

January 23, 2023

RESULT REPORT Q3 FY23 | Sector: Pharmaceuticals & Healthcare

Gland Pharma

Long road to recovery

Result Synopsis

Gland reported a weak quarter on back of declines in US and ROW revenues YoY as lack of customer offtake, still lingering supply concern and company opting margin over market share led to revenue shortfall. Gross and EBIDTA margin improved QoQ as a fallout of preference for margin vs market share; albeit management commentary of volume share being intact for top products appears out of sync with apparent preference for margin.

Gland outlined several moving parts heading into Q4 and FY24 - inventory rationalization at customer end, supply chain leading to production delays and competition leading to price erosion. While Heparin issue could get relief once second supplier is approved, price erosion could continue to manifest itself in the form of lower profit share and, eventually, revenue impact with a lag. We cut FY23 estimates as US revenues continue to disappoint with a now revised expectation for a decline of 4% vs earlier forecast of ~8% growth; similarly, FY24 outlook also gets reset for US and other geographies from 15/20% to 10-15% while margin at ~30-31% remains largely unchanged. We expect another lackluster quarter in Q4 with traction in US being back ended in FY24. We also take this opportunity to introduce FY25 estimates and roll over target multiple. Given the expectation of growth disappointment, lack of near term triggers and a subpar acquisition in the form of Cenexi, lower target PE to 25x from 35x earlier and assign revised TP Rs1,720 (earlier Rs3,060). Our numbers do not include Cenexi as we await additional metrics though prima facie Cenexi is margin dilutive and would not swing the needle either way.

Result Highlights

- Gland Pharma reported a weak topline with revenues down 10% QoQ and 12% YoY vs expectation of 2% YoY growth
- US sales down 14% QoQ and 13% YoY due to price erosion and supply chain issues leading to production delays
- ROW sales were surprisingly 13% lower QoQ while India continued to rebound QoQ at Rs814mn vs Rs726mn in Q2
- Despite a weak revenue quarter, gross margin improved to 54.5% and margin improved to 31% though there were 150bps one-off in Q2, which still leads to ~100bps margin gain QoQ

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	9,383	10,833	10,197	-13.4	-8.0	Another weak revenue quarter with US, ROW sales down YoY; margin stable at 31%
EBITDA	2,896	3,242	3,341	-10.7	-13.3	
EBITDA Margin (%)	30.9	29.9	32.8	94 bps	-190 bps	
Adjusted PAT	2,320	2,622	2,592	-11.5	-10.5	

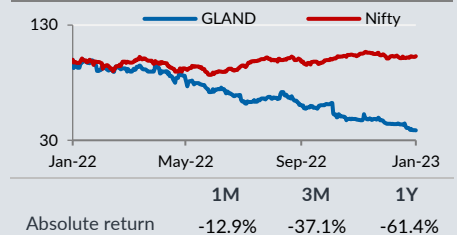
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,378
Target Price	: Rs 1,720
Potential Return	: +24.7%

Stock data (as on Jan 23, 2023)

Nifty	18,127
52 Week h/l (Rs)	3726 / 1370
Market cap (Rs/USD mn)	228368 / 2806
Outstanding Shares (mn)	165
6m Avg t/o (Rs mn):	836
Div yield (%):	-
Bloomberg code:	GLAND IN
NSE code:	GLAND

Stock performance



Shareholding pattern (As of Sep '22 end)

Promoter	57.9%
FII+DII	28.0%
Others	14.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,720	3,060

Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	57.5	58.7	68.8
EPS (Old)*	69.4	87.4	-
% change	-17.2%	-32.8%	-

*Since Q1 FY23 update

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	37,700	42,105	48,421
YoY Growth	-14.3	11.7	15.0
EBIDTA	11,600	13,056	15,426
YoY Growth	-23.2	12.6	18.2
PAT	9,403	9,610	11,247
YoY Growth	(22.4)	2.2	17.0
ROE	12.3	11.2	11.7
EPS	57.5	58.7	68.8
P/E	24.0	23.5	20.0
BV	495.0	553.8	622.5
EV/EBITDA	15.7	13.5	10.9

BHAVESH GANDHI

Lead Analyst

bhavesh.gandhi@ysil.in

+91 22 6885 0521



Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)
Revenue	10,633	11,030	8,569	10,444	9,383	(11.8)	(10.2)
Expenditure	7,144	7,547	5,870	7,476	6,487	(9.2)	(13.2)
- RM	5,034	5,453	3,741	5,195	4,271	(15.2)	(17.8)
- Staff Cost	814	942	980	1,013	1,011	24.3	(0.2)
- Other exp	1,296	1,151	1,149	1,268	1,205	(7.0)	(5.0)
Operating Profit	3,489	3,484	2,699	2,969	2,896	(17.0)	(2.5)
OPM(%)	32.8	31.6	31.5	28.4	30.9	-195 bps	244 bps
Other Income	457	652	744	656	615	34.6	(6.3)
Depreciation	278	311	349	367	376	35.1	2.6
Interest	12	20	9	17	26	122.0	52.2
PBT	3,656	3,805	3,085	3,241	3,109	(15.0)	(4.1)
Tax	925	946	793	828	789	(14.7)	(4.8)
PAT	2,731	2,859	2,292	2,412	2,320	(15.1)	(3.8)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Quarterly Highlights

- 2 week shutdown at the Pashalvyram plant. Currently have 8 lines but 3 are still not active. 5 lines are operational and about 11 lines to be operational after 12 months
- Spent Rs3bn on biosimilar CDMO so far and in talks with customer how much more is required; overall Rs2.5bn capex in FY23 and Rs3bn in FY24
- Lower offtake of older products and revenue from new products was lesser than last year
- CFO Rs4.4bn for 9m FY23; increased receivables and inventory has pushed cash conversion cycle and expect to normalize
- FY24 should see growth come back
- Believe current environment is a temporary situation and not looking at refashioning of business model like exiting owned ANDA business

US and Core Markets

- Did resolve most of the supply chains; applied but not got approval yet for second source of Heparin
- Would not say there is decline in market share at end user level; but replenishment of inventories is not happening at earlier run rate and holding of inventory has come down from earlier 7-8 months
- Tremendous competition in market place; exits are happening at market place, but volumes are intact for at least top products
- Some of the competitors getting import alerts presents an opportunity which is being explored; Capacity in liquids and vials would be helpful as also conversion of biologic line to cater to volumes potentially generated due to import alerts/or where there have been serious observations. Where Gland has owned products, it would be better to use owned ANDAs rather than site transfer which would take time
- Profit share is 9% vs 7% in Q2 and 10% last year. Profit share should be sustainable as focus is on keeping margin intact even if revenues are lower
- Did very well in certain products in 2020 and 2021 but need more capacity to recreate those contributions
- Minimize low margin products and use that capacity for better margin products
- Enoxaparin annual run rate is US\$50mn but did US\$5mn in Q3; depends on timing issue and which SKUs are being dispatched. In future annual run rate can move to US\$70mn but not now
- People are cutting down inventory across products; near term pain point is still inventory but end user market is seeing decent liquidation so that's better
- Heparin – Would have to wait and watch on whether get back lost market share
- Micafungin – was Rs3-4bn product and has shrunk; more concerned on newer products not contributing as much to growth
- FY24 should see 1-2 complex approvals
- Heparin – but for stopper have to hold other RM which is leading to higher inventory holding

Cenexi

- Cenexi – 100% CDMO company and would strengthen biologics CDMO capabilities

China

- December clearance for a US\$100mn product was expected but now its holiday so approval could come in Jan/Feb. There is a local player but coming from a US FDA approved product would have to be seen

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	164	164	164	164	164
Reserves	58,869	71,412	80,815	90,425	101,672
Net worth	59,032	71,576	80,978	90,589	101,836
Debt	64	62	62	62	62
Deferred tax liab (net)	739	878	878	878	878
Total liabilities	59,836	72,515	81,918	91,528	102,775
Fixed Asset	12,920	16,929	17,995	19,382	20,091
Investments	783	2,836	2,836	2,836	2,836
Net Working Capital	46,111	52,700	61,037	69,260	79,799
Inventories	12,752	11,857	10,157	11,344	13,046
Sundry debtors	6,710	11,988	10,270	11,470	13,190
Cash	30,058	32,482	43,665	49,857	57,485
Other current assets	1,718	2,193	1,885	2,105	2,421
Sundry creditors	(4,007)	(4,629)	(3,965)	(4,428)	(5,093)
Other CL	(1,118)	(1,192)	(975)	(1,088)	(1,251)
Def tax assets	21	50	50	50	50
Total Assets	59,836	72,515	81,918	91,528	102,775

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	34,629	44,007	37,700	42,105	48,421
Operating profit	13,022	15,102	11,600	13,056	15,426
Depreciation	(988)	(1,103)	(1,434)	(1,613)	(1,792)
Interest expense	(34)	(52)	(78)	(78)	(78)
Other income	1,348	2,239	2,500	1,500	1,500
Profit before tax	13,348	16,186	12,588	12,865	15,056
Taxes	(3,378)	(4,069)	(3,185)	(3,255)	(3,809)
Adj. profit	9,970	12,117	9,403	9,610	11,247
Exceptional items	-	-	-	-	-
Net profit	9,970	12,117	9,403	9,610	11,247

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	13,348	16,186	12,588	12,865	15,056
Depreciation	988	1,103	1,434	1,613	1,792
Def tax assets (net)	87	110	-	-	-
Tax paid	(3,378)	(4,069)	(3,185)	(3,255)	(3,809)
Working capital Δ	(4,528)	(4,164)	2,845	(2,030)	(2,911)
Other operating items	-	-	-	-	-
Operating cashflow	6,517	9,165	13,682	9,193	10,128
Capital expenditure	(2,343)	(5,112)	(2,500)	(3,000)	(2,500)
Free cash flow	4,174	4,053	11,182	6,193	7,628
Equity raised	12,600	426	0	-	0
Investments	-	-	-	-	-
Debt financing/disposal	34	(2,053)	-	-	-
Dividends paid	(3)	(2)	-	-	-
Net Δ in cash	-	-	-	-	-

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.75	0.75	0.75	0.75	0.75
Interest burden (x)	1.00	1.00	0.99	0.99	0.99
EBIT margin (x)	0.39	0.37	0.34	0.31	0.31
Asset turnover (x)	0.66	0.61	0.46	0.46	0.47
Financial leverage (x)	1.11	1.10	1.08	1.07	1.07
RoE (%)	20.9	18.6	12.3	11.2	11.7

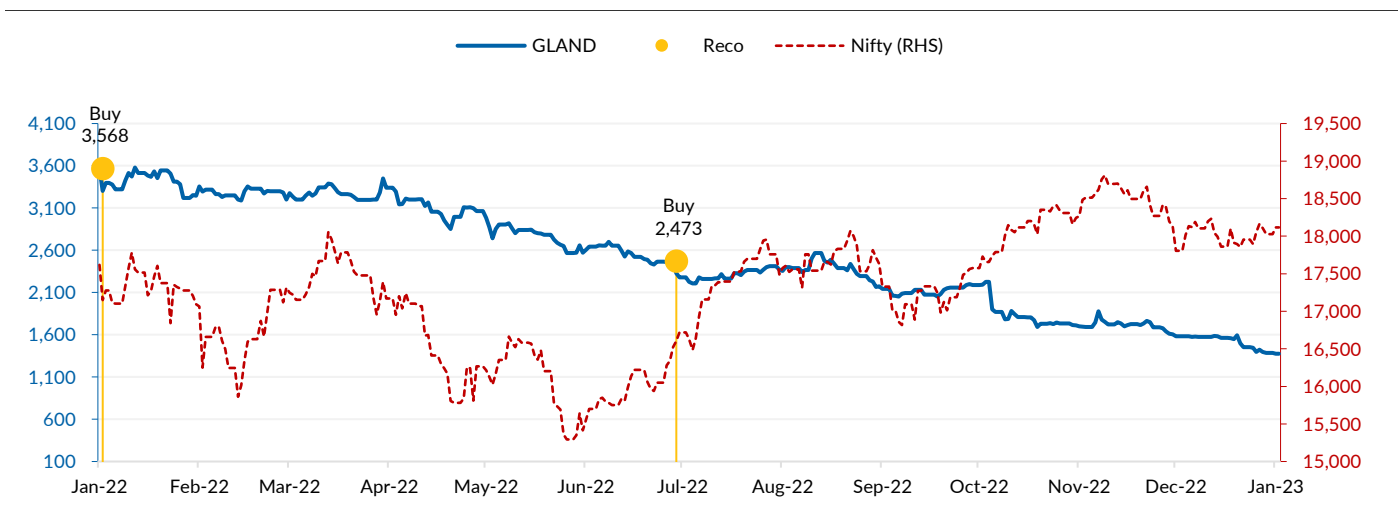
Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	31.5	27.1	(14.3)	11.7	15.0
Op profit growth	36.3	16.0	(23.2)	12.6	18.2
EBIT growth	33.8	21.3	(22.0)	2.2	16.9
Net profit growth	29.0	21.5	(22.4)	2.2	17.0
Profitability ratios (%)					
OPM	37.6	34.3	30.8	31.0	31.9
EBIT margin	38.6	36.9	33.6	30.7	31.3
Net profit margin	28.8	27.5	24.9	22.8	23.2
RoCE	27.6	24.5	16.4	14.9	15.6

Gland Pharma

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoNW	20.9	18.6	12.3	11.2	11.7
RoA	18.9	16.9	11.4	10.5	10.9
Per share ratios					
EPS	60.9	74.1	57.5	58.7	68.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Cash EPS	67.0	80.8	66.2	68.6	79.7
Book value per share	360.9	437.5	495.0	553.8	622.5
Valuation ratios					
P/E	22.6	18.6	24.0	23.5	20.0
P/CEPS	3.8	3.1	2.8	2.5	2.2
P/B	6.5	5.1	6.0	5.4	4.7
EV/EBIDTA	15.0	12.8	15.7	13.5	10.9
Payout (%)					
Dividend payout	25.3	25.1	25.3	25.3	25.3
Tax payout	0.0	0.0	0.0	0.0	0.0
Liquidity ratios					
Debtor days	71	99	99	99	99
Inventory days	134	98	98	98	98
Creditor days	42	38	38	38	38

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of 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 YSL and associates 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.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL:
IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH
ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 |
Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT
III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

DISCLOSURE OF INTEREST

Name of the Research Analyst: Bhavesh Gandhi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.