahead, RoW markets are expected to report a strong 35% CAGR over FY2021 to FY2024E, driven by management efforts to expand its geographic penetration in existing markets as well as tap new markets such as Africa and China. Moreover, Gland sees China as a market with strong potential and sees the share of revenue to go to 10% over ~4 years (current Nil revenue from China). As per industry reports, the injectables market in China is quiet substantial with a \$33 billion size. The recent regulatory changes being made by China are aimed at promoting generic competition by allowing entry of foreign generic manufacturers, which bodes well for Gland, given the strong parentage. Further, strong demand from countries, including Brazil, Saudi Arabia, and Thailand, and Gland's focus on fostering new partnerships to better penetrate the region coupled with growth for existing products would also be key growth drivers. Overall, Gland targets to grow its revenue share from RoW markets to around 40% over the next 3-4 years by expanding the product portfolio and increasing penetration levels. Further, with new facilities commissioning, the company has ample capacity to cater to incremental demand, thus providing growth visibility.

RoW Market Sales – Sales Growth:

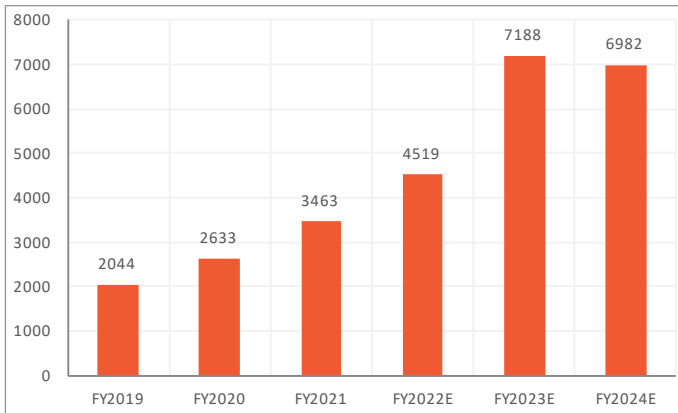


Source: Sharekhan Research

Vaccines opportunity takes Gland closer to biosimilars foray: Gland has successfully completed the validation rounds for both the doses of Sputnik V vaccine and is awaiting clearance from the government to commence exports to RDIF. The company has entered in to an agreement to manufacture 252 million doses of Sputnik V vaccine for RDIF with a “take or pay” clause. Gland, initially, plans to focus on the single dose – Sputnik light, which has is likely to have a strong demand from foreign markets and is also expected to be launched in India as soon as December 2021 subject to successful completion of ongoing clinical trials. Further, as developed nations are increasingly adopting to booster doses, the capacities of big MNC pharma companies are expected to be absorbed there, thus leaving ample scope for a strong demand for Sputnik light from other countries, which augurs well for Gland. Secondly, post the completion of the contract, the facility could be utilised as a CDMO/CMO plant for biosimilars. Inputs and infrastructure support from the vaccines business would accelerate Gland’s strategy of entering into the biosimilar CMO/CDMO space. The global biosimilar CDMO market size is around \$12 billion-13 billion and the company is targeting a small pie of this, which involves the fill and finish space, leveraging its existing drug substance facility. Management sees this vaccine opportunity as one accelerating the company’s long-term strategy of entering into biosimilar CDMO.

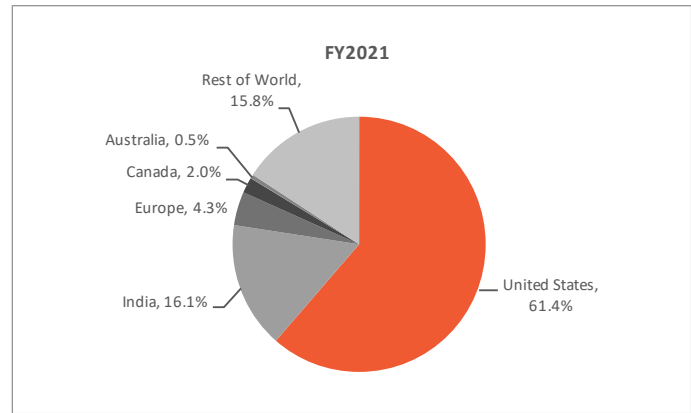
Financials in charts

Sales Trends (Rs Cr)



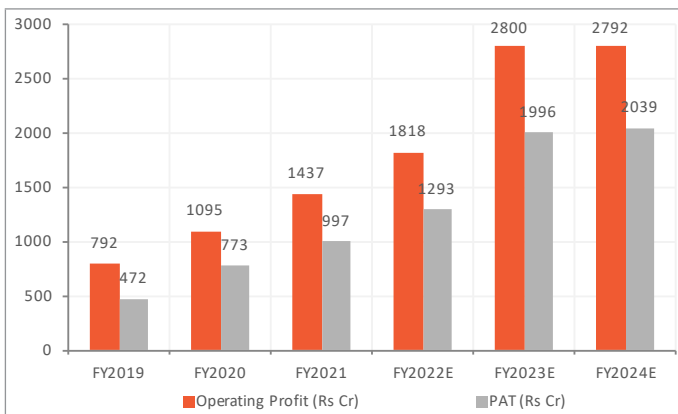
Source: Company, Sharekhan Research

Revenues Mix - Geography wise



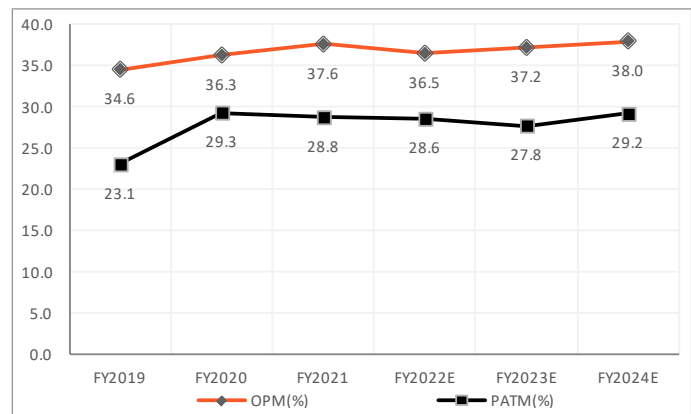
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



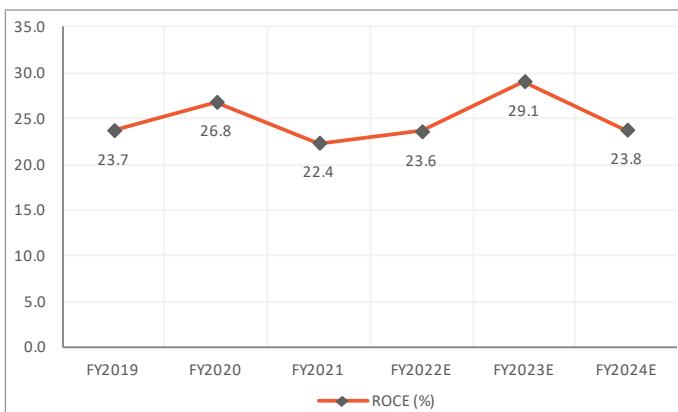
Source: Company, Sharekhan Research

Healthy OPM's



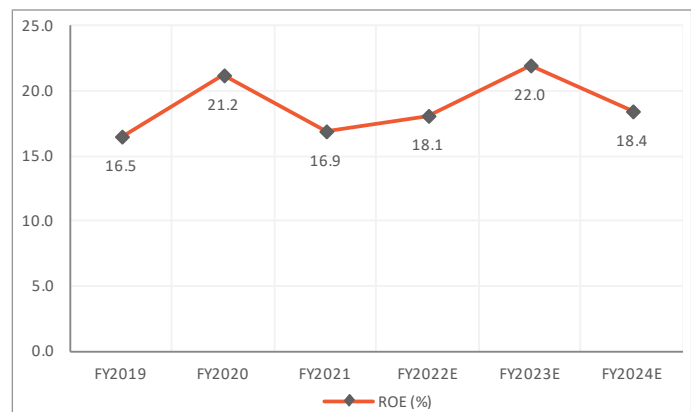
Source: Company, Sharekhan Research

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 strong growth potential going ahead 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 sales and, hence, a strong compliance track record augurs well. Improved demand traction and incremental capacities coming onstream provide ample growth visibility ahead. Further, the company follows a unique diversified B2B-led model across markets globally, which partially lowers compliance risk, thus paving 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 going ahead. Further, the company is looking to tap RoW markets, including China for growth and expects the share of RoW revenue to double to 40% over 3-4 years, primarily led by growth in China markets. The arrangement of manufacturing doses of Sputnik vaccine would just take the company closer to its long-term strategy to enter the lucrative biosimilar space.

■ Valuation – Reiterate Buy with an 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, and opportunities from Sputnik vaccine paving way for entry in the biosimilar CDMO space are key growth drivers. However, higher raw-material costs could exert margin pressures, and is likely to be a transient issue. At the CMP, the stock trades 44.2x/28.6x its FY2022E and FY2023E EPS and the stock price has corrected by ~18% from its highs in the past four months, which provides a good opportunity for investors. We reiterate Buy on the stock with an unchanged price target (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	678.0	58.6	39,735.0	16.1	11.8	10.2	7.2	6.4	5.0	12.8	14.3	14.4
Gland Pharma	3,499.0	16.3	57,488.0	57.3	44.2	28.6	37.7	29.3	18.7	16.9	18.1	22.0
Cadila	473.0	102.4	48,423.0	21.1	21.1	17.5	15.9	14.0	11.6	17.6	15.6	16.4

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, 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, 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 plant – one each for oncology and ophthalmology.

Investment theme

The injectables space inherently has high entry barriers, thus pointing towards 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 onstream provide ample growth visibility ahead. Further, the company follows a unique diversified B2B-led model across markets globally, which partially lowers 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 going ahead. Moreover, the company is looking to build its presence in the European market through the inorganic route and is open for acquisition in the complex API space. The recent arrangement to manufacture doses of Sputnik vaccine would just take the company closer to its long-term strategy to enter the lucrative biosimilar space.

Key Risks

1) Higher raw-material costs pose near-term margin pressures, but is likely to be a transient issue; and 2) any adverse change in the regulatory landscape.

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; *Data as of Feb 2021

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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 deteriorating 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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