

Gland Pharma

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR1,611

TP: INR1,970 (+22%)

Buy

2Q beat due to controlled costs; Base business yet to witness revival

Bloomberg	GLAND IN
Equity Shares (m)	165
M.Cap.(INRb)/(USD\$)	265.4 / 3.2
52-Week Range (INR)	2221 / 1504
1, 6, 12 Rel. Per (%)	-4/-11/-18
12M Avg Val (INR M)	798

Cenexi's EBITDA break-even guidance for 4QFY25 intact

- Gland Pharma (GLAND) delivered better-than-expected operational performance for the quarter. Despite increased EBITDA loss at Cenexi YoY/QoQ and a lower share of the milestone income, the overall EBITDA margin was better-than-expected at 21.1%, led by better segmental mix and controlled operational cost for the quarter.
- We cut our earnings estimate by 8%/10%/7% for FY25/FY26/FY27 to factor in: a) the slowdown in US sales on account of a delay in potential approval and subsequent launches, b) gradual up-tick in the biologics business, and c) lower business due to a temporary setback at the Belgium site of Cenexi. We value GLAND at 30x 12M forward earnings to arrive at a TP of INR1,970.
- With two years of earnings decline in FY23/FY24, we believe the earnings are largely at trough and expected to experience revival over FY25-27. We expect 20% earnings CAGR over FY25-27, led by a) increased volume offtake of base products such as enoxaparin, b) EBITDA break-even of Cenexi and subsequent better operating leverage, c) additional business in the biologics segment, and d) commercialization of new products in the core market segment. Considering this outlook and stock trading at 16x/14x FY26/FY27 EV/EBITDA and 27x/22.5x FY26/FY27 PE, we reiterate BUY.

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	59.8	67.1	75.3
EBITDA	13.4	15.7	18.0
Adj. PAT	8.1	9.9	11.7
EBITDA Margin (%)	22.4	23.4	23.9
Cons. Adj. EPS (INR)	49.3	60.2	71.2
EPS Gr. (%)	3.6	22.1	18.2
BV/Sh. (INR)	579.0	639.2	710.4

Ratios

Net D:E	(0.2)	(0.1)	(0.2)
RoE (%)	8.9	9.9	10.5
RoCE (%)	8.7	9.6	10.2
Payout (%)	-	-	-

Valuations

P/E (x)	32.5	26.6	22.5
EV/EBITDA (x)	19.0	16.2	13.9
Div. Yield (%)	-	-	-
FCF Yield (%)	(3.1)	(1.0)	0.5
EV/Sales (x)	4.3	3.8	3.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.8	51.8	57.9
DII	35.4	32.8	22.5
FII	4.5	6.9	4.9
Others	8.3	8.5	14.8

FII includes depository receipts

Ex-Cenexi business EBITDA margin stable YoY/up 500bp QoQ; Cenexi operational loss escalates YoY/QoQ

- GLAND's 2QFY25 revenues grew 2.4% YoY to INR14b (in-line with estimates). The base business (ex-Cenexi) grew 5% YoY to INR10.7b for the quarter. Core market sales grew 3.2% YoY to INR10.5b (75% of sales). RoW sales were flat on a YoY basis to INR2.7b (19% of sales). India sales were flat on a YoY basis to INR874m (6% of sales).
- Gross Margin (GM) contracted 240bp YoY to 59.1% due to a change in the product mix.
- EBITDA margin contracted 250bp YoY to 21.1% (our estimate: 19.6%), led by higher employee costs (up 130bp YoY as % of sales) offset by lower other expenses on a YoY basis by 180bp as a % of sales. On an ex-Cenexi basis, the EBITDA margin was 34.2% (Flat on a YoY basis /+ 520bp QoQ).
- Consequently, EBITDA declined 8.3% YoY to INR3b (our est: INR2.8b).
- Adj. PAT declined 16% YoY to INR1.6b (our est: INR1.5b) due to tax expense.
- In 1HFY25, revenue grew 8.7% YoY to INR28b while EBITDA/PAT declined 9.2%/20.8% YoY to INR5.6b/INR3b, respectively. We expect 3%/6%/27% YoY growth in Revenue/EBITDA/PAT to INR32b/INR8b/INR5b for 2HFY25.

Highlights from the management commentary

- GLAND indicated a low double-digit YoY growth in the sales of core markets for FY25.
- The company reiterated for EBITDA break-even in the Cenexi business by 4QFY25.
- With a new biologics agreement with DRL, GLAND expects commercial operations to commence from 1QFY26.

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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.

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var. (%)
Net Sales	12,087	13,734	15,452	15,375	14,017	14,058	15,017	16,696	56,647	59,788	14,033	0.2
YoY Change (%)	41.1	31.5	64.7	95.9	16.0	2.4	-2.8	8.6	56.3	5.5	2.2	
Total Expenditure	9,147	10,493	11,710	11,788	11,373	11,088	11,593	12,341	43,138	46,395	11,282	
EBITDA	2,940	3,241	3,742	3,587	2,644	2,970	3,424	4,355	13,509	13,392	2,750	8.0
YoY Change (%)	8.9	5.3	29.2	113.0	-10.1	-8.3	-8.5	21.4	30.4	-0.9	-15.1	
Margins (%)	24.3	23.6	24.2	23.3	18.9	21.1	22.8	26.1	23.8	22.4	19.6	
Depreciation	653	813	1,053	926	920	938	970	996	3,446	3,823	960	
Interest	49	60	53	100	56	61	40	29	262	186	19	
Other Income	375	532	374	421	514	597	620	661	1,702	2,392	490	
PBT before EO expense	2,613	2,899	3,009	2,982	2,182	2,567	3,034	3,991	11,503	11,774	2,261	13.5
One-off income/(expense)	0	0	178	0	0	0	0	0	178	0	0	
PBT	2,613	2,899	2,832	2,982	2,182	2,567	3,034	3,991	11,325	11,774	2,261	13.5
Tax	672	958	913	1,058	745	932	953	1,020	3,601	3,650	706	
Rate (%)	25.7	33.0	32.2	35.5	34.1	36.3	31.4	25.6	31.8	31.0	31.2	
Reported PAT	1,941	1,941	1,919	1,924	1,438	1,635	2,081	2,971	7,724	8,124	1,556	5.1
Adj PAT	1,941	1,941	2,039	1,918	1,438	1,635	2,081	2,971	7,839	8,124	1,556	5.1
YoY Change (%)	-15.3	-22.7	-12.1	61.7	-25.9	-15.8	2.1	54.9	-5.6	3.6	-19.8	

E: MOFSL Estimates

Key Performance Indicators (Consolidated)

(INR m)

Y/E March	FY24				FY25E				FY24E	FY25E	FY25E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
INRm												
Core Markets	8,564	10,198	12,000	12,047	10,641	10,521	10,823	12,099	42,750	34,683	11,118	-5%
YoY Growth (%)	21.4	36.4	81.1	119.1	24.3	3.2	-9.8	0.4	59	-19	9.0	
India	647	876	761	526	527	874	685	724	2,810	2,810	569	53%
YoY Growth (%)	26.9	20.7	-6.5	-18.7	-18.5	-0.2	-10.0	37.7	12	0	-35.0	
Rest of the world	2,876	2,660	2,842	2,802	2,734	2,663	3,509	3,873	11,239	6,524	2,345	14%
YoY Growth (%)	187.0	18.6	46.3	64.3	-4.9	0.1	23.5	38.2	61	-42	-11.8	
Cost Break-up												
RM Cost (% of Sales)	37.5	38.0	38.8	39.0	40.3	40.9	40.4	39.7	38.4	40.3	40.0	93
Staff Cost (% of Sales)	21.1	22.2	22.3	22.9	25.4	23.5	22.1	19.6	22.2	22.5	25.0	(154)
Other Cost (% of Sales)	17.1	16.2	14.7	14.8	15.5	14.5	14.7	14.6	15.6	14.8	15.4	(92)
Gross Margins(%)	62.5	62.0	61.2	61.0	59.7	59.1	59.6	60.3	61.6	59.7	60.0	(93)
EBITDA Margins(%)	24.3	23.6	24.2	23.3	18.9	21.1	22.8	26.1	23.8	22.4	19.6	153
EBIT Margins(%)	18.9	17.7	17.4	17.3	12.3	14.5	16.3	20.1	17.8	22.1	12.8	170



Management call highlights

- GLAND has signed contracts related to GLP-1 products for the regulated market with three companies to date.
- Contribution from new products for the 1HFY25 was INR600m.
- GLAND indicated a potential pick-up in US sales in the coming quarters on account of additional contracts of Enoxaparin, new launches, and higher offtake of existing products.
- Gross margins have contracted YoY/QoQ for the Cenexi business due to a lower offtake of the Belgium site and a change in product mix.
- The profit share of the Cenexi business was 8% of sales and milestone income for Non-Cenexi business was 7% of sales during the quarter.
- The recent agreement with Dr. Reddy's Lab is largely toward supplying drug substances.
- A pick-up in the tender business for the Saudi Arabian market would support growth in the ROW market.
- Four molecules, including Cetrorelix Acetate, Ephedrine Sulfate, Tranexamic Acid, and Diazepam, were launched in the US market.
- A new ampoule line will be commissioned in Jan'25.

- Four of the nine products in the plan for the Chinese markets are currently under development, and five have received approvals.

Efforts underway to improve the overall profitability

New approvals remain the key to drive core market performance

- In 1HFY25, GLAND's base business (ex-Cenexi) grew 15% YoY to INR16.3b. Including Cenexi, the overall business grew 12.8% YoY to INR21.2b.
- The growth is fueled by volume growth in key injectables, new product launches, and market leadership of existing products.
- During 1HFY25, GLAND filed 15 ANDAs. It also received approvals for 15 products and launched 15 products (including SKUs).
- Moreover, GLAND is witnessing traction in the biologics space for advanced-stage CDMO contracts in monoclonal antibodies and novel plasma-based proteins. Further, it has collaborated with DRRD for biologics and CDMO expects to commence the operation in FY26.
- With improving operational efficiency at Cenexi's facility, GLAND is expanding its capacity to enhance growth prospects.
- Overall, we expect 11% sales CAGR in the base business to reach INR43b over FY25-27. This would be supported by additional sales of Cenexi, which is likely to grow at 8.5% and reach INR18.6b over FY25-27.

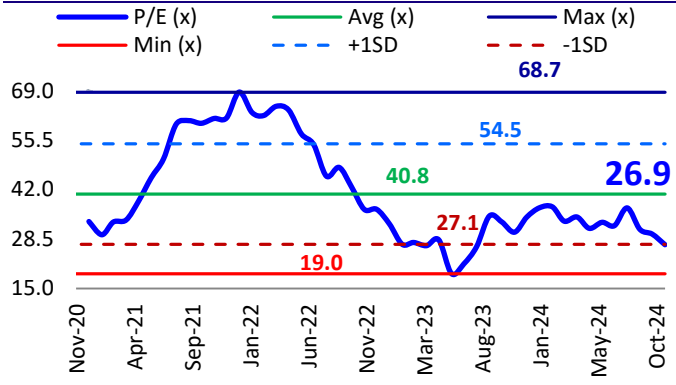
Tender business/new launches to drive ROW growth prospects

- In 1HFY25, the RoW market witnessed a 2.5% YoY decline to INR5.4b. This growth was hit by inherent fluctuations in the business and a delay in tender procurements by partners to subsequent months.
- GLAND registered Ziprasidone, Furosemide, Deferoxamine, and Dexmedetomidine in new geographies during the quarter.
- Over FY25-27, we expect ROW sales to report 17% CAGR and reach ~INR9b, led by expansion in new geographies and new launches.

Reiterate BUY

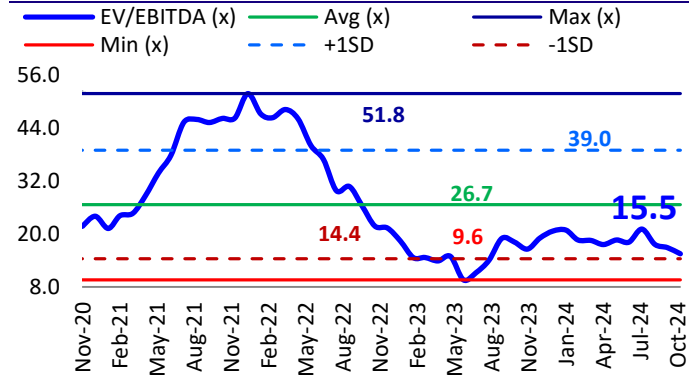
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Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Expect 12% revenue CAGR over FY25-27

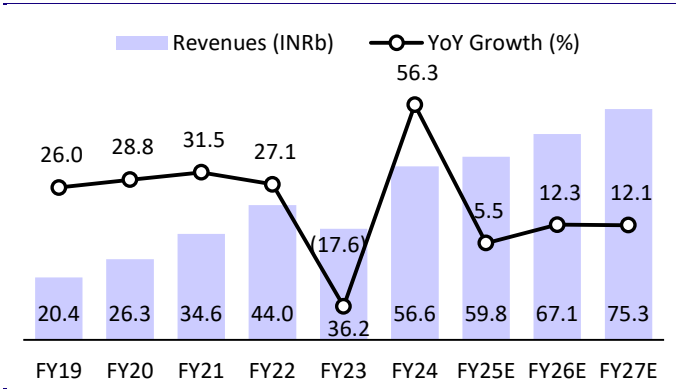


Exhibit 4: Expect 11% core market sales CAGR over FY25-27

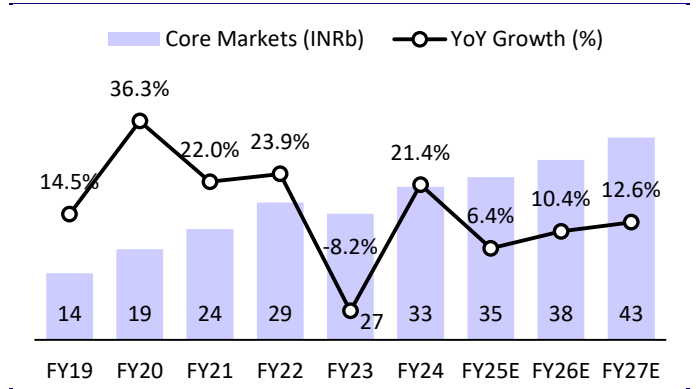


Exhibit 5: Expect ROW sales to post 17% CAGR over FY25-27

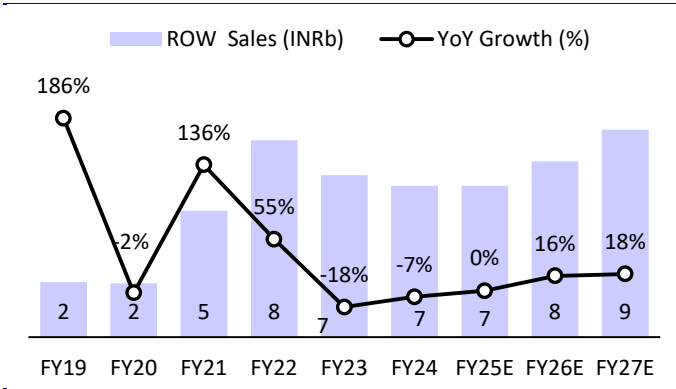


Exhibit 6: Expect India sales to decline 11.3% over FY25-27

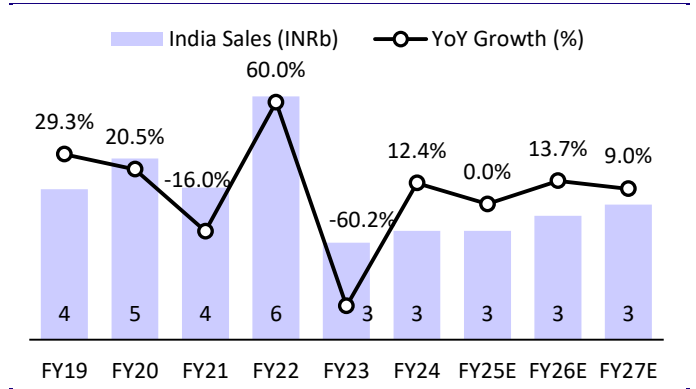
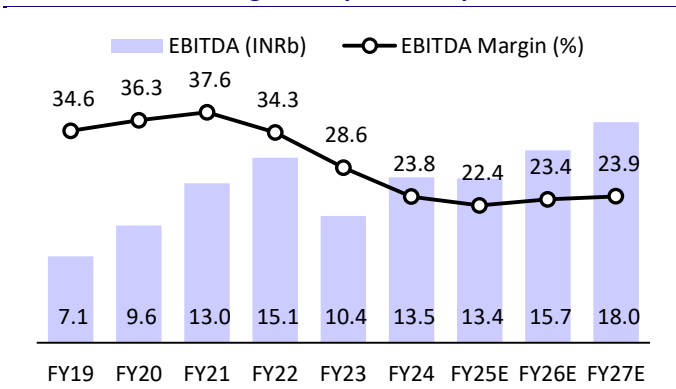
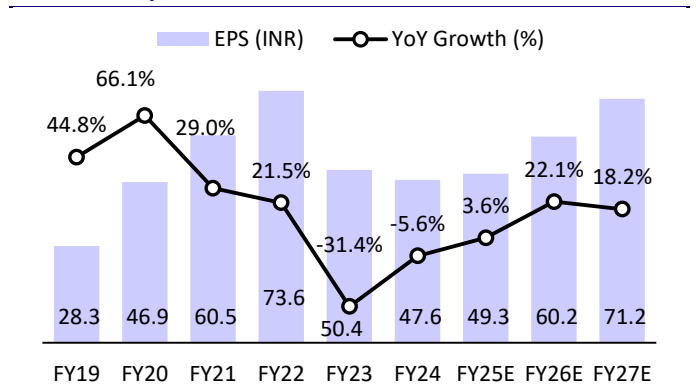


Exhibit 7: EBITDA margin to expand 150bp over FY25-27



Source: Company, MOFSL

Exhibit 8: Expect EPS CAGR of 20% over FY25-27



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement									(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	20,442	26,332	34,629	44,007	36,246	56,647	59,788	67,136	75,284
Change (%)	26.0	28.8	31.5	27.1	-17.6	56.3	5.5	12.3	12.1
Total Expenditure	13,376	16,778	21,607	28,906	25,888	43,138	46,395	51,426	57,291
% of Sales	65.4	63.7	62.4	65.7	71.4	76.2	77.6	76.6	76.1
EBITDA	7,066	9,554	13,022	15,102	10,358	13,509	13,392	15,710	17,993
Margin (%)	34.6	36.3	37.6	34.3	28.6	23.8	22.4	23.4	23.9
Depreciation	820	946	988	1,103	1,467	3,446	3,823	4,058	4,198
EBIT	6,246	8,608	12,034	13,999	8,890	10,063	9,569	11,652	13,795
Int. and Finance Charges	36	72	34	52	74	262	186	67	56
Other Income	856	1,392	1,348	2,239	2,405	1,702	2,392	2,685	3,011
PBT bef. EO Exp.	7,067	9,928	13,348	16,186	11,220	11,503	11,774	14,270	16,750
EO Items	-200	0	0	0	-685	178	0	0	0
PBT after EO Exp.	6,867	9,928	13,348	16,186	10,536	11,325	11,774	14,270	16,750
Total Tax	2,345	2,200	3,378	4,069	2,735	3,601	3,650	4,352	5,025
Tax Rate (%)	34.1	22.2	25.3	25.1	26.0	31.8	31.0	30.5	30.0
Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	4,522	7,728	9,970	12,117	7,800	7,724	8,124	9,918	11,725
Adjusted PAT	4,654	7,728	9,970	12,117	8,307	7,839	8,124	9,918	11,725
Change (%)	44.8	66.1	29.0	21.5	-31.4	-5.6	3.6	22.1	18.2
Margin (%)	21.9	27.9	27.7	26.2	21.5	13.4	13.1	14.2	15.0

Consolidated - Balance Sheet									(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	155	155	164	164	165	165	165	165	165
Total Reserves	28,466	36,307	58,869	71,412	79,423	87,074	95,198	1,05,116	1,16,841
Net Worth	28,621	36,462	59,032	71,576	79,587	87,238	95,363	1,05,281	1,17,006
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	55	50	39	46	45	3,722	3,722	3,722	3,722
Deferred Tax Liabilities	1,076	741	739	878	842	1,697	1,697	1,697	1,697
Capital Employed	29,752	37,252	59,810	72,499	80,473	92,656	1,00,781	1,10,699	1,22,424
Gross Block	12,196	13,478	14,327	20,910	23,061	47,846	58,361	70,465	76,837
Less: Accum. Deprn.	2,908	3,797	4,785	5,888	7,355	10,801	14,624	18,682	22,880
Net Fixed Assets	9,288	9,681	9,542	15,022	15,705	37,045	43,737	51,782	53,957
Goodwill on Consolidation	0	0	0	0	0	2,423	0	0	0
Capital WIP	1,232	1,885	3,378	1,907	1,772	2,379	9,088	6,650	2,383
Total Investments	0	0	0	1,549	0	6,559	6,559	6,559	6,559
Curr. Assets, Loans&Adv.	24,707	29,295	52,040	59,858	70,298	57,703	55,767	62,415	76,977
Inventory	9,119	7,563	12,752	11,857	19,453	16,552	20,592	24,656	29,352
Account Receivables	5,061	6,018	6,710	11,988	8,714	15,587	15,070	16,738	19,595
Cash and Bank Balance	7,534	13,252	30,058	30,934	37,707	18,394	12,539	12,525	16,738
Loans and Advances	2,994	2,462	2,521	5,079	4,424	7,169	7,567	8,496	11,293
Curr. Liability & Prov.	5,473	3,608	5,150	5,836	7,302	13,451	14,370	16,707	17,450
Account Payables	4,568	2,677	4,007	4,629	5,874	8,627	9,278	10,990	12,557
Other Current Liabilities	765	649	892	960	1,115	2,863	3,022	3,393	3,011
Provisions	139	282	251	248	313	1,961	2,070	2,324	1,882
Net Current Assets	19,234	25,687	46,890	54,022	62,997	44,252	41,397	45,708	59,526
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	29,752	37,252	59,810	72,499	80,473	92,656	1,00,781	1,10,699	1,22,424

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	28.3	46.9	60.5	73.6	50.4	47.6	49.3	60.2	71.2
Cash EPS	35.3	56.0	67.0	80.5	59.3	68.5	72.5	84.9	96.7
BV/Share	184.7	235.2	360.9	435.6	483.2	529.7	579.0	639.2	710.4
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	56.7	34.1	26.5	21.8	31.8	33.7	32.5	26.6	22.5
Cash P/E	45.4	28.6	23.9	19.9	27.0	23.4	22.1	18.9	16.6
P/BV	8.7	6.8	4.4	3.7	3.3	3.0	2.8	2.5	2.3
EV/Sales	11.8	8.9	6.7	5.3	6.2	4.4	4.3	3.8	3.3
EV/EBITDA	34.1	24.6	17.8	15.4	21.8	18.4	19.0	16.2	13.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.2	34.2	23.0	17.0	8.6	-25.6	-48.9	-16.0	7.6
Return Ratios (%)									
RoE	17.7	23.7	20.9	18.6	11.0	9.4	8.9	9.9	10.5
RoCE	17.7	23.9	20.9	18.6	11.1	9.4	8.7	9.6	10.2
RoIC	21.9	31.2	37.1	32.5	16.6	12.9	9.6	10.3	10.6
Working Capital Ratios									
Asset Turnover (x)	1.7	2.0	2.4	2.1	1.6	1.2	1.0	1.0	1.0
Inventory (Days)	163	116	134	98	196	107	126	134	142
Debtor (Days)	90	83	71	99	88	100	92	91	95
Creditor (Days)	82	37	42	38	59	56	57	60	61
Leverage Ratio (x)									
Net Debt/Equity	-0.3	-0.4	-0.5	-0.45	-0.47	-0.2	-0.2	-0.1	-0.2

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	6,864	9,929	13,348	16,186	10,546	11,325	11,774	14,270	16,750
Depreciation	820	946	988	1,103	1,467	3,446	3,823	4,058	4,198
Interest & Finance Charges/ (Income)	-408	-452	28	33	63	218	-2,205	-2,618	-2,956
Direct Taxes Paid	-2,235	-2,441	-3,114	-4,065	-3,109	-3,061	-3,650	-4,352	-5,025
(Inc)/Dec in WC	-3,540	-799	-4,358	-3,931	-4,179	-532	-3,001	-4,325	-9,605
CF from Operations	1,501	7,181	6,893	9,326	4,788	11,396	6,741	7,032	3,363
Others	350	-172	-843	-1,418	-1,148	-1,428	0	0	0
CF from Operating incl EO	1,851	7,009	6,049	7,908	3,640	9,968	6,741	7,032	3,363
(Inc)/Dec in FA	-1,352	-1,708	-2,283	-5,113	-2,230	-14,192	-14,802	-9,665	-2,105
Free Cash Flow	499	5,302	3,766	2,794	1,410	-4,224	-8,061	-2,633	1,258
(Pur)/Sale of Investments	0	0	-13,576	-2,613	12,706	-4,747	0	0	0
Others	-1,834	-5,902	619	-2,300	1,606	1,371	2,392	2,685	3,011
CF from Investments	-3,186	-7,610	-15,240	-10,026	12,082	-17,569	-12,411	-6,980	906
Issue of Shares	0	0	12,250	0	215	5	0	0	0
Inc/(Dec) in Debt	-4	-7	-9	-1	-3	-7,743	0	0	0
Interest Paid	-25	-62	-23	-33	-63	-256	-186	-67	-56
Dividend Paid	0	0	0	0	0	0	0	0	0
CF from Fin. Activity	-29	-69	12,386	320	-8,949	-11,711	-186	-67	-56
Inc/Dec of Cash	-1,364	-669	3,195	-1,799	6,773	-19,312	-5,856	-14	4,213
Opening Balance	3,728	2,363	1,694	4,889	3,091	9,863	-9,449	-15,305	-15,319
Closing Balance	2,363	1,694	4,889	3,091	9,863	-9,449	-15,305	-15,319	-11,106
Term Deposit with Banks	5,170	11,558	25,168	27,844	27,844	27,844	27,844	27,844	27,844
Total Cash & Cash Eq	7,533	13,252	30,057	30,934	37,707	18,395	12,539	12,525	16,738

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