

Gland Pharma

BSE SENSEX 56,463
S&P CNX 16,959



Stock Info

	GLAND IN
Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	525.4 / 6.9
52-Week Range (INR)	4350 / 2551
1, 6, 12 Rel. Per (%)	-1/-6/-2
12M Avg Val (INR M)	938
Free float (%)	42.0

Financials Snapshot (INR b)

Y/E MARCH	FY22E	FY23E	FY24E
Sales	43.2	54.3	66.7
EBITDA	15.2	19.7	24.9
Adj. PAT	12.1	15.6	19.7
EBIT Margin (%)	32.7	33.8	34.9
*Adj. EPS (INR)	74.1	95.2	120.4
EPS Gr. (%)	21.6	28.5	26.4
BV/Sh. (INR)	435.0	530.2	650.6

Ratios

Net D:E	-0.5	-0.5	-0.5
RoE (%)	18.6	19.7	20.4
RoCE (%)	18.7	19.8	20.4
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	43.2	33.6	26.6
EV/EBITDA (x)	32.1	24.4	18.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.3	1.2	2.0
EV/Sales (x)	11.3	8.8	7.0

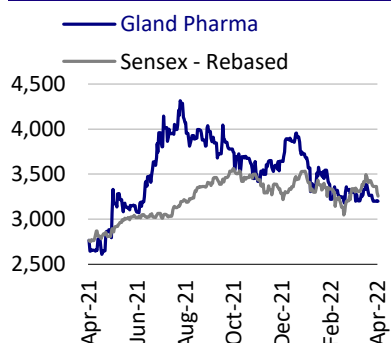
*Consolidated

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

Stock performance (one-year)



CMP: INR 3,198 TP: INR4,040 (+26%) Buy

Well-placed to gain from the drug shortages in the US

Compliance/manufacturing scale-up offers heads-up to GLAND

- GLAND has 11 injectable products in the USFDA shortage list, which have combined sales of ~USD400m over the past 12-months.
- The overall number of drugs under shortage in the US has declined to a 15-year low at present. However, the number of injectables facing a shortage is at its 20-year average, but is at a record high as a percentage of total drug shortages.
- Among the Indian players present in the US, GLAND appears to be the largest beneficiary from drugs under shortages due to consistent compliance and manufacturing capacity/capabilities.
- We value GLAND at 35x 12-month forward P/E to arrive at our TP of INR4,040. We remain positive given: a) its niche product pipeline in injectables, b) volume gains in existing products, c) wider market operations for its portfolio, d) a strong cash cushion for inorganic growth, and e) consistent compliance.

Advantage GLAND

- Eleven products of GLAND, with a combined market size of USD400m, are facing a shortage in the US. There are certain drugs where more than five of its peers have ANDA approvals. Despite that, the drugs are under shortage due to: a) increased demand/reduced supply, or b) manufacturing constraints/discontinuation by existing companies.
- Few key products such as Dexamthasone, Ketorolac, Midzolan, and Metronidazole represent a decent opportunity given their market size and competitive scenario.

Injectables shortage continues at a steady state

- While the number of drugs facing a shortage stood at a 15-year low of 114 in CY21, the same in injectables continues to remain steady, close to its 20-year average of ~75. Almost 72% of total drugs under shortage are injectables.
- From the total injectables under shortage at the industry level, GLAND and ARBP are among the Indian companies that have the highest number of drugs as part of their respective portfolio.
- Even if drugs under shortage provide business opportunities for companies like SUNP/LPC/DRRD there is limited scope for supplies due to either restricted quantities of API availability or inadequate inventory.

Valuation and view

- We expect 27% earnings CAGR over FY22-24, led by 16% sales CAGR in its core markets, 23% in India, and 43% in RoW – supported by a 200bp margin expansion over FY22-24. We estimate INR3b in Biologics sales in FY24.
- We value GLAND at 35x 12-month forward P/E to arrive at our TP of INR4,040. We remain positive given: a) its niche product pipeline in injectables, b) volume gains in existing products, c) wider market operations for its portfolio, d) a strong cash cushion for inorganic growth, and e) consistent compliance.

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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.

Drug shortages: A case of better pricing and volume offtake

Surprisingly, only a few players will reap the benefits

- Among the prominent Indian companies present in the US, GLAND has the highest number of products under shortage. These products, to a large extent, are seeing limited competition and decent 12-month sales of ~USD400m.
- Increased demand/reduced supply and manufacturing constraints have been the major reasons for behind the shortage drugs list of USFDA at the industry level.
- There is a narrow benefit to other Indian Pharma companies in the injectables space on account of lower availability of RM and inventory.

Drugs under shortages – a decent opportunity for GLAND

- As per the USFDA's list, there are 115 drugs under shortage after the latest update (Apr'22). GLAND has a presence in 11, with ANDA fillings of its own.
- These drugs represent annual sales of ~USD400m, with GLAND geared to benefit from the same. GLAND has inventory available to meet the supply-demand generated due to these shortages. The competitive scenario also appears favorable as 55% of these products have less than seven competitors.
- Even if the competitors are more than seven in certain products, the drugs still coming under shortage list, implies very few manufacturers have been able to supply commercially after the ANDA approval.

Exhibit 1: Snapshot of drugs under shortage and constituting part of GLAND offerings

Generic name or active ingredient	Market size in USD m	Date of approval	Competitors	Reasons for the shortages
Dexamethasone Sodium Phosphate Injection	68	Aug'21	6	❖ Demand for the drug increased due to its use in COVID-19 treatment
Dexmedetomidine Injection	65	Jun'20	12	❖ Demand for the drug rose; backorder in the case of ARBP, short-dated stock in case of Mylan, and limited supply from Pfizer
Ketorolac Tromethamine Injection	60	Nov'16	8	❖ Demand for the drug increased; limited supply from Baxter, unavailability from Hikma, discontinuation of some dosages, and limited supply by Hospira, and backorder in the case of Sagent Pharma
Midazolam Injection	52	Jan'12	6	❖ Demand for the drug increases; limited supply from Hospira
Furosemide	41	Jul'20	10	❖ Demand for the drug increases and delays in shipping by ARBP
Ondansetron Hydrochloride Injection	33	Jun'12	12	❖ Demand for the drug increases and delays in shipping by ARBP
Heparin Sodium and Sodium Chloride 0.9% Injection	22	Feb'17	3	❖ Demand for the drug increases; limited supply from Fresenius Kabi and Hospira
Metronidazole Injection, USP	17	Aug'20	5	❖ Demand for the drug increase; availability limited. GLAND faces a shortage due to increased inventory
Vecuronium Bromide	14	May'16	8	❖ Backordered and expected availability in May'22
Cytarabine Injection	5	Dec'19	1	❖ Backorder due to Meitheal (manufacturing delay) and Mylan (unavailable)
Levoleucovorin Calcium	3	Sep'18	5	❖ Discontinued by Ingenus

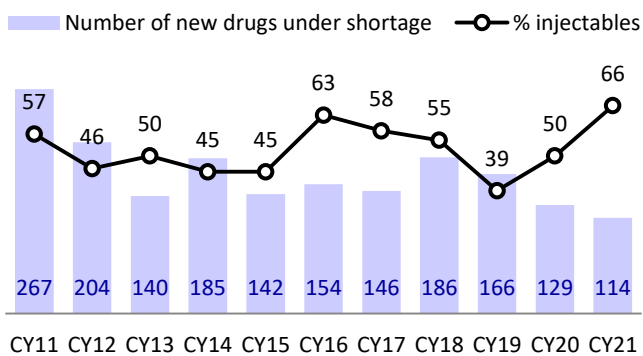
Source: USFDA, MOFSL

- Dexamethasone sodium phosphate is a corticosteroid used to treat a number of conditions, including arthritis, blood/hormone/immune system disorders, allergic reactions, some skin and eye conditions, breathing problems, certain bowel disorders, and some cancers. The increased demand for the drug was driven by its use in severe/critical COVID-19 cases in hospitals. We expect the sales of the product to taper as the COVID-19 pandemic eases.
- Ketorolac tromethamine is a non-steroidal anti-inflammatory drug (NSAID) that is used to treat moderately severe pain and inflammation, usually after surgery. The US has the largest share of the global ketorolac market, given the increasing incidence of pain, rising demand for Ophthalmic surgeries, and growing awareness about the benefits of the drug. The launch of new products by key players is expected to propel growth in this market.
- Metronidazole is an antibiotic prescribed for a variety of parasitic and bacterial infections of the vagina, gynecological area, skin, intra-abdominal cavity, blood, bone, joint, nervous system, and heart. The growth of Metronidazole will be driven by increasing demand for treatment against bacterial infections and the rising occurrence of antibiotic resistance among pathogens.

Injectable shortages provide a steady opportunity

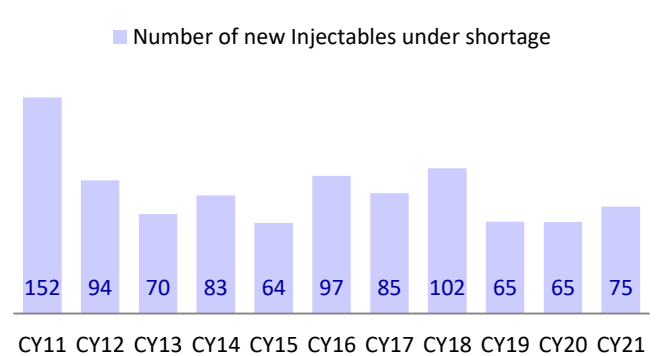
- The number of drug shortages is at a 15-year low due to lower approval linked inspections and COVID-led reduction in approvals in the past two years.
- Injectables continue at a steady pace, with the number of shortages at a 20-year average of ~75.

Exhibit 2: Drug shortages at a 15-year low



Source: USFDA, MOFSL

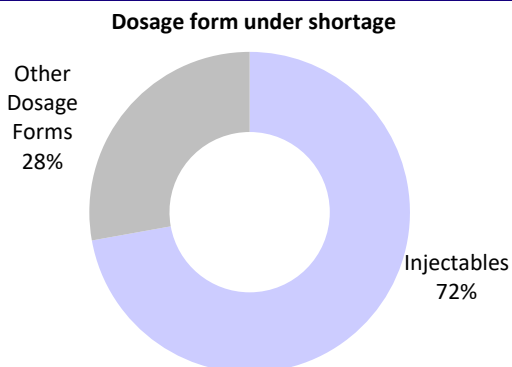
Exhibit 3: Injectable shortages at a 20-year average



Source: USFDA, MOFSL

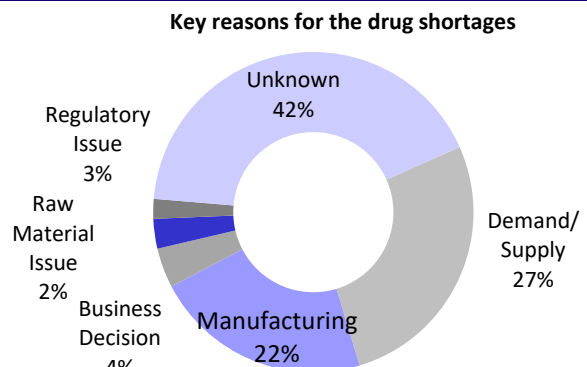
- The key reasons for drug shortages are demand increase/reduced supply and manufacturing-related challenges.

Exhibit 4: Injectables form majority of the shortages



Source: USFDA, MOFSL

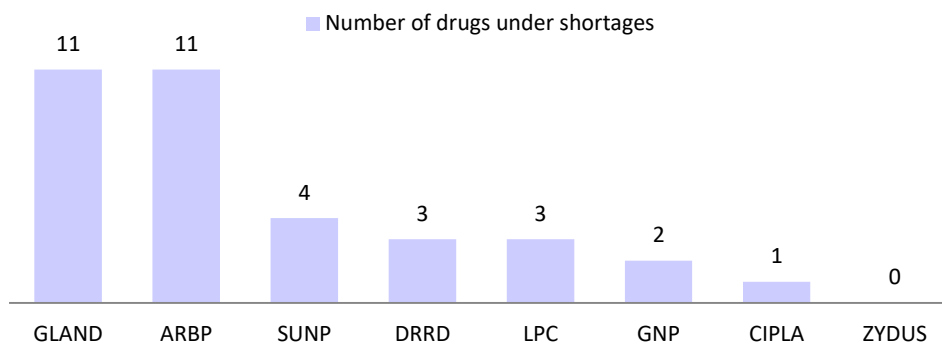
Exhibit 5: Increased demand/reduced supply and challenges in manufacturing are key reasons for the drug shortages



Source: USFDA, MOFSL

- Drug shortages offer key benefits for players who have uninterrupted supply: a) competition limited to a particular product, b) drug shortages offers better volume prospects, and c) during drug shortages, there is chance of price increases, driven by limited availability.

Exhibit 6: GLAND and ARBP are the largest beneficiaries from drug shortages



Source: USFDA, MOFSL

- As per the USFDA's website, GLAND and ARBP are the largest beneficiaries of drugs among the top Indian Pharma manufacturers. Majority of ARBP's products and all products for GLAND in the shortage list are injectable products.
- In the case of SUNP, two out of the four products under shortage have limited availability, while one product is facing a shortage of API.
- For DRRD, no supply is available on one of the products and has limited inventory for two other products.
- Two out of the three products under shortage have limited supply from LPC, while the other one is unavailable. The key reason for limited supply is attributable to the shortage of API. This implies minimal business opportunities for LPC over the near to medium term.
- For ARBP, seven of its shortage products are under backorder due to limited supply and one has been discontinued.
- GLAND appears to be the largest beneficiary of drugs under shortages as it has available stocks.

Valuation and view

Core markets – complex products: the key growth driver

- GLAND has 19 ANDAs approved in FY22, which provides near-term support to sales in its core markets, with further ongoing support from the new Enoxaparin sourcing deal.
- It is working on developing 17 complex injectables in the first phase. It completed four complex injectable filings in 3QFY22, including three hormonal products and one complex peptide, with a total market size of ~USD1b for the filed products. Three out of the four products are already generic, with two of them having one generic player in the market – this represents a low competition and niche opportunity. Three of the four molecules are likely to be commercialized from 2HFY23. GLAND has also completed submission batches for the next set of three products and the filings for the same are expected by 2QFY23.

- GLAND has a decent opportunity size for injectable drugs under shortages to drive near term growth. In the medium-term, its launch momentum, filing pace, upside from recently launched products in the US, and the new Enoxaparin contract is expected to drive 16% sales CAGR in its core markets over FY22-24.

Uptrend continues in RoW markets

- Sales growth in RoW markets is recent times has been led by geographic expansion and new partnerships that drove deeper penetration in its existing product portfolio. The COVID-19 pandemic has helped GLAND in achieving faster access and expansion in its RoW markets, even in non-COVID products. The management is using all levers – geographic expansion, product launches, and volume expansion – to grow the RoW market business. It is also using its existing strong partnerships in other geographies to enter these markets. We expect GLAND to deliver RoW sales CAGR of 43% to INR17b over FY22-24, with expansion now gaining momentum.

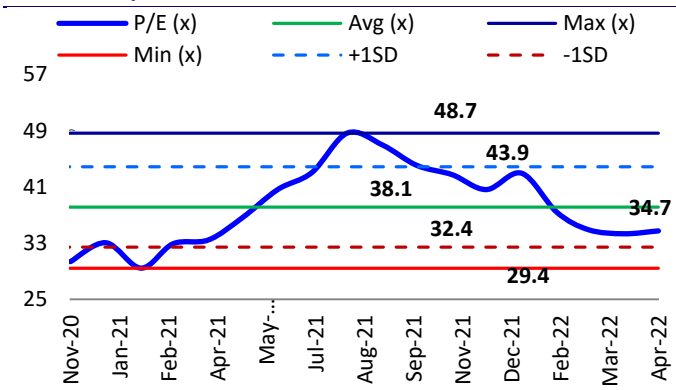
Sputnik vaccine supplies in limbo; Biosimilars CMO on track

- While GLAND’s 250m dose vaccine contract seems uncertain due to current ongoing geopolitical tensions, it has helped develop its capabilities as well as capacity for building its Biologics business.
- GLAND invested INR3b in its vaccine facility, which can also be used for other Biologics products as well. By adding Biologic CDMO capabilities, it is moving further into a more niche, low competition, and higher margin business years ahead of its Indian peers.

US and RoW to drive sales; operating leverage to drive margin expansion

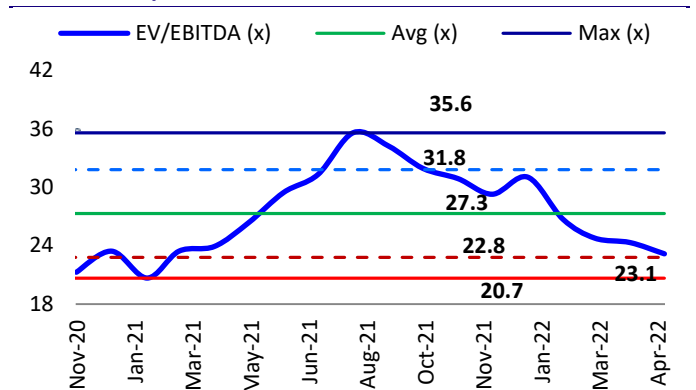
- We maintain our FY22/FY23/FY24 EPS estimate and expect 27% earnings CAGR over FY22-24, led by 16% sales CAGR in its core markets, 23% in India, and 43% in RoW – supported by a 200bp margin expansion over FY22-24. We estimate INR3b in Biologics sales in FY24.
- We value GLAND at 35x 12-month forward P/E to arrive at our TP of INR4,040. We remain positive given: a) its niche product pipeline in injectables, b) volume gains in existing products, c) wider market operations for its portfolio, d) a strong cash cushion for inorganic growth, and e) consistent compliance.
- The benefit of complex product launches in the US and Biologics CDMO are expected to be realized beyond FY23 and will provide a further upside to our estimates.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 9: Expect ~24% revenue CAGR over FY22-24

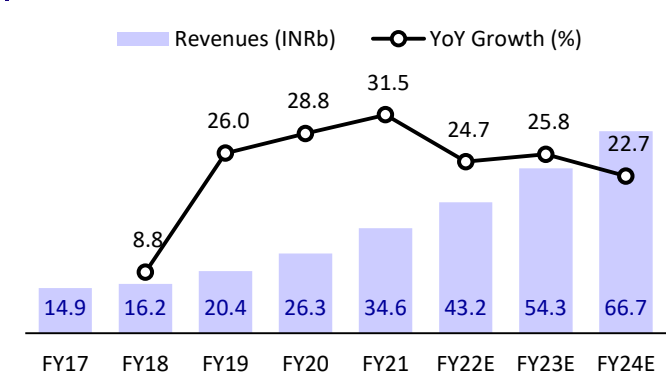


Exhibit 10: Expect 16% core market sales CAGR over FY22-24

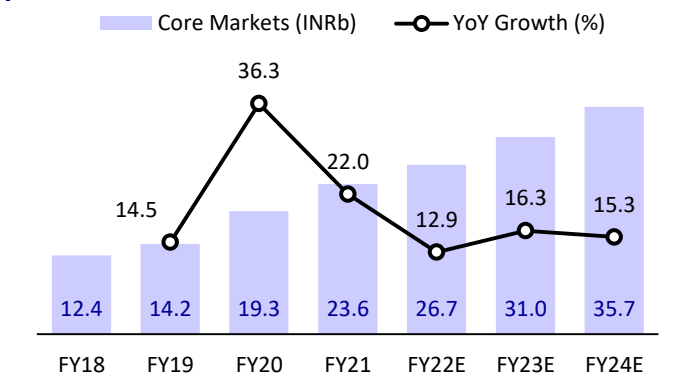


Exhibit 11: Expect ~43% RoW sales CAGR over FY22-24

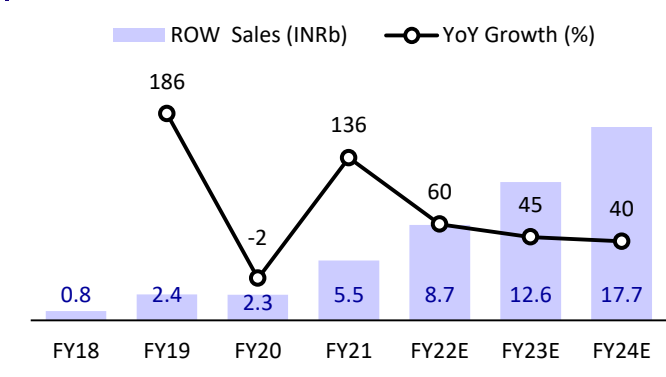


Exhibit 12: Expect India sales CAGR of 23% over FY22-24

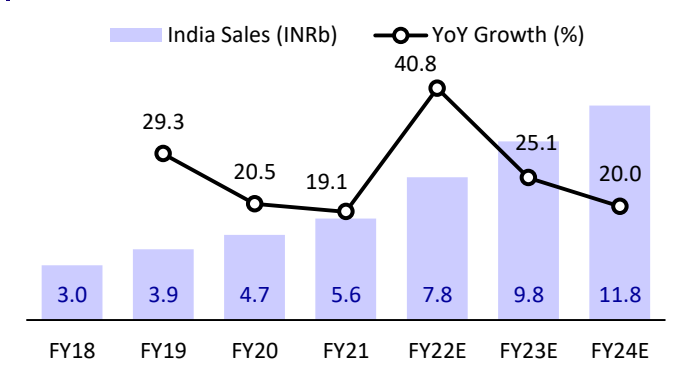


Exhibit 13: Expect EBITDA margin to remain ~37% by FY24

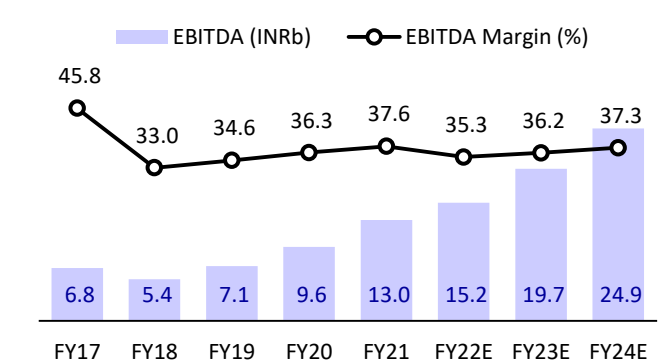
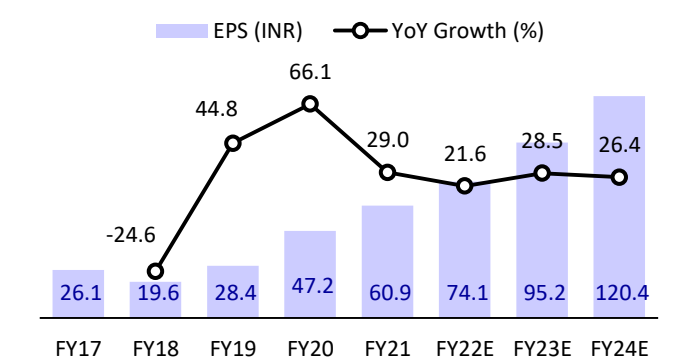


Exhibit 14: Expect ~27% EPS CAGR over FY22-24



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	14,916	16,229	20,442	26,332	34,629	43,197	54,347	66,672
Change (%)	9.9	8.8	26.0	28.8	31.5	24.7	25.8	22.7
Total Expenditure	8,542	10,876	13,376	16,778	21,607	27,948	34,673	41,804
As a percentage of Sales	57.3	67.0	65.4	63.7	62.4	64.7	63.8	62.7
EBITDA	6,374	5,353	7,066	9,554	13,022	15,249	19,674	24,869
Margin (%)	42.7	33.0	34.6	36.3	37.6	35.3	36.2	37.3
Depreciation	742	782	820	946	988	1,112	1,330	1,571
EBIT	5,633	4,571	6,246	8,608	12,034	14,137	18,344	23,298
Int. and Finance Charges	64	41	36	72	34	47	43	43
Other Income	336	488	856	1,392	1,348	2,073	2,337	2,667
PBT bef. EO Exp.	5,905	5,017	7,067	9,928	13,348	16,163	20,637	25,922
EO Items	0	0	-200	0	0	0	0	0
PBT after EO Exp.	5,905	5,018	6,867	9,928	13,348	16,163	20,637	25,922
Total Tax	1,643	1,804	2,345	2,200	3,378	4,041	5,056	6,221
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.0	24.5	24.0
Reported PAT	4,262	3,213	4,522	7,728	9,970	12,122	15,581	19,700
Adjusted PAT	4,262	3,213	4,654	7,728	9,970	12,122	15,581	19,700
Change (%)	28.1	-24.6	44.8	66.1	29.0	21.6	28.5	26.4
Margin (%)	27.9	19.2	21.9	27.9	27.7	26.8	27.5	28.4

Consolidated Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	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	70,991	86,572	1,06,273
Net Worth	20,898	24,104	28,621	36,462	59,032	71,155	86,736	1,06,436
Total Loans	64	59	55	50	39	39	39	39
Deferred Tax Liabilities	854	958	1,076	741	739	739	739	739
Capital Employed	21,816	25,121	29,752	37,252	59,810	71,932	87,514	1,07,214
Gross Block	10,055	10,545	12,196	13,478	14,327	19,880	24,450	27,914
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,897	7,227	8,797
Net Fixed Assets	8,716	8,426	9,288	9,681	9,542	13,983	17,224	19,117
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	1,612	1,989	1,232	1,885	3,378	3,526	2,455	1,991
Curr. Assets, Loans and Adv.	14,410	18,868	24,707	29,295	52,040	61,033	75,899	95,637
Inventory	3,787	5,128	9,119	7,563	12,752	14,166	17,099	20,386
Account Receivables	4,179	4,752	5,061	6,018	6,710	9,823	12,507	14,796
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	33,900	42,335	55,600
Loans and Advances	1,113	2,476	2,994	2,462	2,521	3,145	3,957	4,854
Curr. Liability and Prov.	2,922	4,163	5,473	3,608	5,150	6,609	8,064	9,531
Account Payables	2,003	3,057	4,568	2,677	4,007	5,183	6,270	7,330
Other Current Liabilities	896	956	765	649	892	1,112	1,399	1,717
Provisions	22	150	139	282	251	314	394	484
Net Current Assets	11,488	14,706	19,234	25,687	46,890	54,424	67,835	86,106
Appl. of Funds	21,816	25,121	29,752	37,252	59,810	71,932	87,514	1,07,214

Financials and valuations

Ratios	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	26.1	19.6	28.4	47.2	60.9	74.1	95.2	120.4
Cash EPS	32.3	25.8	35.3	56.0	67.0	80.9	103.4	130.0
BV/Share	134.8	155.5	184.7	235.2	360.9	435.0	530.2	650.6
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	122.7	162.8	112.4	67.7	52.5	43.2	33.6	26.6
Cash P/E	99.1	124.1	90.6	57.1	47.7	39.5	30.9	24.6
P/BV	23.7	20.6	17.3	13.6	8.9	7.4	6.0	4.9
EV/Sales	32.9	30.1	23.9	18.3	14.2	11.3	8.8	7.0
EV/EBITDA	76.9	91.4	69.1	50.5	37.9	32.1	24.4	18.8
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	11.1	37.5	65.1
Return Ratios (%)								
RoE	22.6	14.3	17.7	23.7	20.9	18.6	19.7	20.4
RoCE	22.1	14.4	17.7	23.9	20.9	18.7	19.8	20.4
RoIC	28.4	18.7	21.9	31.2	37.1	34.8	35.9	38.3
Working Capital Ratios								
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.2	2.2	2.4
Inventory (Days)	93	115	163	116	134	120	115	112
Debtor (Days)	102	107	90	83	71	83	84	81
Creditor (Days)	49	69	82	37	42	44	42	40
Leverage Ratio (x)								
Net Debt/Equity ratio	-0.3	-0.3	-0.3	-0.4	-0.5	-0.48	-0.5	-0.5

Consolidated Cash Flow Statement	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	16,163	20,637	25,922
Depreciation	742	782	820	946	988	1,112	1,330	1,571
Interest and Finance Charges/ (Income)	-128	-240	-408	-452	28	-2,026	-2,294	-2,624
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,041	-5,056	-6,221
(Inc.)/Dec. in WC	-109	-1,934	-3,540	-799	-4,358	-3,692	-4,975	-5,006
CF from Operations	4,671	2,052	1,501	7,181	6,893	7,516	9,642	13,642
Others	94	-32	350	-172	-843	0	0	0
CF from Operations incl. EO	4,765	2,019	1,851	7,009	6,049	7,516	9,642	13,642
(Inc.)/Dec. in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,700	-3,500	-3,000
Free Cash Flow	3,604	1,169	499	5,302	3,766	1,816	6,142	10,642
(Pur.)/Sale of Investments	0	0	0	0	-13,576	0	0	0
Others	159	-2,736	-1,834	-5,902	619	2,073	2,337	2,667
CF from Investments	-1,002	-3,587	-3,186	-7,610	-15,240	-3,627	-1,163	-333
Issue of Shares	0	3,977	0	0	12,250	0	0	0
Inc./(Dec.) in Debt	-1,107	-5	-4	-7	-9	0	0	0
Interest Paid	-58	-31	-25	-62	-23	-47	-43	-43
Dividend Paid	0	0	0	0	0	0	0	0
CF from Fin. Activity	-1,164	-36	-29	-69	12,386	-47	-43	-43
Inc./Dec. in Cash	2,599	-1,603	-1,364	-669	3,195	3,842	8,436	13,265
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	8,731	17,167
Closing Balance	5,331	3,728	2,363	1,694	4,889	8,731	17,167	30,432
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	25,168	25,168	25,168
Total Cash & Cash Eq.	5,331	6,512	7,533	13,252	30,057	33,899	42,335	55,600

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

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