

Gland Pharma

BSE SENSEX
52,728

S&P CNX
15,699

CMP: INR 2,644 TP: INR3,700 (+40%)

Buy

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GLAND PHARMA LIMITED

Stock Info

Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	435.3 / 5.6
52-Week Range (INR)	4350 / 2498
1, 6, 12 Rel. Per (%)	-5/-24/-16
12M Avg Val (INR M)	923
Free float (%)	42.0

Financials Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	44.0	54.3	67.9
EBITDA	15.1	18.3	23.2
Adj. PAT	12.1	14.6	18.6
EBIT Margin (%)	31.8	31.2	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	524.4	637.5

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)	35.8	29.8	23.4
EV/EBITDA (x)	26.7	21.6	16.6
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.6	1.1	1.8
EV/Sales (x)	9.2	7.3	5.7

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

Multiple levers at play; valuations attractive

- After delivering 27% earnings CAGR over FY17-22, GLAND is well-placed to sustain its earnings growth momentum over the next three-to-five years
- It has been enhancing its offerings by adding complex products to its portfolio, scaling the product at the global level, expanding capacity to aid manufacturing, as well as increased backward integration.
- While constraints on availability of certain materials may hinder performance over the near term, GLAND is in good stead for consistent performance over the next three-to-five years.
- The 40% correction over the past 10-12 months, despite healthy earnings growth, provides sufficient cushion on the valuation front. The stock is trading at 30x FY23E EPS of INR89 and 23x FY24E EPS of INR113.
- Given its superior business model, consistent compliance, strong return ratios, and surplus cash for inorganic opportunities, we value the stock at 33x 12-month forward earnings to arrive at our TP of INR3,700. We reiterate our Buy rating.

Efforts toward global leverage of the portfolio

- In addition to successful commercialization of products in the US market, GLAND is expanding its portfolio offerings in non-US markets as well. In FY22, it delivered a sales growth of 47% YoY in EU/Australia/Canada and 54% in RoW markets.
- GLAND extended its Enoxaparin Sodium, Heparin Sodium, Rocuronium Bromide, and Dexmedetomidine business, driving growth in RoW markets.
- Even in India, Enoxaparin Sodium contributed meaningfully to growth, in addition to: a) the successful launch of Caspofungin Acetate, and b) higher offtake of Ertapenem.
- It commands 10% market share globally in case of Enoxaparin Sodium and has enough scope to gain market share on the back of a cost efficient manufacturing process and ease of raw material availability.

Strong pace of product launches

- GLAND has filed 38 ANDAs and its partners have filed 12 ANDAs over the past two years. Over the past five years, it has clocked more than 40 global launches on an annualized basis, contributing to the growth of the business and market share gains in existing products.
- Revenue contribution from launches was 5% of sales in FY22. With meaningful launches from 2HFY23, we expect the share of revenue to increase going forward.

Building a base for China in the Generics market

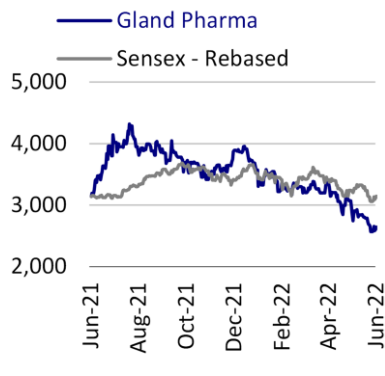
- The Chinese injectable generics market is pegged ~USD43b and clocked 5% CAGR over CY17-21. Favorable government policies and support from parent Fosun will entail better business prospects for it in China.
- While GLAND continues to build its product pipeline (seven products filed till date), the regulatory inspection of its manufacturing site is awaited before obtaining product approval.

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Stock performance (one-year)**Capacity ramp-up underway to cater to newer opportunities**

- GLAND expanded its formulation capacity by 25% in FY22 to 1b units of finished dosages across its four manufacturing facilities. This is to support its complex injectable pipeline for suspensions, hormones, and emulsion-based products.
- Filing of complex products is underway, with four already filed (three hormonal products and one complex peptide) and three (two hormonal products/one complex peptide) expected to be filed in 2QFY23.
- The management is spending INR2b for microsphere bulk manufacturing and microphone powder filling cum liquid filling line.
- Considering the historical asset turn of 2.8x, capital expenditure of INR1.7b in FY22, and an additional capex of INR2b to generate a revenue of INR10b at optimum capacity utilization.
- It has invested INR3.5b in building capacities and capabilities for opportunities in Biologics CDMO.

Backward integration to drive better profitability

- Over the past two years, GLAND has been able to increase captive sourcing to 33% of its total API requirement from 25%. This has helped expand margin and reduce the dependency on external sources.

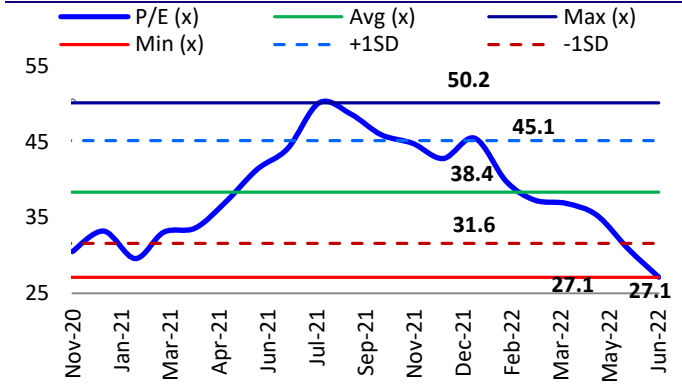
Favorable industry dynamics; robust compliance to drive further market share gains

- Unlike oral solid generics, where there has been a steep price erosion and considerably dragging down profitability, injectable generics witnessed stable price inflation trends over the past two-to-three years. This is due to increasing regulatory compliance and/or operational issues reducing competition.
- GLAND is favorably placed, with consistent compliance since its inception, and faces minimal manufacturing challenges. The company has benefited from better business opportunities from drugs under shortage.

Expect earnings CAGR of 24%, led by superior execution of its complex pipeline

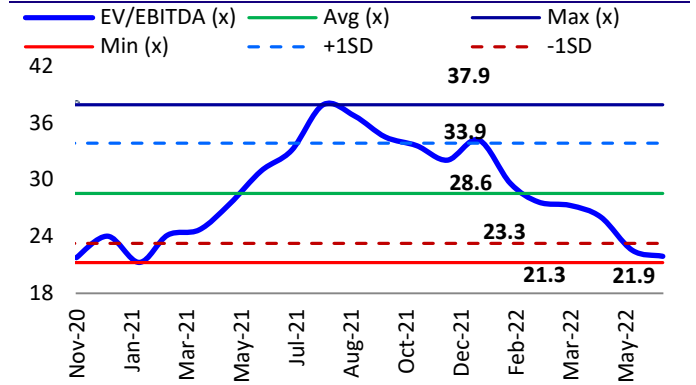
- We expect 24% earnings CAGR over FY22-24, led by 15% sales CAGR in its core markets and 30% each in India and the RoW. We estimate Vaccine/Biologics sales of INR1.5b in FY24.
- We value GLAND at 33x 12-month forward P/E to arrive at our TP of INR3,700. We remain positive on the basis of: a) its niche product pipeline in injectables, b) volume gains in existing products, c) portfolio expansion in China, d) capacity ramp-up driving higher volumes, and e) backward integration driving profitability.
- The benefits of complex product launches in the US and Biologics CDMO, which are expected to be realized beyond FY23, will provide further upside to our estimates. **We maintain our Buy rating.**

Exhibit 1: P/E ratio chart



Source: MOFSL, Company, Bloomberg

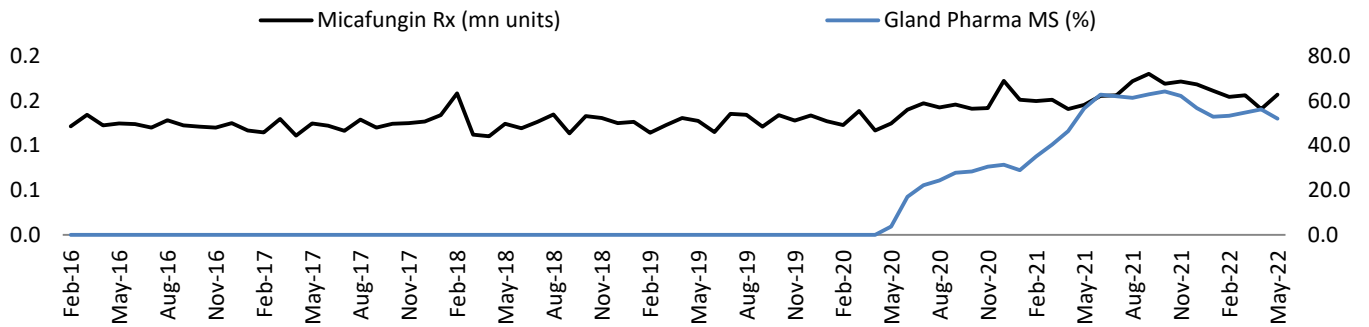
Exhibit 2: EV/EBITDA ratio chart



Source: MOFSL, Company, Bloomberg

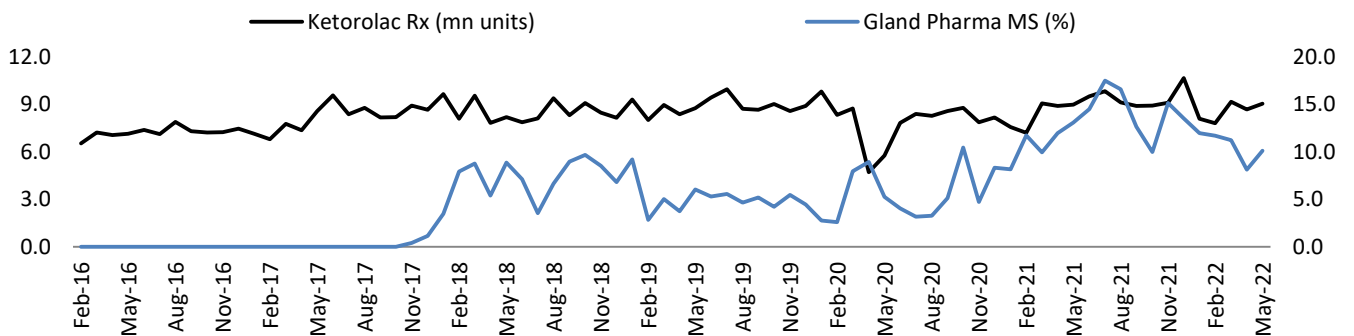
Product charts

Exhibit 3: GLAND's market share moderates to 50%, while Micafungin Rx is on a slight uptrend



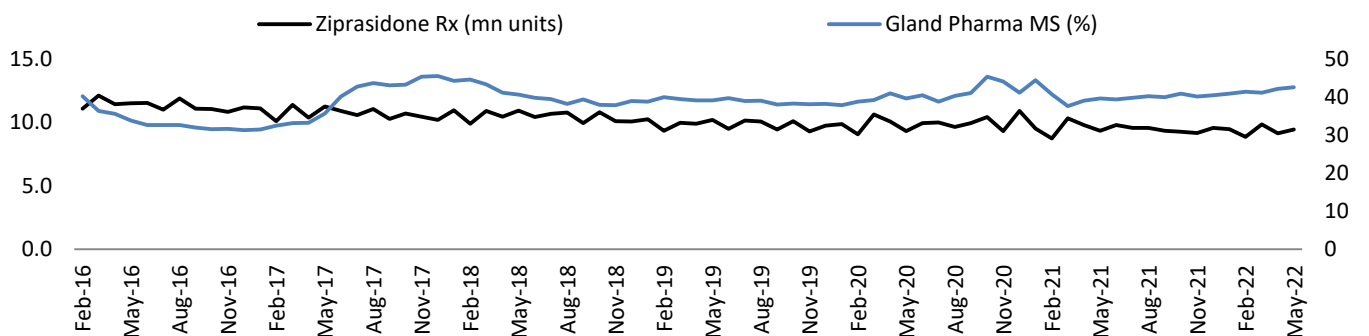
Source: MOFSL, Bloomberg

Exhibit 4: GLAND's market share on an uptrend, while Ketorolac Rx remains stable



Source: MOFSL, Bloomberg

Exhibit 5: GLAND's market share remains stable, while Ziprasidone Rx is on a slight downtrend



Source: MOFSL, Bloomberg

Story in charts

Exhibit 6: Expect ~24% revenue CAGR over FY22-24

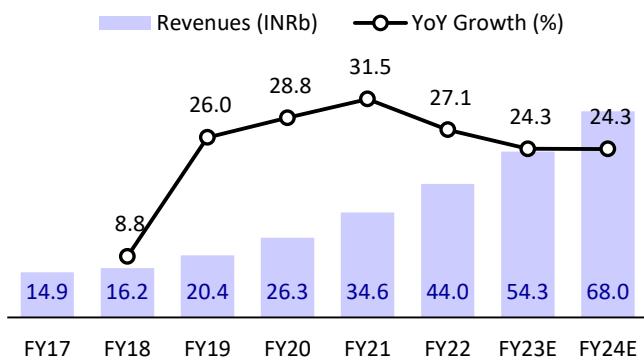


Exhibit 7: Expect 15% core market sales CAGR over FY22-24

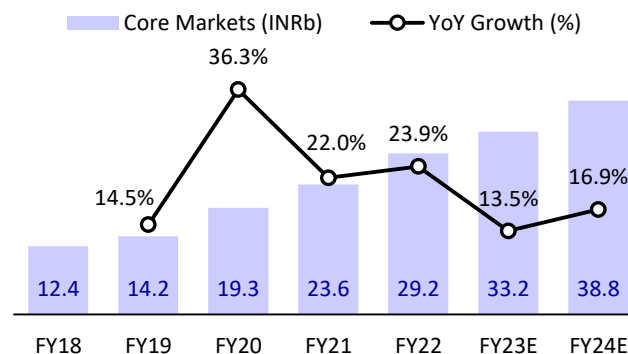


Exhibit 8: Expect ~30% sales CAGR for the RoW over FY22-24

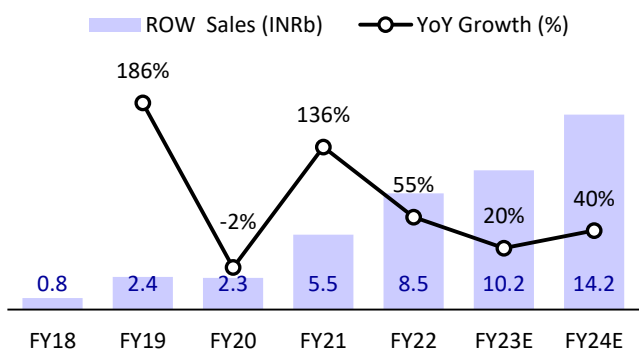


Exhibit 9: Expect India sales CAGR of 30% over FY22-24

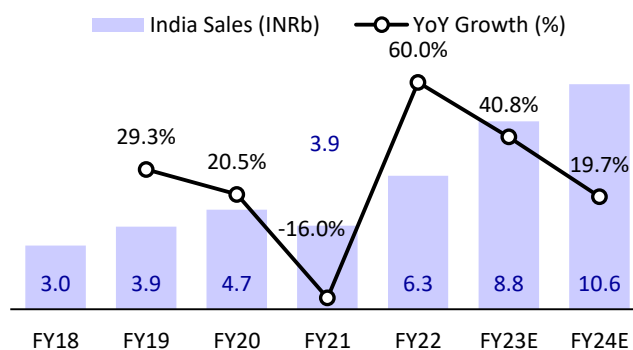


Exhibit 10: Expect EBITDA margin to stay ~24% over FY22-24

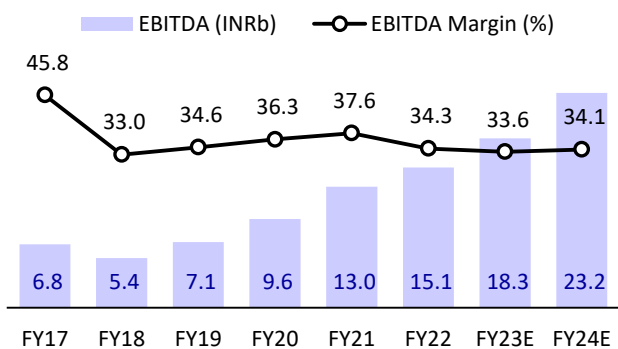
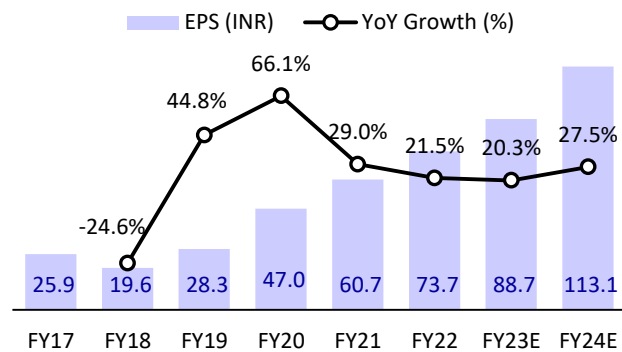


Exhibit 11: Expect EPS CAGR of ~24% over FY22-24



Source: Company, MOFSL

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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	1,319	1,367
EBIT	5,633	4,571	6,246	8,608	12,034	13,999	16,937	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	2,418	2,716
PBT bef. EO Exp.	5,905	5,017	7,067	9,928	13,348	16,186	19,304	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	19,304	24,452
Total Tax	1,643	1,804	2,345	2,200	3,378	4,069	4,730	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	14,575	18,583
Adjusted PAT	4,262	3,213	4,654	7,728	9,970	12,117	14,575	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	85,987	1,04,570
Net Worth	20,898	24,104	28,621	36,462	59,032	71,576	86,151	1,04,734
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	87,074	1,05,657
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	7,207	8,574
Net Fixed Assets	8,716	8,426	9,288	9,681	9,542	15,022	16,979	18,817
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	75,979	94,623
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	39,412	49,899
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	67,964	84,914
Appl. of Funds	21,816	25,121	29,752	37,252	59,810	72,499	87,074	1,05,657

Financials and valuations

Ratios	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
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	96.7	121.4
BV/Share	134.8	155.5	184.7	235.2	360.9	435.6	524.4	637.5
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 ratio	101.9	135.2	93.3	56.2	43.6	35.8	29.8	23.4
Cash P/E ratio	81.9	102.6	74.9	47.2	39.5	32.9	27.3	21.8
P/BV ratio	19.6	17.0	14.3	11.2	7.3	6.1	5.0	4.1
EV/Sales ratio	27.1	24.9	19.7	15.1	11.6	9.2	7.3	5.7
EV/EBITDA ratio	63.5	75.3	56.9	41.5	30.9	26.7	21.6	16.6
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	30.6	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

Consolidated Cash Flow Statement	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	16,186	19,304	24,452
Depreciation	742	782	820	946	988	1,103	1,319	1,367
Interest and Finance Charges/(Income)	-128	-240	-408	-452	28	33	-2,367	-2,665
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,065	-4,730	-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	8,062	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	8,062	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	4,562	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	2,418	2,716
CF from Investments	-1,002	-3,587	-3,186	-7,610	-15,240	-10,026	467	-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
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	8,478	10,486
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	3,091	11,569
Closing Balance	5,331	3,728	2,363	1,694	4,889	3,091	11,569	22,055
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	39,412	49,899

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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