

Gland Pharma

Estimate change

TP change

Rating change
CMP: INR3,096
TP: INR3,700 (+20%)
Buy
In line 4QFY22; robust prospects led by efforts on multiple fronts
Enhancing portfolio and capacity | Exploring inorganic opportunities

Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	509.5 / 6.6
52-Week Range (INR)	4350 / 2801
1, 6, 12 Rel. Per (%)	3/2/-13
12M Avg Val (INR M)	999

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	44.0	54.3	67.9
EBITDA	15.1	18.3	23.2
Adj. PAT	12.1	14.6	18.6
EBITDA Margin (%)	31.8	31.3	32.1
Cons. Adj. EPS (INR)	73.7	88.7	113.1
EPS Gr. (%)	21.5	20.3	27.5
BV/Sh. (INR)	435.6	524.3	637.4

Ratios

Net D:E	-0.5	-0.5	-0.5
RoE (%)	18.6	18.5	19.5
RoCE (%)	18.6	18.5	19.5
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	42.0	34.9	27.4
EV/EBITDA (x)	31.6	25.7	19.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.5	0.9	1.5
EV/Sales (x)	10.9	8.6	6.8

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	58.0	58.0	58.3
DII	12.5	11.7	11.3
FII	10.7	11.3	11.9
Others	18.8	19.1	18.6

FII Includes depository receipts

- GLAND delivered an in line 4QFY22. India/Rest of the World (RoW) markets led revenue growth in 4QFY22. It remains on track to develop a complex product pipeline and build manufacturing infrastructure to support commercialization.
- We reduce our FY23/FY24 EPS estimate by 6% each to factor in: a) extended impact of a syringe shortage; b) increased operational cost on account of higher power charges, freight cost, and packaging cost; c) COVID-led delays in approvals for the China market, offset to some extent due to increased captive sourcing of APIs. We value GLAND at 33x 12-months forward earnings to arrive at our TP of INR3,700.
- We remain positive on GLAND, given: a) the considerable scope to increase market share in existing products; b) its enhanced capabilities in peptides, hormones, long acting injectables, delivery systems, Biologics; c) its consistent and successful compliance track record; and d) inorganic growth opportunities. We maintain our Buy rating.

Freight/packaging cost affects profitability in 4QFY22

- Revenue grew 24% YoY to INR11b (est. INR10.2b).
- Sales from India/RoW/core markets grew 137%/32%/8% YoY to INR2b/INR1.9b/INR7.1b (18%/17%/65% of sales).
- Gross margin contracted by 530bp YoY to 50.6% due to change in the geographic mix.
- EBITDA margin contracted by 530bp YoY to 31.6% (est. 35.5%) due to an inferior gross margin.
- EBITDA grew at a moderate rate of 6% YoY to INR3.5b (est. INR3.6b).
- Adjusted PAT grew at a higher rate (~10% YoY) to INR2.9b (est. INR2.9b), aided by higher other income and slightly lower tax.
- Sales/EBITDA/PAT grew 27%/16%/21.5% YoY to INR44b/INR15.1b/INR12.1b in FY22.

Highlights from the management commentary

- The management expects EBITDA margin to sustain at 35-36% (including other income) in FY23.
- It has lined up 24-25 product introductions over the next three quarters, which will drive growth in the US market.
- It expects 10-11% YoY growth in sales from launches across markets.
- GLAND has re-purposed its vaccine facility for the Biologics segment. It is expecting customer visits over the near to medium term.
- The management has guided at a capex of INR3b/INR2.5b in FY23/FY24, towards expanding its injectables capacity at Pashamylaram, warehousing, and API capacity.

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

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	8,842	8,315	8,594	8,877	11,539	10,804	10,633	11,030	34,629	44,007	10,221	7.9
YoY Change (%)	31.1	22.7	33.1	39.8	30.5	29.9	23.7	24.2	31.5	27.1	15.1	
Total Expenditure	4,716	5,338	5,952	5,601	7,176	7,039	7,144	7,547	21,607	28,906	6,589	
EBITDA	4,126	2,977	2,642	3,277	4,363	3,765	3,489	3,484	13,022	15,102	3,631	-4.1
YoY Change (%)	56.8	23.7	24.8	36.6	5.7	26.5	32.0	6.3	36.3	16.0	10.8	
Margin (%)	46.7	35.8	30.7	36.9	37.8	34.9	32.8	31.6	37.6	34.3	35.5	
Depreciation	242	247	250	249	253	261	278	311	988	1,103	320	
Interest	5	8	12	10	10	10	12	20	34	52	15	
Other Income	321	204	351	472	618	512	457	652	1,348	2,239	487	
PBT before EO expense	4,200	2,926	2,732	3,489	4,718	4,006	3,656	3,805	13,348	16,186	3,783	0.6
One-off income/(expense)	0	0	0	0	0	0	0	0	0	0	0	
PBT	4,200	2,926	2,732	3,489	4,718	4,006	3,656	3,805	13,348	16,186	3,783	0.6
Tax	1,064	738	691	885	1,212	986	925	946	3,378	4,069	918	
Rate (%)	25.3	25.2	25.3	25.4	25.7	24.6	25.3	24.9	25.3	25.1	24.3	
Reported PAT	3,136	2,189	2,041	2,604	3,506	3,020	2,730	2,859	9,970	12,117	2,866	-0.2
Adj. PAT	3,136	2,189	2,041	2,604	3,506	3,020	2,730	2,859	9,970	12,117	2,866	-0.2
YoY Change (%)	45.5	-8.9	32.5	59.8	11.8	38.0	33.8	9.8	29.0	21.5	10.0	

Key performance Indicators (consolidated)

Y/E March	FY21				FY22				FY21	FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Cost Break-up													
RM Cost (as a percentage of Sales)				36.2	44.9	47.3	44.1	46.5	48.5	47.3	49.4	43.1	47.9
Staff Cost (as a percentage of Sales)				8.2	9.4	9.6	8.8	7.0	7.6	7.7	8.5	9.0	7.7
Other Cost (as a percentage of Sales)				9.0	9.8	12.4	10.2	8.7	9.0	12.2	10.4	10.3	10.1
Gross Margin (%)				63.8	55.1	52.7	55.9	53.5	51.5	52.7	50.6	56.9	52.1
EBITDA Margin (%)				46.7	35.8	30.7	36.9	37.8	34.9	32.8	31.6	37.6	34.3
EBIT Margin (%)				43.9	32.8	27.8	34.1	35.6	32.4	30.2	28.8	37.5	34.2



Management call highlights

- The Syringe shortage issue affected sales growth in the US market. Usage of alternate sources helped getting higher business from ROW markets. The shortage issue might continue, albeit at lower intensity, in 1QFY23 as well.
- GLAND had two/29 ANDA filings in 4Q/FY22 in the US market.
- At industry level, the drug shortage is on account of the availability of ancillary materials as well as labor shortages in certain US manufacturing facilities.
- GLAND has 33% of its sales requirement met from captive API manufacturing at the end of FY22.
- Enoxaparin remains a potential product for growth, given that it has just 10% market share globally and it continues to expand into RoW markets, including China.
- GLAND had 5% of its revenues from new launches in FY22.
- GLAND continues to develop product for China market. However, COVID led disruption has affected the working of regulatory agencies.
- Cash conversion cycle is 187 days for FY22 v/s 192 days for FY21.

Story in charts

Exhibit 1: Expect ~24% revenue CAGR over FY22-24

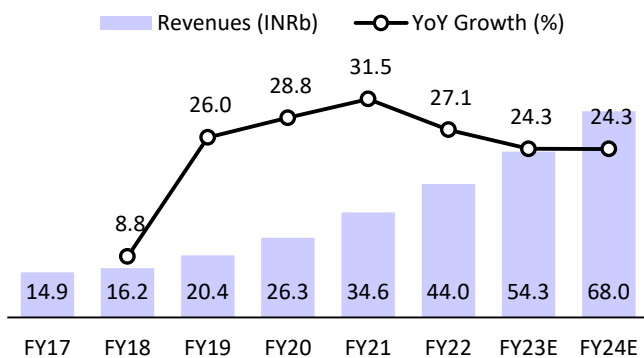


Exhibit 2: Expect 15% core market sales CAGR over FY22-24

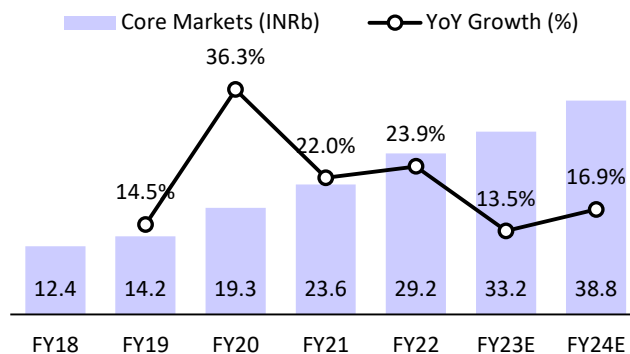


Exhibit 3: Expect ~30% RoW sales CAGR over FY22-24

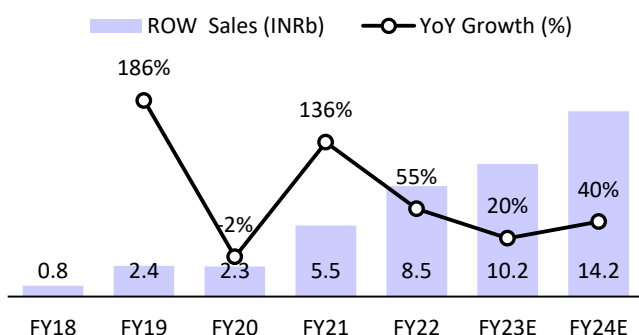


Exhibit 4: Expect India sales CAGR of 30% over FY22-24

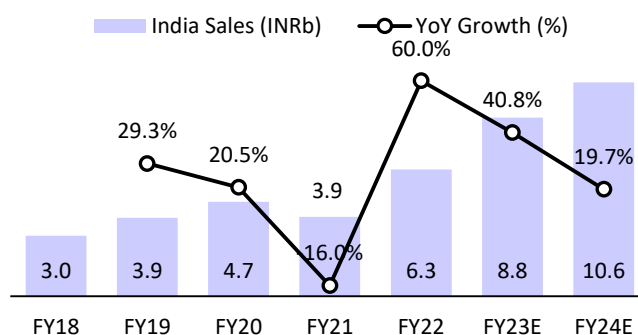


Exhibit 5: Expect EBITDA margin to stay ~24% over FY22-24

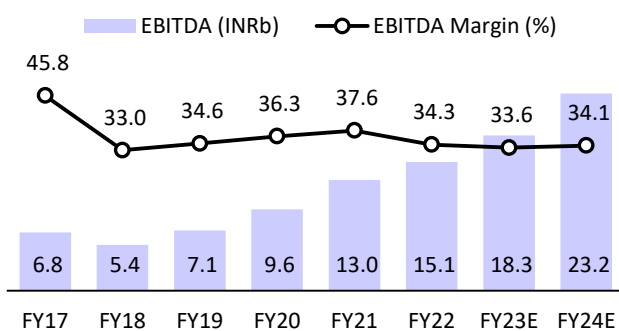
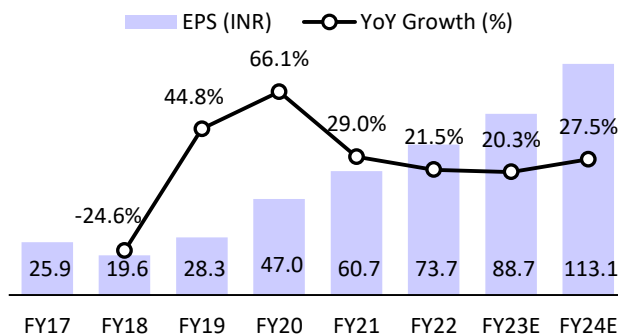


Exhibit 6: Expect EPS CAGR of ~24% over FY22-24



Source: Company, MOFSL

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Complex products/market expansion to drive growth

Robust launch pipeline in core markets

- GLAND's core market sales grew ~16% YoY to INR29b in FY22, accounting for 66% of sales. Micafungin Sodium, Ketorolac Tromethamine, Heparin Sodium, Ziprasidone and Dexmedetomidine were the key products driving the growth for GLAND in core markets.
- GLAND is expanding development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products. Along those lines GLAND has already completed four complex injectable filings (three hormonal products/one complex peptide) in the recent past, with a total market size of ~USD1b. GLAND has also completed submission batches for the next set of three products and the filings for the same are expected by 2QFY23.
- The new Enoxaparin deal in the US is expected to provide a boost to its US business as the customer is expected to shift its entire volume to GLAND by Jul'22. In addition to the US market, there remains immense growth opportunity in Enoxaparin in other market as well.
- Based on its launch momentum, filing pace, the upside from recently launched products in the US, and the new Enoxaparin contract, we expect a 15% sales CAGR in the core markets over FY22–24.

RoW growth slightly tapered on the back of a high base of last year

- RoW market sales grew 55% YoY to INR8.5b in FY22, led by geographic expansion and new partnerships that drove deeper penetration in the existing portfolio of products.
- GLAND is using all levers – geographic expansion, new product launches, and volume expansion – to grow the RoW market business.
- We expect GLAND to deliver RoW sales CAGR of 30% to INR14.2b over FY22–24.

Manufacturing infrastructure to provide business tailwinds

- While, GLAND could not gain commercial benefit from Vaccines yet, it has started work to re-purpose the facility for the Biologics segment.
- GLAND also added four more lines at Pashamylaram facility, adding more than 200m units of additional capacities. Additional capacities include three liquid vial lines with four lyophilizers and one pre-filled syringe line. These new lines are expected to support complex injectables development pipeline for suspensions, hormones and emulsions based products.

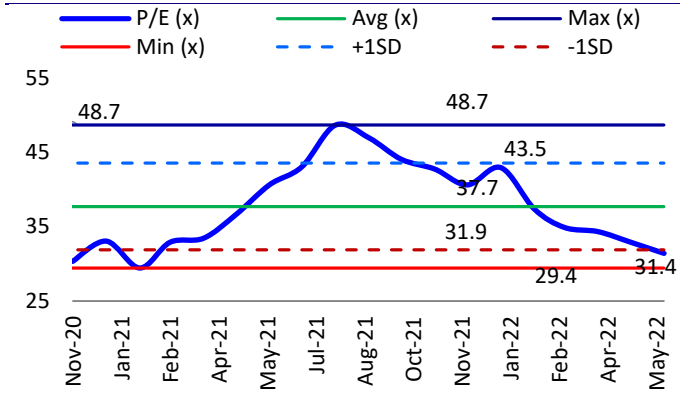
Earnings CAGR of 24% led by superior execution of its complex pipeline

- We reduce our EPS estimate by 6.3%/5.7% for FY23/FY24, largely to factor in the raw material price inflation and uncertainty over the Sputnik Vaccine.
- We expect a 24% earnings CAGR over FY22–24, led by a sales CAGR of 15% in the core markets, 30% each in India and ROW. We estimate INR1.5b vaccine/Biologics sales for FY24.
- We value GLAND at 33x 12-months forward P/E to arrive at our TP of INR3,700. We remain positive on GLAND on the basis of: a) its niche product pipeline in injectables, b) volume gains in existing products, c) geographic expansion for its

portfolio, d) a strong cash cushion for inorganic growth, and e) its consistent compliance.

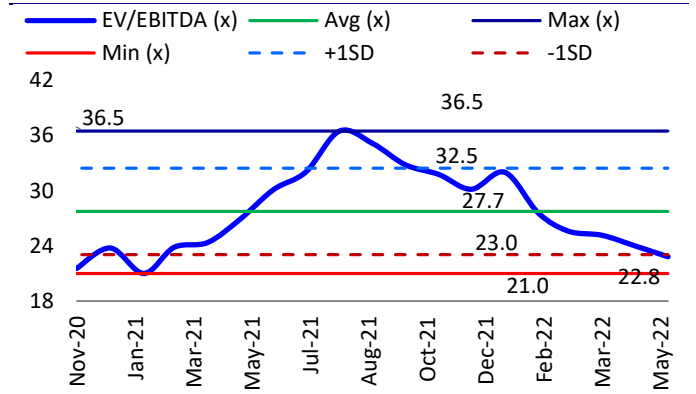
- The benefits of complex product launches in the US and the Biologics CDMO that are expected to be realized beyond FY23 would provide a further upside to our estimates. Maintain Buy.

Exhibit 7: P/E ratio chart



Source: MOFSL, Company, Bloomberg

Exhibit 8: EV/EBITDA ratio chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	14,916	16,229	20,442	26,332	34,629	44,007	54,333	67,897
Change (%)	9.9	8.8	26.0	28.8	31.5	27.1	23.5	25.0
Total Expenditure	8,542	10,876	13,376	16,778	21,607	28,906	36,077	44,744
As a percentage of Sales	57.3	67.0	65.4	63.7	62.4	65.7	66.4	65.9
EBITDA	6,374	5,353	7,066	9,554	13,022	15,102	18,256	23,153
Margin (%)	42.7	33.0	34.6	36.3	37.6	34.3	33.6	34.1
Depreciation	742	782	820	946	988	1,103	1,240	1,367
EBIT	5,633	4,571	6,246	8,608	12,034	13,999	17,016	21,786
Int. and Finance Charges	64	41	36	72	34	52	51	51
Other Income	336	488	856	1,392	1,348	2,239	2,336	2,716
PBT bef. EO Exp.	5,905	5,017	7,067	9,928	13,348	16,186	19,302	24,452
EO Items	0	0	-200	0	0	0	0	0
PBT after EO Exp.	5,905	5,018	6,867	9,928	13,348	16,186	19,302	24,452
Total Tax	1,643	1,804	2,345	2,200	3,378	4,069	4,729	5,868
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.1	24.5	24.0
Reported PAT	4,262	3,213	4,522	7,728	9,970	12,117	14,573	18,583
Adjusted PAT	4,262	3,213	4,654	7,728	9,970	12,117	14,573	18,583
Change (%)	28.1	-24.6	44.8	66.1	29.0	21.5	20.3	27.5
Margin (%)	27.9	19.2	21.9	27.9	27.7	26.2	25.7	26.3

Consolidated Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	155	155	155	155	164	164	164	164
Preference Capital	63	63	63	63	0	0	0	0
Total Reserves	20,743	23,949	28,466	36,307	58,869	71,412	85,985	1,04,568
Net Worth	20,898	24,104	28,621	36,462	59,032	71,576	86,149	1,04,732
Total Loans	64	59	55	50	39	46	46	46
Deferred Tax Liabilities	854	958	1,076	741	739	878	878	878
Capital Employed	21,816	25,121	29,752	37,252	59,810	72,499	87,072	1,05,655
Gross Block	10,055	10,545	12,196	13,478	14,327	20,910	24,186	27,391
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,888	7,128	8,495
Net Fixed Assets	8,716	8,426	9,288	9,681	9,542	15,022	17,058	18,896
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	1,612	1,989	1,232	1,885	3,378	1,907	2,131	1,926
Curr. Assets, Loans, and Adv.	14,410	18,868	24,707	29,295	52,040	59,858	75,898	94,543
Inventory	3,787	5,128	9,119	7,563	12,752	11,857	17,792	21,820
Account Receivables	4,179	4,752	5,061	6,018	6,710	11,988	12,504	15,068
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	30,934	39,332	49,818
Loans and Advances	1,113	2,476	2,994	2,462	2,521	5,079	6,271	7,837
Curr. Liability and Prov.	2,922	4,163	5,473	3,608	5,150	5,836	8,015	9,709
Account Payables	2,003	3,057	4,568	2,677	4,007	4,629	6,524	7,846
Other Current Liabilities	896	956	765	649	892	960	1,186	1,482
Provisions	22	150	139	282	251	248	306	382
Net Current Assets	11,488	14,706	19,234	25,687	46,890	54,022	67,883	84,833
Appl. of Funds	21,816	25,121	29,752	37,252	59,810	72,499	87,072	1,05,655

Financials and valuations

							(INR m)	
Ratios	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Y/E March								
Basic (INR)								
EPS	25.9	19.6	28.3	47.0	60.7	73.7	88.7	113.1
Cash EPS	32.3	25.8	35.3	56.0	67.0	80.5	96.2	121.4
BV/Share	134.8	155.5	184.7	235.2	360.9	435.6	524.3	637.4
DPS	0.0	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	0.0
Valuation (x)								
P/E	119.3	158.3	109.3	65.8	51.0	42.0	34.9	27.4
Cash P/E	95.9	120.1	87.7	55.3	46.2	38.5	32.2	25.5
P/BV	23.0	19.9	16.8	13.2	8.6	7.1	5.9	4.9
EV/Sales	31.8	29.2	23.1	17.7	13.8	10.9	8.6	6.8
EV/EBITDA	74.4	88.4	66.9	48.8	36.6	31.6	25.7	19.8
Dividend Yield (%)	0.0	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	17.0	27.8	47.6
Return Ratios (%)								
RoE	22.6	14.3	17.7	23.7	20.9	18.6	18.5	19.5
RoCE	22.1	14.4	17.7	23.9	20.9	18.6	18.5	19.5
RoIC	28.4	18.7	21.9	31.2	37.1	32.5	30.7	33.3
Working Capital Ratios								
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.1	2.2	2.5
Inventory (Days)	93	115	163	116	134	98	120	117
Debtor (Days)	102	107	90	83	71	99	84	81
Creditor (Days)	49	69	82	37	42	38	44	42
Leverage Ratio (x)								
Net Debt/Equity ratio	-0.3	-0.3	-0.3	-0.4	-0.5	-0.45	-0.5	-0.5

							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Consolidated Cash Flow Statement								
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	16,186	19,302	24,452
Depreciation	742	782	820	946	988	1,103	1,240	1,367
Interest and Finance Charges/(Income)	-128	-240	-408	-452	28	33	-2,286	-2,665
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,065	-4,729	-5,868
(Inc.)/Dec. in WC	-109	-1,934	-3,540	-799	-4,358	-3,931	-5,465	-6,464
CF from Operations	4,671	2,052	1,501	7,181	6,893	9,326	8,063	10,821
Others	94	-32	350	-172	-843	-1,418	0	0
CF from Operations incl. EO	4,765	2,019	1,851	7,009	6,049	7,908	8,063	10,821
(Inc.)/Dec. in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,113	-3,500	-3,000
Free Cash Flow	3,604	1,169	499	5,302	3,766	2,794	4,563	7,821
(Pur.)/Sale of Investments	0	0	0	0	-13,576	-2,613	1,549	0
Others	159	-2,736	-1,834	-5,902	619	-2,300	2,336	2,716
CF from Investments	-1,002	-3,587	-3,186	-7,610	-15,240	-10,026	385	-284
Issue of Shares	0	3,977	0	0	12,250	0	0	0
Inc./(Dec.) in Debt	-1,107	-5	-4	-7	-9	-1	0	0
Interest Paid	-58	-31	-25	-62	-23	-33	-51	-51
Dividend Paid	0	0	0	0	0	0	0	0
CF from Fin. Activity	-1,164	-36	-29	-69	12,386	320	-51	-51
Inc./Dec. in Cash	2,599	-1,603	-1,364	-669	3,195	-1,799	8,397	10,486
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	3,091	11,488
Closing Balance	5,331	3,728	2,363	1,694	4,889	3,091	11,488	21,974
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	27,844	27,844	27,844
Total Cash and Cash Eq.	5,331	6,512	7,533	13,252	30,057	30,934	39,332	49,818

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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