Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Gland Pharma Ltd

Healthy quarter; better growth prospects

Pharmaceuticals	Sharekhan code: GLAND
Reco/View: Buy ↔	CMP: Rs. 3,070
	Price Target: Rs. 3,770 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain Buy on the stock of Gland Pharma with a revised PT of Rs 3770. Strong domain expertise and growth prospects, sturdy earnings track record, and strong financials are key positives for Gland.
- Gland reported healthy results for Q4FY22 with the revenues staging a strong double digit growth while PAT staged a 9.8% yoy growth.
- Gland has lined up a strong new launch pipeline in the us markets comprising 20-25 new launches over the next three quarters offering addressable market size of $3bn.
- Gland has repurposed its Vaccine manufacturing facility to a biosimilar CDMO and is awaiting customer visits over the near to medium term.

Gland Pharma Limited (Gland) reported healthy results for Q4FY2022. Revenue grew strongly led by double-digit growth across geographies. However, escalated raw-material prices resulted in gross margin contraction slowing down PAT growth. Results are in line with estimates. Revenues grew by 24% y-o-y, while PAT growth was slower at 9.8% y-o-y. Going ahead, Gland plans to focus on geographic diversification for growth, which would be complemented by a strong product pipeline and ample capacity to cater to incremental demand and likely market share gains in existing products. The company has repurposed its vaccine facility in to a biosimilar CDMO, which is expected to open new growth opportunities. In the short term, management envisages cost pressures to persist along with syringe shortages, which could play a dampener.

Key positives

- Revenue from RoW markets grew by 33% y-o-y to Rs.190 crore due to expanding product portfolio and geographic reach.
- Revenue from India markets grew by 137% y-o-y due to volume growth in existing products aimed at exports markets and a low base.

Key negatives

- Gross margin contracted by 530 bps y-o-y, attributable to change in mix.
- Deferment in timelines likely for China market entry due to delay in regulatory inspections.

Management Commentary

- Gland has lined up a strong product pipeline for the US with plans to launch 20-25 new products over the next three quarters. Collectively, these products offer an addressable market size of $3 billion, which is substantial.
- Gland has repurposed its vaccine manufacturing line in to biologics CDMO and is now awaiting client visits over the near to medium term.
- Gland has a strong product pipeline in the US with 252 approved ANDAs and 59 ANDAs awaiting approval. In total, the company has 311 ANDA fillings in US markets.

Revision in estimates – Q4FY2022 was a healthy quarter for Gland, however OPM at 31.6% contracted 533 bps y-o-y due to gross margin contraction of 530 bps y-o-y. Moreover, management has guided for EBITDA margin to be 35%-36%. Consequently, we have revised down our FY2023E/FY2024E estimates by 9%/7%, respectively, given high-cost pressures and sustained syringe short supplies.

Our Call

Valuations: Maintain Buy with a revised PT of Rs. 3,770: Gland's healthy 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 entry in the biosimilar CDMO space are key growth drivers. However, cost pressures and syringe short supplies could play dampeners in the near term. At the CMP, the stock trades at 34.9x/26.9x its FY2023E/FY2024E 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. 3,770.

Key Risks

1) Delay in key product approvals; 2) any adverse change in the regulatory landscape; and 3) adverse forex movements.

Valuation (Consolidated) Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Total Sales	3462.9	4400.7	5425.7	6750.6
OPM (%)	37.6	34.3	35.2	36.1
Reported PAT	997.0	1211.7	1434.5	1863.1
EPS (Rs)	61.1	74.2	87.8	114.1
PER (x)	50.3	41.4	34.9	26.9
EV/EBIDTA (x)	32.8	27.0	22.0	17.0
P/BV (x)	8.5	7.0	5.9	4.9
ROCE (%)	22.4	22.4	22.2	23.6
RONW (%)	16.9	16.9	16.8	18.0

Source: Company; Sharekhan estimates

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 44.83

Updated Feb 08, 2022

Severe Risk

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

Source: Morningstar

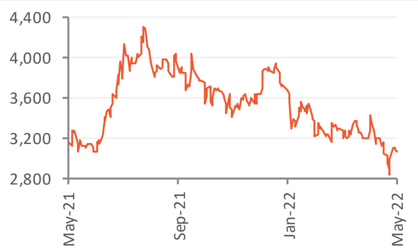
Company details

Market cap:	Rs. 50,528 cr
52-week high/low:	Rs. 4,350 / 2,801
NSE volume: (No of shares)	2.2 lakh
BSE code:	543245
NSE code:	GLAND
Free float: (No of shares)	6.9 cr

Shareholding (%)

Promoters	58.0
FII	11.5
DII	11.7
Others	18.84

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	-5.5	-13.1	-3.0
Relative to Sensex	-1.6	0.6	-4.2	-12.6

Sharekhan Research, Bloomberg

Healthy quarter; results in line with estimates: Gland reported healthy results for Q4FY2022 with revenue growing strongly, backed by double-digit growth across geographies. However, escalated raw-material prices resulted in gross margin contraction slowing down PAT growth. Results are in line with estimates. Revenue at Rs. 1,104 crore was up 24% y-o-y, driven by 62% y-o-y growth in India business due a low base, while core markets grew by 15% y-o-y. Revenue was in line with our estimates. Operating profit margin (OPM) at 31.6% (missed estimated 32.5%) contracted 533 bps y-o-y due to 530 bps y-o-y contraction in gross margin, attributable to inflationary cost pressures. EBITDA stood at Rs. 348 crore, up 6.3% y-o-y, on account of benefits of operating leverage kicking in. Tracking the operating performance, PAT stood at Rs. 286 crore, up 9.8% y-o-y, and was in line with the estimated Rs. 280 crore.

Q4FY2022 Concall Highlights

- **RoW markets revenue stage double-digit growth:** Gland's performance in RoW markets has been impressive with revenue growing at 33% y-o-y to Rs. 190 crore for the quarter. The share of revenue, therefore, has increased to 17.2% in Q4FY2022 as compared to 16.2% for Q4FY2021. Strong growth can be attributed to the company's strategy of geographic expansion. Moreover, expansion of product portfolio in identified geographies has added to growth in RoW markets. Key markets in RoW include MENA, Latam, and APAC. Going ahead, the company sees a robust outlook for these geographies. Moreover, Gland sees China as a market with strong potential; and based on the earlier commentary, management sees the share of revenue to go to 10% over ~4 years (current Nil revenue from China). Gland has filed for its product in China and is awaiting response from the regulators as first product approval necessitates an inspection, which is getting delayed due to shutdowns in China. Hence, management sees the timelines for China market foray to be deferred. During Q4, the company registered Dexmedetomidine, Ertapenem, and Tigecycline in new geographies of RoW markets.
- **Gland re-purposes vaccine line that paves way for entry in the biosimilar CDMO space:** Gland has successfully completed the tech transfer for Sputnik Light vaccine and has manufactured certain validation batches for the vaccine. However, given the waning demand for COVID vaccines, the company in line with its strategy of entering the biosimilar CDMO space has repurposed one of its manufacturing lines in to the biosimilar CDMO facility. Further, it is now expecting customers to visit the facility and, in turn, is eyeing for new client/order wins. 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. Management sees this vaccine opportunity as one accelerating the company's long-term strategy of entering into the biosimilar CDMO space. The company is currently in discussions with various global/domestic pharma majors for potential tie up for biosimilars CDMO.
- **Core Markets:** Gland's core markets consist of the US, Europe, Australia, and Canada. Collectively, these core markets constitute around 64.5% of the overall revenue of the company for the quarter. Core markets have delivered 8% y-o-y revenue growth to Rs. 711 crore. Revenue growth can be attributed to higher volumes from new products launches and growth in the existing portfolio, supported by capacity expansion. Micafungin Sodium, Ketorolac Tromethamine and Heparin Sodium were the key products driving growth for core markets in Q4FY2022. Going ahead, growth in core markets is expected to be strong, driven by US business growth. 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 59 pending approvals. Further, the product filling pipeline is strong and the company has filed for around 29 ANDAs with the USFDA for FY2022. Further, in

Q4, the company has launched five product SKUs across four molecules; and over the next three quarters, it has planned to launch 20-25 new products offerings with an addressable market size of $3 billion. Collectively, a strong product launch pipeline bodes well and provides ample growth visibility.

- **India Markets:** Revenue from India business grew impressively by 137% y-o-y to Rs. 201 crore and accounted for 18.3% of the quarter's revenue. Growth can be attributed to strong volume growth along with ramp up of exports products manufactured in India. On the product front, Ertapenem has been a key growth driver for India business and the company has launched Caspofungin Acetate and Enoxaparin Sodium in domestic markets.
- **R&D:** R&D expenses for the quarter stood at Rs. 56 crore, translating to around 5% of overall sales for the quarter. During the quarter, Gland has filed for two ANDAs and has received approval for three ANDAs.
- **Capex plans:** During Q4FY2022, the company has incurred capex of Rs. 67 crore. For FY2022, the company has invested Rs. 522 crore towards capex. For FY2023 and FY2024, the company intends to invest Rs. 300 crore and Rs. 250 crore as capex, which would be towards expansion of Pashamylaram facility and vertical integration for the actice pharmaceutical ingredients (APIs).

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %
Total Income	1103.0	887.7	24.2	1063.3	3.7
Operating profit	348.4	327.7	6.3	348.9	-0.1
Other income	65.2	47.2	38.2	45.7	42.8
EBIDTA	413.6	374.9	10.3	394.6	4.8
Interest	2.0	1.0	99.1	1.2	71.7
Depreciation	31.1	24.9	24.7	27.8	11.6
PBT	380.5	348.9	9.1	365.6	4.1
Tax	94.6	88.5	6.8	92.5	2.2
Adjusted PAT	286.0	260.4	9.8	273.0	4.7
Margins			**BPS**		**BPS**
OPM (%)	31.6	36.9	-532.3	32.8	-122.6
EBIDTA margin (%)	37.5	42.2	-472.7	37.1	39.3
Net profit margin (%)	25.9	29.3	-340.9	25.7	24.8

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 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. 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 on stream 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 light vaccine would just take the company closer to its long-term strategy to enter the lucrative biosimilar CDMO space.

Valuation – Retain Buy with revised PT of Rs. 3,770

Gland reported strong double-digit growth in RoW as well as in India markets and management sees the momentum to strengthen further in RoW markets. A strong planned product launch pipeline of 20-25 products in US markets with an addressable market size of $3 billion would be the key growth driver for US markets and consequently core markets. Moreover, the company is making efforts to gain market share in the existing products. Further, with one vaccine manufacturing line being repurposed for biologics CDMO, Gland is now awaiting customer visits. Going ahead, the company could expect new customers/order wins for the biologic CDMO business. Vaccine manufacturing opportunity has bought Gland closer to its objective of foraying in the biosimilar CDMO space. This could open up new revenue-generating avenue for the company. Q4FY2022 was a healthy quarter for Gland, however OPM at 31.6% contracted 533 bps y-o-y due to 530 bps y-o-y contraction in gross margin, attributable to inflationary cost pressures. Moreover, management has guided for EBITDA margin to be 35%-36%, lower than the earlier levels. Consequently, we have revised down our FY2023E/FY2024E estimates by 9%/7%, respectively, given high-cost pressures and sustained syringe short supplies. At the CMP, the stock trades at 34.9x/26.9x its FY2023E/FY2024E 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. 3,770.

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
AurobindoPharma	655.2	58.6	38,390.0	15.5	11.4	9.9	6.9	6.2	4.8	12.8	14.3	14.4
Gland Pharma	3,570.0	16.3	58,651.0	58.5	46.3	36.9	38.5	30.3	23.8	16.9	17.7	18.3
Cadila	410.0	102.4	41,979.0	18.3	18.3	15.2	14.0	12.2	10.1	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, 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 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 on stream 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 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 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 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

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

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