

Gland Pharma

Estimate change



TP change



Rating change



CMP: INR1,344

TP: INR1,560 (+16%)

Buy

Healthy recovery in core markets

Higher profit share supports better margins

- Gland Pharma (GLAND) posted better-than-expected 1QFY24 performance. After a lackluster 4QFY23, GLAND has exhibited an improvement in business from core markets as well as stability in India/ROW businesses. The overall performance has improved to some extent due to higher profit share component as well for the quarter.
- We raise our earnings estimates by 8.5%/5.0% for FY24/FY25 factoring in: a) faster revival of the lost business by adding new customers, b) price stability in the base portfolio, and c) increase in milestone income. We value GLAND at 23x 12M forward earnings to arrive at our TP of INR1,560.
- GLAND remains on track to not only revive the base business but also to: a) increase its offerings in newer markets like China, b) build niche pipeline for regulated markets, and c) enhance scope of synergy from Cenexi acquisition.

Reiterate BUY.

Product mix more than offset by higher opex YoY

- GLAND's 1QFY24 revenue jumped 41% YoY to INR12.1b (our est: INR10.9b). Core market sales grew 21% YoY to INR8.5b (70% of sales). RoW sales surged 2x YoY to INR2.9b (24% of sales). India sales grew 27% YoY to INR647m (5% of sales) in 1QFY24.
- Gross margin (GM) was up 620bp YoY to 52.5% due to lower raw material costs.
- However, EBITDA margin contracted 720bp YoY to 24.3% (our est.: 20%), due to inferior operating leverage (employee cost/other expenses up 970bp/370bp YoY as a % of sales). This was partly due to addition of low-margin Cenexi business.
- On Ex-Cenexi basis, revenue grew 4% YoY to INR9b for 1QFY24. Gross profit margin was 58%, up 200bp YoY/400bp QoQ. EBITDA margin was down 100bp YoY, while it was up almost 900bp QoQ to 30%.
- Overall EBITDA grew 9% YoY to INR2.9b (our est: INR2.2b) for the quarter.
- Adj. PAT declined 15.3% YoY to INR1.9b (our est.: INR1.5b) due to higher depreciation and finance costs.

Highlights from the management commentary

- The profit share for the quarter was 11% of standalone sales vs. 7% QoQ.
- Management indicated one limited competition product launch in 4QFY24/1QFY25.
- On an overall basis, ~11%/4% YoY growth was due to new launches/volume.
- The pricing scenario has been stable QoQ in the US.
- GLAND witnessed 14% YoY reduction in power and fuel costs in the quarter.
- It has launched 23 molecules in the US (7 are new launches and the remaining are re-launches). About 12-13 products would be launched subsequently.
- Cenexi entered into a new CDMO contract for a Liposomal product.



Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	221.3 / 2.7
52-Week Range (INR)	2606 / 862
1, 6, 12 Rel. Per (%)	27/-8/-53
12M Avg Val (INR M)	1002

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	36.2	53.9	60.2
EBITDA	10.4	12.8	14.6
Adj. PAT	8.3	8.6	10.3
EBITDA Margin (%)	28.6	23.8	24.3
Cons. Adj. EPS (INR)	50.4	52.0	62.4
EPS Gr. (%)	(31.4)	3.1	19.9
BV/Sh. (INR)	483.2	535.2	597.6

Ratios

Net D:E	(0.5)	(0.3)	(0.4)
RoE (%)	11.0	10.2	11.0
RoCE (%)	11.1	9.8	10.2
Payout (%)	-	-	-

Valuations

P/E (x)	26.8	26.0	21.7
EV/EBITDA (x)	-	-	-
Div. Yield (%)	1.2	(4.4)	3.1
FCF Yield (%)	5.1	3.8	3.2
EV/Sales (x)	36.2	53.9	60.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	57.9	57.9	57.9
DII	23.4	23.2	17.4
FII	2.8	4.3	9.4
Others	16.0	14.6	15.4

FII Includes depository receipts

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consol. - Quarterly perf.

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var (%)
Net Sales	8,569	10,444	9,383	7,850	12,087	12,838	14,046	14,926	36,246	53,897	10,894	11.0
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	22.9	49.7	90.1	-17.6	48.7	27.1	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	9,885	10,731	11,306	25,888	41,069	8,715	
EBITDA	2,699	3,079	2,895	1,684	2,940	2,953	3,315	3,620	10,358	12,827	2,179	34.9
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	-4.1	14.5	115.0	-31.4	23.8	-19.3	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.0	23.6	24.3	28.6	23.8	20.0	
Depreciation	349	367	376	375	653	660	690	714	1,467	2,717	520	
Interest	9	17	26	22	49	40	45	34	74	168	32	
Other Income	744	656	615	389	375	380	385	369	2,405	1,509	385	
PBT before EO expense	3,085	3,351	3,108	1,676	2,613	2,633	2,965	3,241	11,220	11,451	2,012	29.9
One-off income/(expense)	0	120	0	565	0	0	0	0	685	0	0	
PBT	3,085	3,231	3,108	1,111	2,613	2,633	2,965	3,241	10,536	11,451	2,012	29.9
Tax	793	828	789	325	672	663	738	812	2,735	2,886	483	
Rate (%)	25.7	25.6	25.4	29.2	25.7	25.2	24.9	25.1	26.0	25.2	24.0	
Reported PAT	2,292	2,402	2,319	787	1,941	1,969	2,227	2,429	7,800	8,565	1,529	27.0
Adj PAT	2,292	2,511	2,319	1,186	1,941	1,969	2,227	2,429	8,307	8,565	1,529	27.0
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-21.6	-4.0	104.7	-31.4	3.1	-33.3	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
INRm	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var (%)
Core Markets	7056	7475	6626	5498	8564	8957	9360	9693	26851	27852	7928	8%
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	19.8	41.3	76.3	-8	4	-15.0	
India	510	726	814	647	647	711	749	844	2501	2951	714	-9%
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	-2.0	-8.0	30.4	-60	18	40.0	
Rest of the world	1002	2243	1943	1705	2876	3170	3637	4039	6984	7054	2251	28%
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	41.3	87.2	136.9	-18	1	70.0	
Cost Break-up												
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	39.0	39.4	39.9	46.3	39.0	47.0	(953)
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	21.0	19.0	17.7	11.1	19.6	12.0	910
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	17.0	18.0	18.1	14.0	17.6	21.0	(389)
Gross Margins (%)	56.3	50.9	54.5	53.5	62.5	61.0	60.6	60.1	53.7	61.0	53.0	953
EBITDA Margins (%)	31.5	29.5	30.9	21.4	24.3	23.0	23.6	24.3	28.6	23.8	20.0	432
EBIT Margins (%)	27.4	26.0	26.9	16.7	18.9	17.9	18.7	19.5	28.4	23.5	15.2	369

Note: In 1QFY24 Core markets and Rest of the world includes Cenexi revenue due to consolidation



Management call highlights

- GLAND has launched one product in China and expects to launch one more in near term. Further, management expects one more approval over near term.
- It has filed four complex products in FY23 and expects to file another eight in the next 12-14M.
- For 1QFY24, Cenexi reported revenue/ EBITDA of INR3.2b/INR347m. It reported a gross profit margin of 76%.
- Cenexi's facilities are expected to have shut down for four weeks in 2QFY24.
- During 1QFY24, cash flow from operation was INR629m vs. INR3.3b in 1QFY23 due to normalization of working capital cycle at Cenexi, post-acquisition.

Work in progress to improve profitability

Recovery in base business/focus on complex products to aid growth in core markets

- In 1QFY24, GLAND's core market sales declined 6.4% YoY to INR6.6b, excluding Cenexi revenue. Including Cenexi, core markets jumped 21% YoY to INR8.5b.

- GLAND is witnessing a recovery in the base business (up 13% QoQ) due to new customer additions, market share gains and shortage of drugs in the US.
- GLAND continues to file ANDAs with five filings in 1QFY24. It also received approvals of nine products and launched 23 products (including re-launches).
- Besides, GLAND is also increasing its focus on complex limited competition products due to technological access through Cenexi.
- Moreover, Cenexi acquisition provides access to superior manufacturing technology.
- On an overall basis, we expect 9% sales CAGR in core markets over FY23-25 to INR32b. This would be supported by additional sales of Cenexi, which is likely to grow at 4.6% over FY23-25 to reach INR16.6b.

Work in progress to scale-up China business

- GLAND launched one product in China while it plans to launch another product in the coming quarters.
- Considering the current portfolio of GLAND in China market, the pricing is better than the US market.
- Hence, with better pricing and margin-accretive portfolio we expect better outlook for the China business.

Geographical expansion/new launches to fuel growth in ROW market

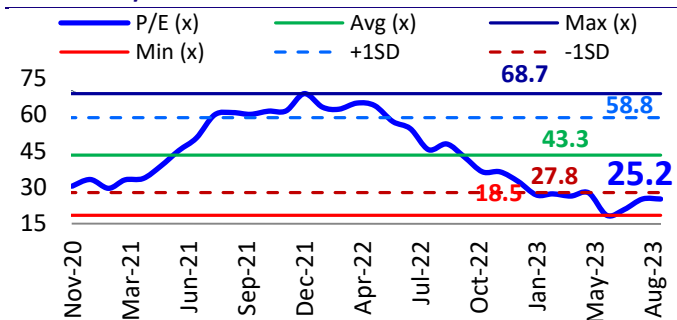
- In 1QFY24, ROW market sales jumped 62% YoY to INR1.6b ex-Cenexi. This growth was driven by GCC market.
- GLAND registered Phenylephrine, Dexmedetomidine, and Miconazole Sodium in new geographies during the quarter.
- Aided by increasing penetration in the existing market and expansion in newer geographies we expect ROW sales to witness 3.5% CAGR over FY23-25 to reach INR7.5b.

Maintain Buy

- We raise our earnings estimates by 8.5%/5.0% for FY24/FY25 factoring in: a) faster revival of the lost business by adding new customers, b) price stability in the base portfolio, and c) increase in milestone income. We value GLAND at 23x 12M forward earnings to arrive at our TP of INR1,560.
- GLAND remains on track to not only revive the base business but also to: a) increase its offerings in newer markets like China, b) build niche pipeline for regulated markets, and c) enhance scope of synergy from Cenexi acquisition.

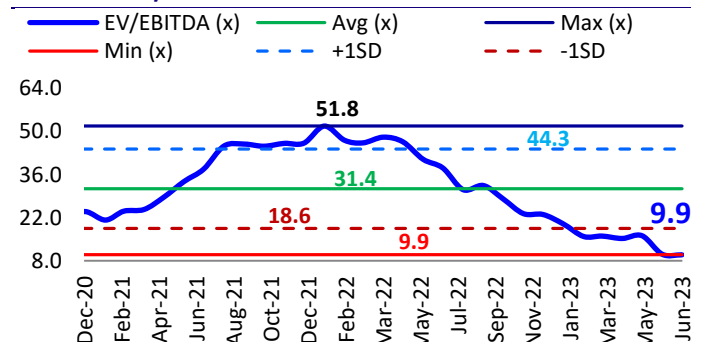
Reiterate BUY.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Expect 29% revenue CAGR over FY23-25

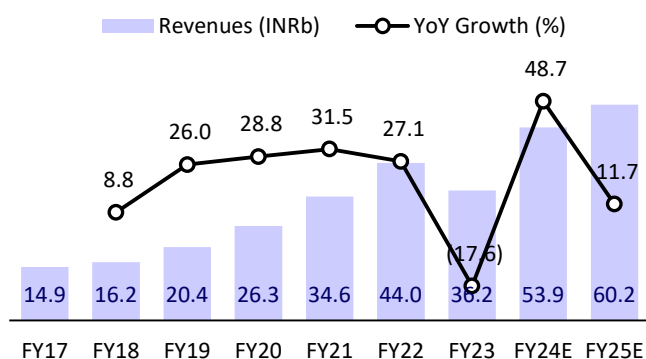


Exhibit 4: Expect 9% core market sales CAGR over FY23-25

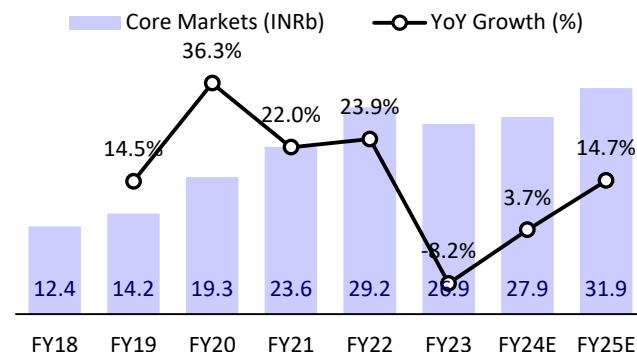


Exhibit 5: Expect ROW sales to post 3.5% CAGR over FY23-25

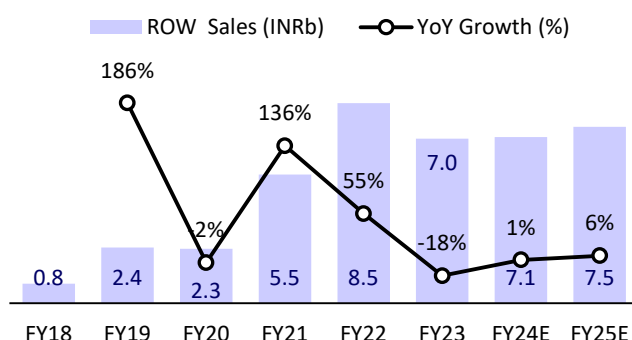


Exhibit 6: Expect 15.4% India sales CAGR over FY23-25

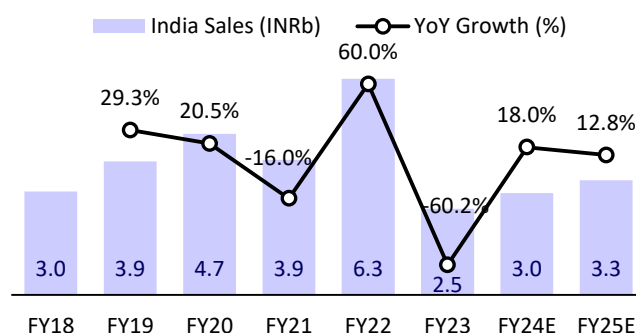
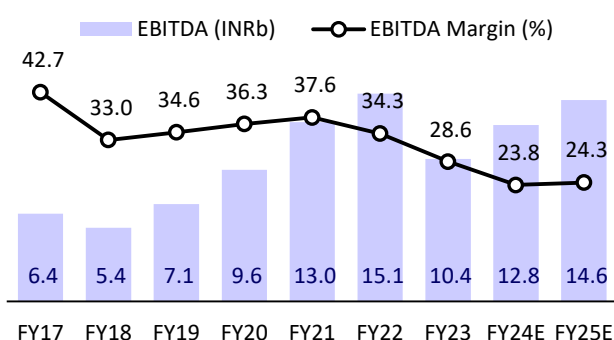
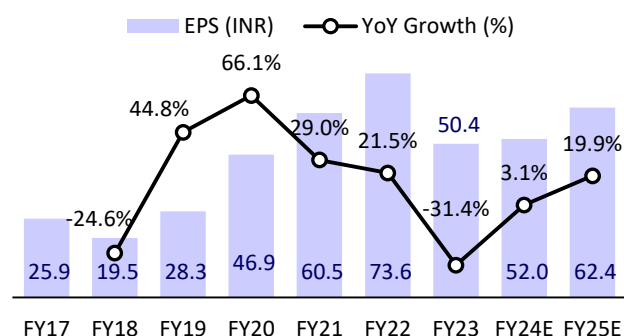


Exhibit 7: EBITDA margin to decline 430bp to 24.3% over FY23-25



Source: Company, MOFSL

Exhibit 8: Expect EPS CAGR of 11% over FY23-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	14,916	16,229	20,442	26,332	34,629	44,007	36,246	53,897	60,216
Change (%)	9.9	8.8	26.0	28.8	31.5	27.1	-17.6	48.7	11.7
Total Expenditure	8,542	10,876	13,376	16,778	21,607	28,906	25,888	41,069	45,583
% of Sales	57.3	67.0	65.4	63.7	62.4	65.7	71.4	76.2	75.7
EBITDA	6,374	5,353	7,066	9,554	13,022	15,102	10,358	12,827	14,632
Margin (%)	42.7	33.0	34.6	36.3	37.6	34.3	28.6	23.8	24.3
Depreciation	742	782	820	946	988	1,103	1,467	2,717	2,478
EBIT	5,633	4,571	6,246	8,608	12,034	13,999	8,890	10,110	12,154
Int. and Finance Charges	64	41	36	72	34	52	74	168	232
Other Income	336	488	856	1,392	1,348	2,239	2,405	1,509	1,806
PBT bef. EO Exp.	5,905	5,017	7,067	9,928	13,348	16,186	11,220	11,451	13,729
EO Items	0	0	-200	0	0	0	-685	0	0
PBT after EO Exp.	5,905	5,018	6,867	9,928	13,348	16,186	10,536	11,451	13,729
Total Tax	1,643	1,804	2,345	2,200	3,378	4,069	2,735	2,886	3,460
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.1	26.0	25.2	25.2
Minority Interest	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	8,565	10,269
Adjusted PAT	4,262	3,213	4,654	7,728	9,970	12,117	8,307	8,565	10,269
Change (%)	28.1	-24.6	44.8	66.1	29.0	21.5	-31.4	3.1	19.9
Margin (%)	27.9	19.2	21.9	27.9	27.7	26.2	21.5	15.5	16.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	155	155	155	155	164	164	165	165	165
Total Reserves	20,743	23,949	28,466	36,307	58,869	71,412	79,423	87,988	98,257
Net Worth	20,898	24,104	28,621	36,462	59,032	71,576	79,587	88,153	98,422
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	64	59	55	50	39	46	45	9,285	9,285
Deferred Tax Liabilities	854	958	1,076	741	739	878	842	842	842
Capital Employed	21,816	25,121	29,752	37,252	59,810	72,499	80,473	98,279	1,08,548
Gross Block	10,055	10,545	12,196	13,478	14,327	20,910	23,061	32,398	38,406
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,888	7,355	10,073	12,551
Net Fixed Assets	8,716	8,426	9,288	9,681	9,542	15,022	15,705	22,326	25,855
Goodwill on Consolidation	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
Total Investments	0	0	0	0	0	1,549	0	10,080	10,080
Curr. Assets, Loans&Adv.	14,410	18,868	24,707	29,295	52,040	59,858	70,298	70,802	81,726
Inventory	3,787	5,128	9,119	7,563	12,752	11,857	19,453	23,629	23,728
Account Receivables	4,179	4,752	5,061	6,018	6,710	11,988	8,714	12,256	13,858
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	30,934	37,707	28,338	36,789
Loans and Advances	1,113	2,476	2,994	2,462	2,521	5,079	4,424	6,579	7,350
Curr. Liability & Prov.	2,922	4,163	5,473	3,608	5,150	5,836	7,302	10,562	11,739
Account Payables	2,003	3,057	4,568	2,677	4,007	4,629	5,874	8,439	9,366
Other Current Liabilities	896	956	765	649	892	960	1,115	1,658	1,852
Provisions	22	150	139	282	251	248	313	466	520
Net Current Assets	11,488	14,706	19,234	25,687	46,890	54,022	62,997	60,239	69,987
Deferred Tax assets	0	0	0	0	0	0	0	0	0
Misc Expenditure	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	98,279	1,08,548

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	25.9	19.5	28.3	46.9	60.5	73.6	50.4	52.0	62.4
Cash EPS	32.3	25.8	35.3	56.0	67.0	80.5	59.3	68.5	77.4
BV/Share	134.8	155.5	184.7	235.2	360.9	435.6	483.2	535.2	597.6
DPS	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
Valuation (x)									
P/E	52.2	69.2	47.8	28.8	22.3	18.4	26.8	26.0	21.7
Cash P/E	41.8	52.4	38.2	24.1	20.2	16.8	22.7	19.7	17.4
P/BV	10.0	8.7	7.3	5.7	3.7	3.1	2.8	2.5	2.3
EV/Sales	13.7	12.5	9.9	7.4	5.5	4.3	5.1	3.8	3.2
EV/EBITDA	32.0	37.9	28.6	20.5	14.7	12.6	17.8	15.8	13.3
Dividend Yield (%)	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	-59.9	41.8
Return Ratios (%)									
RoE	22.6	14.3	17.7	23.7	20.9	18.6	11.0	10.2	11.0
RoCE	22.1	14.4	17.7	23.9	20.9	18.6	11.1	9.8	10.2
RoIC	28.4	18.7	21.9	31.2	37.1	32.5	16.6	15.9	16.1
Working Capital Ratios									
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.1	1.6	1.7	1.6
Inventory (Days)	93	115	163	116	134	98	196	160	144
Debtor (Days)	102	107	90	83	71	99	88	83	84
Creditor (Days)	49	69	82	37	42	38	59	57	57
Leverage Ratio (x)									
Net Debt/Equity	-0.3	-0.3	-0.3	-0.4	-0.5	-0.45	-0.47	-0.3	-0.4

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	16,186	10,536	11,451	13,729
Depreciation	742	782	820	946	988	1,103	1,467	2,717	2,478
Interest & Finance Charges/ (Income)	-128	-240	-408	-452	28	33	-2,330	-1,341	-1,574
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,065	-2,735	-2,886	-3,460
(Inc)/Dec in WC	-109	-1,934	-3,540	-799	-4,358	-3,931	-2,203	-6,612	-1,296
CF from Operations	4,671	2,052	1,501	7,181	6,893	9,326	4,735	3,330	9,877
Others	94	-32	350	-172	-843	-1,418	0	0	0
CF from Operating incl EO	4,765	2,019	1,851	7,009	6,049	7,908	4,735	3,330	9,877
(Inc)/Dec in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,113	-2,016	-13,200	-3,000
Free Cash Flow	3,604	1,169	499	5,302	3,766	2,794	2,719	-9,870	6,877
(Pur)/Sale of Investments	0	0	0	0	-13,576	-2,613	1,549	-10,080	0
Others	159	-2,736	-1,834	-5,902	619	-2,300	2,405	1,509	1,806
CF from Investments	-1,002	-3,587	-3,186	-7,610	-15,240	-10,026	1,938	-21,771	-1,194
Issue of Shares	0	3,977	0	0	12,250	0	0	0	0
Inc/(Dec) in Debt	-1,107	-5	-4	-7	-9	-1	-1	9,240	0
Interest Paid	-58	-31	-25	-62	-23	-33	-74	-168	-232
Dividend Paid	0	0	0	0	0	0	0	0	0
CF from Fin. Activity	-1,164	-36	-29	-69	12,386	320	100	9,072	-232
Inc/Dec of Cash	2,599	-1,603	-1,364	-669	3,195	-1,799	6,772	-9,369	8,451
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	3,091	9,863	494
Closing Balance	5,331	3,728	2,363	1,694	4,889	3,091	9,863	494	8,945
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	27,844	27,844	27,844	27,844
Total Cash & Cash Eq	5,331	6,512	7,533	13,252	30,057	30,934	37,707	28,338	36,789

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Explanation of Investment Rating	
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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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