Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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. 3,802**	
Price Target: **Rs. 4,400**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

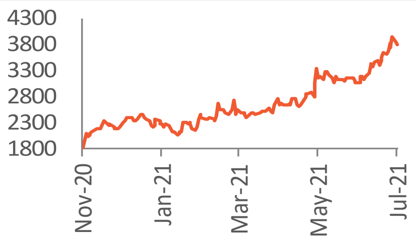
Company details

Market cap:	Rs. 62,446 cr
52-week high/low:	Rs. 3,998 / 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	58.3
FII	12.0
DII	11.3
Others	18.47

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.6	43.9	72.4	-
Relative to Sensex	23.8	34.5	67.6	-

Sharekhan Research, Bloomberg
Stock listed on 20th Nov 2020

Gland Pharma Limited

Strong quarter; Bright outlook

Pharmaceuticals | Sharekhan code: GLAND | Result Update

Summary

- We retain our Buy recommendation on Gland Pharma (Gland) with a revised PT of Rs. 4,400.
- Gland reported a strong performance for Q1FY22 and results were ahead of estimates. The sales and PAT reported a growth of 30.5% and 12% YoY respectively
- Strong growth in the RoW and India markets, double digit growth in the Core markets and Vaccine led opportunities would be the key growth drivers for company.
- Strong domain expertise and growth prospects, sturdy earnings track record and strong financials are the key positives for Gland

Gland Pharma Limited (Gland) reported a strong set of numbers for the quarter and the earnings were ahead of estimates. Revenue for the quarter stood at Rs. 1,153.9 crore, up 30.5% y-o-y, backed by strong growth in Rest of World (RoW) as well as India markets, while the core market grew at a healthy pace of 16% y-o-y. Operating profit margin (OPM) at 37.8% contracted by 890 bps y-o-y due to gross margin contraction. Operating profit stood at Rs. 436 crore, up 6% y-o-y. Other income almost doubled on a y-o-y basis, leading to 12% y-o-y growth in PAT to Rs. 350 crore, ahead of estimates. Growth outlook for Gland's business across geographies is robust and this bodes well for the company. Backed by increasing geographic expansion and new partnerships, RoW business is expected to sustain strong growth momentum. Gland has filed for six products (addressable market size is $550 million) in China market and expects at least one launch by Q4FY2022, while other would follow. Management sees China's entry as a crucial growth driver, albeit over the medium to long term. India business has recorded 76.8% y-o-y growth and management expects the quarterly run rate to sustain going ahead. Further, strong growth in the existing portfolio and new product launches would drive growth in core markets. Gland is progressing favorably in its tie-up for manufacturing Sputnik V vaccine and looks to commence commercial production by October–November 2021 post the technology transfer is done. Moreover, the company has tied up with another Indian company for fill-finish services for Sputnik V vaccine and looks to commence operations by September 2021. Overall, given the above triggers, growth of RoW markets, including India, is expected to be higher as compared to core markets. This would result in share of revenues from the Row Markets increasing, which is in line with the management's aim of diversifying the revenue base.

Key positives

- Revenue from RoW markets grew by 51% y-o-y to Rs. 222.7 crore due to new partnerships and expanded geographic reach.
- New capacities and ramp up in Covid drugs drove India sales higher by 76.8% y-o-y to Rs. 227 crore.

Key negatives

- Gross margin contracted to 54% versus 64% in Q1FY2021, which can be attributed to an adverse mix.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 4,400: Gland reported an impressive performance in RoW as well as India markets for the quarter and management sees the growth momentum to sustain going ahead as well. In core markets, strong pipeline of new launches in the US, well complemented by a healthy product filling plan, and opportunities from drug shortages and from loss of exclusivity of products would be key growth drivers. The vaccine manufacturing arrangement for Sputnik V is progressing as per schedule and Gland looks to commence production from October–November 2021. Gland has also entered in to another fill and finish contract for a Covid Vaccine with an Indian company and aims to start operations by September 2021. Structurally being an established injectables player, Gland is set to benefit from rising opportunities in the space. Given better-than-expected results for Q1FY2022, we have raised our FY2022E/FY2023E EPS by 4% each. At the CMP, the stock trades at 47.3x/30.8x its FY2022E/FY2023E EPS. Strong domain expertise and growth prospects, sturdy earnings track record, and strong financials are key positives for Gland. We retain our Buy recommendation on the stock with a revised PT of Rs. 4,400.

Key Risks

1) 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 Profit	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)	80.3	62.3	47.3	30.8	29.8
EV/EBIDTA (x)	55.5	41.1	31.8	20.3	19.3
P/BV (x)	17.0	10.5	8.7	6.8	5.6
ROCE (%)	26.8	22.4	23.7	29.3	24.1
RONW (%)	21.2	16.9	18.3	22.1	18.7

Source: Company Data; Sharekhan estimates

Strong quarter: Gland reported a strong set of numbers for the quarter with earnings coming in better than our as well as streets estimates. Revenue for the quarter at Rs. 1,153.9 crore was up by 30.5% y-o-y, backed by 16% y-o-y growth in core markets (61% of sales) business to Rs. 704 crore, which can be attributed to growth of key products such as Micafungin, Enoxaparin, Heparin, Dexmedetomidine and new product launches. Indian business (20% of sales) grew by 76.8% y-o-y, while RoW markets (19% of sales) grew by 51% y-o-y. OPM at 37.8% for the quarter contracted by 890 bps y-o-y but expanded by 90 bps q-o-q. Q1FY2021 had low cost as operations reflected the impact of Covid-led lockdown, resulting in margin contraction. PM missed our as well as street estimates. Operating profit grew by 5.7% y-o-y to Rs. 436 crore. Other income for the quarter almost doubled, leading to 12% y-o-y growth in PAT to Rs. 350 crore, which is ahead of estimates of Rs. 304.5 crore.

Sputnik V vaccine tie up offers substantial growth opportunities: 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. Gland has entered into a technology transfer arrangement and has consequently acquired assets of a biopharma company, entailing an investment of Rs. 90 crore. Subsequently, the company has also lined up an investment plan of Rs. 270 crore towards setting up the drug substance manufacturing facility and a fill and finish plant for the said vaccine contract. The said contract is for manufacturing 252 million doses of Sputnik V vaccine; and RDIF is bound by the terms of the agreement for the offtake of the vaccine. Sputnik V vaccine is registered in 67 countries globally. In addition, strong demand environment both across domestic and exports markets augurs well from a growth perspective. Secondly, post the completion of the contract, the facility could be utilised as a CDMO/CMO plant for biopharma or biosimilars. This points at potential growth opportunities and, hence, could be a significant growth driver going ahead. Management sees this vaccine opportunity as one accelerating the company's long-term strategy of entering into biosimilars.

RoW markets on a strong footing to grow; Growth in Core markets to remain healthy: Glands core markets consist of the US, Europe, Australia, and Canada. Collectively, these core markets constitute around 61% of the overall revenue of the company for the quarter. Core markets have delivered 16% y-o-y revenue growth to Rs. 704 crore. Revenue growth can be attributed to higher volumes from contribution of new products launches and growth in the existing portfolio supported by capacity expansion. 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 in the US, which includes 47 pending approvals. In addition to core markets, Gland's performance in RoW markets has been impressive at 51% for the quarter. Increased geographic penetration and new partnerships are key growth drivers for RoW markets. Moreover, the company has a strong product portfolio (approved in regulated markets), which can be extended to RoW markets. Sales from RoW markets stood at Rs. 222.7 crore and management is aiming to largely sustain the run rate going ahead. India sales for the quarter have also grown strongly, backed by new capacities, which have enabled to ramp-up sales in core product portfolio. Moreover, sales were supported by ramp up in Covid drugs – Remdesivir and Enoxaparin. Overall, management expects Row markets (including India) to grow at a faster pace as compared to core markets and, hence, sees the share of RoW revenue (including India) to be 40-45% of sales from around 32% as of FY2021.

Q1FY2022 Conference call highlights

- **RoW Markets:** Revenue from the region grew by 51% y-o-y for the quarter to Rs. 222.7 crore, which can be attributed to new partnerships and increased geographic penetration. The company has forayed in new markets such as Singapore, Israel, Saudi Arabia, and CIS countries and has a healthy line up of product portfolio for these markets.
- **India Markets:** Revenue from India business grew impressively by 76.8% y-o-y, backed by ramped up supply of COVID-19 drugs – Remdevisir and Enoxaparin. In addition, commissioning of new capacities enabled the company to ramp up the production of these drugs.

- **Core Markets:** Revenue from core markets at Rs. 704 crore grew by 15.8% y-o-y because of growth in existing products and new product launches. During Q1FY2022, the company launched 17 product SKUs (12 molecules) in these markets along with the launch of the first set of penem products in the US markets.
- **R&D:** R&D expenses for the quarter stood at Rs. 43.8 crore, up 75% y-o-y, and is translating to around 3.8% of overall sales for the quarter. Going ahead the company has guided to maintain R&D expenses of 3.5-4% of total sales.
- **Product pipeline and launches:** As of June 2021, the company has a total of 286 ANDAs filled with the USFDA and has received an approval for 239 with 47 ANDAs pending approval. During Q1FY2022, the company filed for two ANDAs received approval for six. Moreover, it has filed for five DMFs.
- **Capex plans:** During Q1FY2022, the company has incurred capex of Rs. 185.7 crore and going ahead has lined up capex of Rs. 300 crore for FY2022 and Rs. 250 crore in FY2023.

Results Rs cr

Particulars	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Total Income	1153.9	884.2	30.5	887.7	30.0
Expenditure	717.6	471.6	52.2	560.1	28.1
Operating profit	436.3	412.6	5.7	327.7	33.1
Other income	61.8	32.1	92.8	47.2	31.0
EBIDTA	498.1	444.7	12.0	374.9	32.9
Interest	1.0	0.5	112.5	1.0	-2.0
Depreciation	25.3	24.2	4.3	24.9	1.4
PBT	471.9	420.0	12.3	348.9	35.2
Tax	121.2	106.4	13.9	88.5	36.9
Adjusted PAT	350.7	313.6	11.8	260.4	34.7
Margins			**BPS**		**BPS**
OPM (%)	37.8	46.7	-885.6	36.9	89.9

Source: 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 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 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 year, 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 Europe market through the inorganic route and is open for an acquisition in the complex API space. The recent arrangement of manufacturing 252 million doses of Sputnik vaccine would just take the company closer to its long-term strategy to enter the lucrative biosimilar space.

■ Valuation - Maintain Buy with a revised PT of Rs. 4,400:

Gland reported an impressive performance in RoW as well as India markets for the quarter. Management sees the growth momentum to sustain going ahead as well. In core markets, strong pipeline of new launches in the US, well complemented by a healthy product filling plan, and opportunities from drug shortages and from loss of exclusivity of products would be key growth drivers. The vaccine manufacturing arrangement for Sputnik V is progressing as per schedule and Gland looks to commence production from October–November 2021. Gland has also entered in to another fill and finish contract for Covid Vaccine with an Indian company and aims to start operations by September 2021. Structurally being an established injectables player, Gland is set to benefit from rising opportunities in the space. Given better-than-expected results for Q1FY2022, we have raised our FY2022E/FY2023E EPS by 4% each. At the CMP, the stock trades at 47.3x/30.8x its FY2022E/FY2023E EPS. Strong domain expertise and growth prospects, sturdy earnings track record, and strong financials are key positives for Gland. We retain our Buy recommendation on the stock with a revised 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	965.0	58.6	56,557.0	22.9	14.7	12.2	10.3	8.3	6.4	12.8	16.2	16.6
Gland Pharma	3,802.0	16.3	62,446.0	62.3	47.3	30.8	41.1	31.8	20.3	16.9	18.3	22.1
Cadila	623.0	102.4	63,754.0	27.8	28.6	23.2	20.5	17.5	14.4	17.6	15.3	16.4

*Source: Company, Sharekhan estimates; * FY2021 Nos are 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 plant – one each for oncology and ophthalmology.

Investment theme

The injectables space inherently has high entry barriers, thus pointing to relatively low competition. Gland has an 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 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, awaiting to be commercialised across markets. Gland has an experienced management team and, over the year, 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 Europe market through the inorganic route and is open for an 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) 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 * Data as of Feb 2021*

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.