

# Gland Pharma

Estimate change



TP change



Rating change



Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	321.2 / 3.9
52-Week Range (INR)	2196 / 861
1, 6, 12 Rel. Per (%)	-1/9/21
12M Avg Val (INR M)	971

## Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	57.3	64.9	71.5
EBITDA	13.9	16.5	18.5
Adj. PAT	8.5	10.8	12.3
EBITDA Margin (%)	24.2	25.5	25.9
Cons. Adj. EPS (INR)	51.8	65.3	74.5
EPS Gr. (%)	2.8	25.9	14.2
BV/Sh. (INR)	535.1	600.4	674.9

## Ratios

Net D:E	(0.3)	(0.4)	(0.5)
RoE (%)	10.2	11.5	11.7
RoCE (%)	9.8	10.6	10.8
Payout (%)	-	-	-

## Valuations

P/E (x)	37.7	29.9	26.2
EV/EBITDA (x)	21.9	17.8	15.0
Div. Yield (%)	-	-	-
FCF Yield (%)	(3.5)	2.4	4.6
EV/Sales (x)	5.3	4.5	3.9

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	57.9	57.9	57.9
DII	24.2	22.5	23.1
FII	4.0	4.9	4.7
Others	13.9	16.0	14.3

FII Includes depository receipts

**CMP: INR1,950**

**TP: INR2,240 (+15%)**

**Buy**

## Core markets business drive earnings

### Gradual revival in the overall performance

- Gland Pharma (GLAND) delivered operationally better-than-expected performance in 3QFY24. GLAND had robust traction in its core markets. This was, however, offset to some extent by its inferior performance in ROW markets. Higher depreciation and tax rates led to lower-than-expected earnings for 3QFY24.
- We cut our FY24 earnings estimates by 5% to factor in: a) a gradual improvement in the profitability of Cenexi, and b) a subdued sales outlook for the India business over the near term. We value GLAND at 27x 12M forward earnings to arrive at our TP of INR2,240.
- GLAND is implementing efforts to strengthen its base business in the core markets through product launches as well as improving off-take of its existing products. Further, it is also in process to enhance its sales prospects and the profitability of its acquired business (Cenexi). Accordingly, we expect a 20% earnings CAGR over FY24-26. **Reiterate BUY.**

### Product mix benefit offset by lower operating leverage

- GLAND's 3QFY24 revenue grew 65% YoY to INR15.4b (est: INR14.2b).
- Core market sales rose 79% YoY to INR11.8b (77% of sales). RoW sales grew 46% YoY to INR2.8b (18% of sales). India sales declined 7% YoY to INR761m (5% of sales) during the quarter.
- Gross margin (GM) expanded 670bp YoY to 61.2% due to a change in product mix and the addition of the Cenexi business.
- There was a one-off expense of EUR2m due to the organizational restructuring exercise and changes to the pension provisions related to Cenexi.
- However, EBITDA margin contracted 660bp YoY to 24.2% (our estimate: 24.4%), due to higher employee costs/other expenses (up 1,160bp/180bp YoY as a % of sales). On ex-Cenexi basis, the EBITDA margin was 33.8% (+290bp YoY/down 40bp QoQ).
- Consequently, EBITDA grew 29% YoY to INR3.7b (our est: INR3.5b).
- Adj. PAT declined 12% YoY to INR2.0b (our estimate: INR2.2b) due to higher depreciation, finance costs, tax expenses, and lower other income.
- For 9MFY24, GLAND's revenue/EBITDA grew 45%/14.4% YoY to INR41.3b/INR9.9b, while PAT declined 17% YoY to INR5.9b.

### Highlights from the management commentary

- GLAND has completed an integration review and identified the areas of improvement and further capex required at Cenexi. Over the near term, GLAND is working on rebalancing capacities and shifting certain products to different lines, which would take time due to the regulatory process.
- GLAND launched nine molecules in the US market. Further, additional market share in Enoxaparin and element of profit share/milestone also led to better sales in the US market for the quarter.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Consol. - Quarterly perf.

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var (%)
Net Sales	8,569	10,444	9,383	7,850	12,087	13,734	15,452	16,057	36,246	57,330	14,178	9.0
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	31.5	64.7	104.6	-17.6	58.2	51.1	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	10,493	11,710	12,105	25,888	43,456	10,719	
EBITDA	2,699	3,079	2,895	1,684	2,940	3,241	3,742	3,952	10,358	13,874	3,459	8.2
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	5.3	29.2	134.7	-31.4	33.9	19.5	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	24.6	28.6	24.2	24.4	
Depreciation	349	367	376	375	653	813	1,053	891	1,467	3,411	690	
Interest	9	17	26	22	49	60	53	47	74	210	45	
Other Income	744	656	615	389	375	532	374	324	2,405	1,605	385	
PBT before EO expense	3,085	3,351	3,108	1,676	2,613	2,899	3,009	3,338	11,220	11,859	3,109	-3.2
One-off income/(expense)	0	120	0	565	0	0	178	-178	685	0	0	
PBT	3,085	3,231	3,108	1,111	2,613	2,899	2,832	3,515	10,536	11,859	3,109	-8.9
Tax	793	828	789	325	672	958	913	778	2,735	3,320	774	
Rate (%)	25.7	25.6	25.4	29.2	25.7	33.0	32.2	22.1	26.0	28.0	24.9	
Reported PAT	2,292	2,402	2,319	787	1,941	1,941	1,919	2,738	7,800	8,538	2,335	-17.8
Adj PAT	2,292	2,511	2,319	1,186	1,941	1,941	2,039	2,617	8,307	8,538	2,335	-12.7
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-22.7	-12.1	120.7	-31.4	2.8	0.7	

E: MOFSL Estimates

## Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Core Markets	7056	7475	6626	5498	8564	10198	12000	2,065	26851	32827
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	36.4	81.1	-62.4	-8	22
India	510	726	814	647	647	876	761	642	2501	2926
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	20.7	-6.5	-0.7	-60	17
Rest of the world	1002	2243	1943	1705	2876	2660	2842	3,050	6984	11428
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	18.6	46.3	78.9	-18	64
<b>Cost Break-up</b>										
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	38.0	38.8	38.0	46.3	38.1
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	22.2	22.3	22.5	11.1	22.1
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	16.2	14.7	14.8	14.0	15.6
Gross Margins(%)	56.3	50.9	54.5	53.5	62.5	62.0	61.2	62.0	53.7	61.9
EBITDA Margins(%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	24.6	28.6	24.2
EBIT Margins(%)	27.4	26.0	26.9	16.7	18.9	17.7	17.4	19.1	24.5	18.3



## Management call highlights

- The cash conversion cycle reduced to 182 in 9MFY24 from 256 in FY23. The CFO was INR6.3b in 9MFY24.
- GLAND filed 10 ANDAs and received approvals for three ANDAs.
- It continues to explore avenues for value creation in the India market.
- GLAND spent INR2.8b in capex for 9MFY24. It intends to invest INR3b in FY25
- The R&D spent was 4.8% of sales for 3QFY24.

## Profitability on rising trajectory over the medium term

## Growth in core markets through portfolio expansion complemented by steady pricing environment

- In 9MFY24, GLAND's core market (ex-Cenexi) sales grew 6% YoY to INR30b. Including Cenexi, core markets jumped 60% YoY to INR33.8b.
- The growth is due to market share gains in the base portfolio and stable pricing.
- During 9MFY24, GLAND filed 16 ANDAs. It also received approvals for 18 products and launched 50 products (including re-launches).
- The future growth will be from the new product launches, portfolio expansion, and market penetration through the partner-led approach.

- Despite the longer approval process, GLAND continues to identify products from the US basket that have the potential to enter new geographies, such as Australia and Europe.
- Moreover, GLAND has a solid order book of new programs that it has signed. It is currently in various stages of tech transfer and approval.
- Overall, we expect 11% sales CAGR in the core markets to reach INR40.7b over FY24-26. This would be supported by additional sales of Cenexi, which is likely to grow at 9% to reach INR19b over FY24-26.

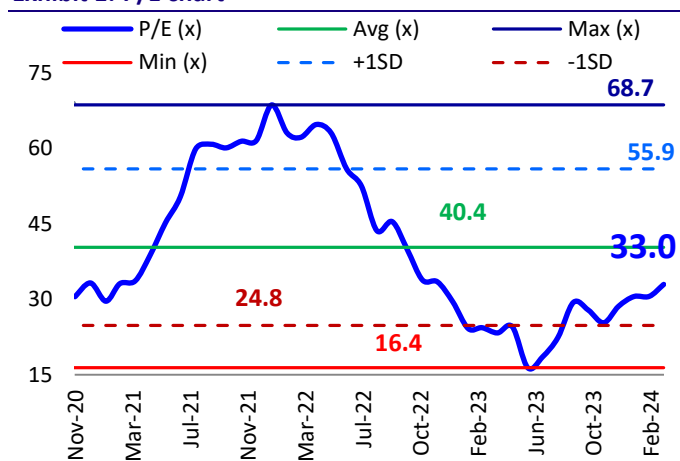
#### Increase in market share and geographical expansion to drive ROW market

- In 9MFY24, RoW markets witnessed 62% YoY growth to INR8.4b. This growth was due to the Cenexi acquisition. Ex-Cenexi, RoW market sales declined 5% YoY to INR4.9b.
- GLAND registered Zoledronic Acid, Rocuronium Bromide, and Voriconazole in new geographies during the quarter.
- Over FY24–26, we expect ROW sales to report 11% CAGR to reach INR6.9b, led by expansion in new geographies and new launches.

#### Maintain BUY

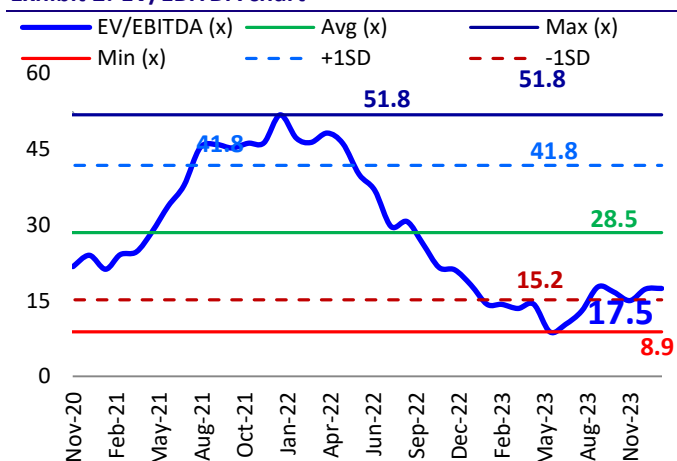
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- GLAND is implementing efforts to strengthen its base business in the core markets through product launches as well as improving off-take of its existing products. Further, it is also in process to enhance its sales prospects and the profitability of its acquired business (Cenexi). Accordingly, we expect a 20% earnings CAGR over FY24-26. **Reiterate BUY.**

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

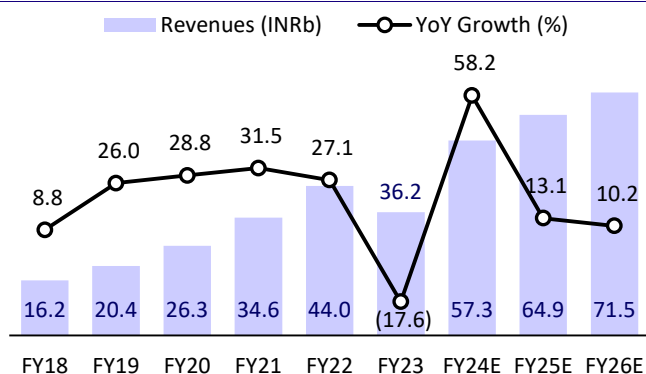
Exhibit 2: EV/EBITDA chart



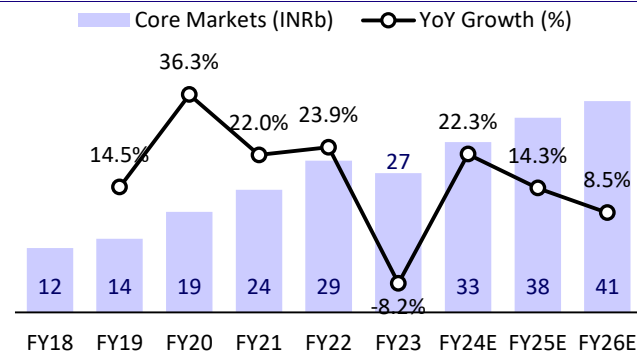
Source: MOFSL, Company, Bloomberg

## Story in charts

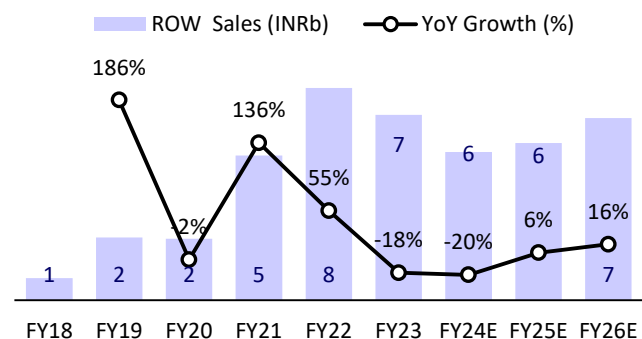
**Exhibit 3: Expect 11% revenue CAGR over FY24-26**



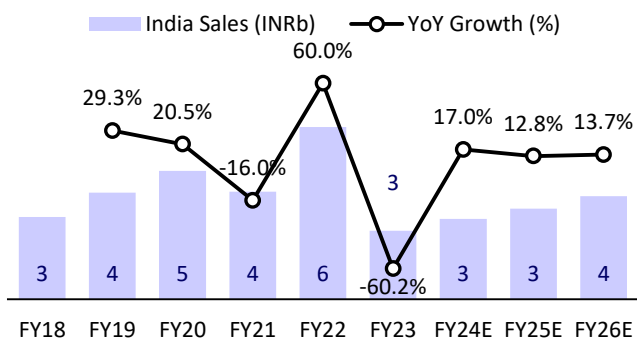
**Exhibit 4: Expect 11% core market sales CAGR over FY24-26**



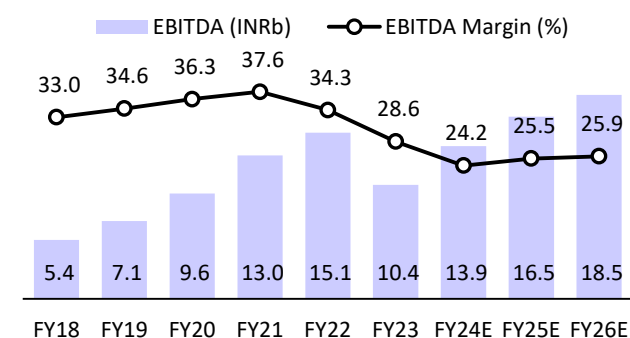
**Exhibit 5: Expect ROW sales to post 11% CAGR over FY24-26**



**Exhibit 6: Expect 13% India sales CAGR over FY24-26**

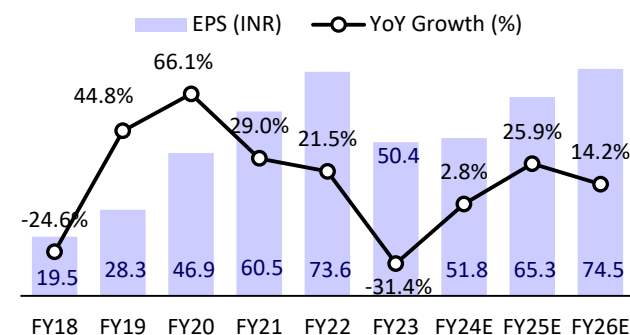


**Exhibit 7: EBITDA margin to expand 170bp over FY24-26**



Source: Company, MOFSL

**Exhibit 8: Expect EPS CAGR of 20% over FY24-26**



Source: Company, MOFSL

## Financials and valuations

Consol. Income Statement								(INRm)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	14,916	16,229	20,442	26,332	34,629	44,007	36,246	57,330	64,853	71,500
Change (%)	9.9	8.8	26.0	28.8	31.5	27.1	-17.6	58.2	13.1	10.2
Total Expenditure	8,542	10,876	13,376	16,778	21,607	28,906	25,888	43,456	48,316	52,982
% of Sales	57.3	67.0	65.4	63.7	62.4	65.7	71.4	75.8	74.5	74.1
EBITDA	6,374	5,353	7,066	9,554	13,022	15,102	10,358	13,874	16,538	18,519
Margin (%)	42.7	33.0	34.6	36.3	37.6	34.3	28.6	24.2	25.5	25.9
Depreciation	742	782	820	946	988	1,103	1,467	3,411	3,363	3,449
EBIT	5,633	4,571	6,246	8,608	12,034	13,999	8,890	10,463	13,174	15,070
Int. and Finance Charges	64	41	36	72	34	52	74	210	186	167
Other Income	336	488	856	1,392	1,348	2,239	2,405	1,605	1,946	2,145
PBT bef. EO Exp.	5,905	5,017	7,067	9,928	13,348	16,186	11,220	11,859	14,934	17,048
EO Items	0	0	-200	0	0	0	-685	0	0	0
PBT after EO Exp.	5,905	5,018	6,867	9,928	13,348	16,186	10,536	11,859	14,934	17,048
Total Tax	1,643	1,804	2,345	2,200	3,378	4,069	2,735	3,320	4,182	4,773
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.1	26.0	28.0	28.0	28.0
Minority Interest	0	0	0	0	0	0	0	0	0	0
Reported PAT	4,262	3,213	4,522	7,728	9,970	12,117	7,800	8,538	10,753	12,275
Adjusted PAT	4,262	3,213	4,654	7,728	9,970	12,117	8,307	8,538	10,753	12,275
Change (%)	28.1	-24.6	44.8	66.1	29.0	21.5	-31.4	2.8	25.9	14.2
Margin (%)	27.9	19.2	21.9	27.9	27.7	26.2	21.5	14.5	16.1	16.7

Consolidated - Balance Sheet								(INRm)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	155	155	155	155	164	164	165	165	165	165
Total Reserves	20,743	23,949	28,466	36,307	58,869	71,412	79,423	87,961	98,713	110,988
Net Worth	20,898	24,104	28,621	36,462	59,032	71,576	79,587	88,125	98,878	111,153
Minority Interest	0	0	0	0	0	0	0	0	0	0
Total Loans	64	59	55	50	39	46	45	9,285	9,285	9,285
Deferred Tax Liabilities	854	958	1,076	741	739	878	842	842	842	842
Capital Employed	21,816	25,121	29,752	37,252	59,810	72,499	80,473	98,251	109,004	121,279
Gross Block	10,055	10,545	12,196	13,478	14,327	20,910	23,061	32,398	38,406	38,227
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,888	7,355	10,766	14,129	17,578
Net Fixed Assets	8,716	8,426	9,288	9,681	9,542	15,022	15,705	21,632	24,277	20,650
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0	0
Capital WIP	1,612	1,989	1,232	1,885	3,378	1,907	1,772	5,634	2,627	-1,755
Total Investments	0	0	0	0	0	1,549	0	10,080	10,080	10,080
Curr. Assets, Loans&Adv.	14,410	18,868	24,707	29,295	52,040	59,858	70,298	72,094	84,504	106,008
Inventory	3,787	5,128	9,119	7,563	12,752	11,857	19,453	25,002	25,151	27,580
Account Receivables	4,179	4,752	5,061	6,018	6,710	11,988	8,714	13,037	14,925	16,455
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	30,934	37,707	27,057	36,512	53,246
Loans and Advances	1,113	2,476	2,994	2,462	2,521	5,079	4,424	6,998	7,916	8,728
Curr. Liability & Prov.	2,922	4,163	5,473	3,608	5,150	5,836	7,302	11,188	12,483	13,704
Account Payables	2,003	3,057	4,568	2,677	4,007	4,629	5,874	8,929	9,928	10,887
Other Current Liabilities	896	956	765	649	892	960	1,115	1,763	1,995	2,199
Provisions	22	150	139	282	251	248	313	495	560	618
Net Current Assets	11,488	14,706	19,234	25,687	46,890	54,022	62,997	60,905	72,021	92,304
Deferred Tax assets	0	0	0	0	0	0	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0	0	0	0
Appl. of Funds	21,816	25,121	29,752	37,252	59,810	72,499	80,473	98,251	109,004	121,279

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>										
<b>EPS</b>	<b>25.9</b>	<b>19.5</b>	<b>28.3</b>	<b>46.9</b>	<b>60.5</b>	<b>73.6</b>	<b>50.4</b>	<b>51.8</b>	<b>65.3</b>	<b>74.5</b>
Cash EPS	32.3	25.8	35.3	56.0	67.0	80.5	59.3	72.5	85.7	95.5
BV/Share	134.8	155.5	184.7	235.2	360.9	435.6	483.2	535.1	600.4	674.9
DPS	0.0	0.0	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	0.0	0.0
<b>Valuation (x)</b>										
P/E	75.5	100.2	69.2	41.6	32.3	26.6	38.7	37.7	29.9	26.2
Cash P/E	60.5	75.8	55.3	34.9	29.2	24.3	32.9	26.9	22.8	20.5
P/BV	14.5	12.6	10.6	8.3	5.4	4.5	4.0	3.7	3.3	2.9
EV/Sales	20.0	18.3	14.5	11.0	8.4	6.6	7.8	5.3	4.5	3.9
EV/EBITDA	46.7	55.4	41.8	30.3	22.2	19.2	27.4	21.9	17.8	15.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	23.3	7.5	3.2	34.2	23.0	17.0	16.5	-68.0	46.7	89.6
<b>Return Ratios (%)</b>										
RoE	22.6	14.3	17.7	23.7	20.9	18.6	11.0	10.2	11.5	11.7
RoCE	22.1	14.4	17.7	23.9	20.9	18.6	11.1	9.8	10.6	10.8
RoIC	28.4	18.7	21.9	31.2	37.1	32.5	16.6	15.6	16.5	18.2
<b>Working Capital Ratios</b>										
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.1	1.6	1.8	1.7	1.9
Inventory (Days)	93	115	163	116	134	98	196	159	142	141
Debtor (Days)	102	107	90	83	71	99	88	83	84	84
Creditor (Days)	49	69	82	37	42	38	59	57	56	56
<b>Leverage Ratio (x)</b>										
Net Debt/Equity	-0.3	-0.3	-0.3	-0.4	-0.5	-0.45	-0.47	-0.3	-0.4	-0.5

### Consol. Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>(INRM)</b>										
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	16,186	10,536	11,859	14,934	17,048
Depreciation	742	782	820	946	988	1,103	1,467	3,411	3,363	3,449
Interest & Finance Charges/ (Income)	-128	-240	-408	-452	28	33	-2,330	-1,395	-1,760	-1,978
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,065	-2,735	-3,320	-4,182	-4,773
(Inc)/Dec in WC	-109	-1,934	-3,540	-799	-4,358	-3,931	-2,203	-8,559	-1,660	-3,549
<b>CF from Operations</b>	<b>4,671</b>	<b>2,052</b>	<b>1,501</b>	<b>7,181</b>	<b>6,893</b>	<b>9,326</b>	<b>4,735</b>	<b>1,994</b>	<b>10,696</b>	<b>10,196</b>
Others	94	-32	350	-172	-843	-1,418	0	0	0	0
<b>CF from Operating incl EO</b>	<b>4,765</b>	<b>2,019</b>	<b>1,851</b>	<b>7,009</b>	<b>6,049</b>	<b>7,908</b>	<b>4,735</b>	<b>1,994</b>	<b>10,696</b>	<b>10,196</b>
(Inc)/Dec in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,113	-2,016	-13,200	-3,000	4,560
<b>Free Cash Flow</b>	<b>3,604</b>	<b>1,169</b>	<b>499</b>	<b>5,302</b>	<b>3,766</b>	<b>2,794</b>	<b>2,719</b>	<b>-11,206</b>	<b>7,696</b>	<b>14,756</b>
(Pur)/Sale of Investments	0	0	0	0	-13,576	-2,613	1,549	-10,080	0	0
Others	159	-2,736	-1,834	-5,902	619	-2,300	2,405	1,605	1,946	2,145
<b>CF from Investments</b>	<b>-1,002</b>	<b>-3,587</b>	<b>-3,186</b>	<b>-7,610</b>	<b>-15,240</b>	<b>-10,026</b>	<b>1,938</b>	<b>-21,675</b>	<b>-1,054</b>	<b>6,705</b>
Issue of Shares	0	3,977	0	0	12,250	0	0	0	0	0
Inc/(Dec) in Debt	-1,107	-5	-4	-7	-9	-1	-1	9,240	0	0
Interest Paid	-58	-31	-25	-62	-23	-33	-74	-210	-186	-167
<b>CF from Fin. Activity</b>	<b>-1,164</b>	<b>-36</b>	<b>-29</b>	<b>-69</b>	<b>12,386</b>	<b>320</b>	<b>100</b>	<b>9,030</b>	<b>-186</b>	<b>-167</b>
<b>Inc/Dec of Cash</b>	<b>2,599</b>	<b>-1,603</b>	<b>-1,364</b>	<b>-669</b>	<b>3,195</b>	<b>-1,799</b>	<b>6,772</b>	<b>-10,650</b>	<b>9,456</b>	<b>16,734</b>
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	3,091	9,863	-787	8,668
<b>Closing Balance</b>	<b>5,331</b>	<b>3,728</b>	<b>2,363</b>	<b>1,694</b>	<b>4,889</b>	<b>3,091</b>	<b>9,863</b>	<b>-787</b>	<b>8,668</b>	<b>25,402</b>
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	27,844	27,844	27,844	27,844	27,844
<b>Total Cash &amp; Cash Eq</b>	<b>5,331</b>	<b>6,512</b>	<b>7,533</b>	<b>13,252</b>	<b>30,057</b>	<b>30,934</b>	<b>37,707</b>	<b>27,057</b>	<b>36,512</b>	<b>53,246</b>

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