

Gland Pharma

24 January 2021

Reuters: GLAD.NS; Bloomberg: GLAND IN

Strong Revenue growth, but margins decline

Gland Pharma's (GLAND) 3QFY21 revenue at Rs8,594mn grew by 33% YoY and 3.4% QoQ. Revenue came in 5% above our estimate. Revenue growth was driven by the growth in existing products, as well as high value launches like Micafungin in the US. The company also entered new geographies (emerging markets) to support ongoing volume growth.

Gross margin at for the quarter at ~53% and was lower 439bps YoY and 242bps QoQ. Gross margin should remain volatile on a quarter over quarter basis due to change in product / business mix and seasonality. On a full year basis, the trend should normalize. The gross margin for 9MFY21 is just 36bps below the 9MFY20 gross margin. EBITDA at Rs2,642mn decreased by 11.2% QoQ, which was 18.3% below our estimate. The EBITDA margin was lower 204bps YoY and 506 bps QoQ due to a decline in gross margins and increase in other expenses QoQ. Increase in other expenses was led by higher R&D costs and there were expenses related to Covid precautions. Net profit stood at Rs2,041mn, which was 18% below our estimates.

China business to commercialize in next 12-18 months: Gland has already filed 6 products in China and is expected to commercialize its first product in next fiscal year. The company has an advantage as its parent Shanghai Fosun has a widespread network in China.

Key geography business (US, Europe, Canada and Australia): Gland Pharma's key geographies' business grew by 24% YoY and 13% QoQ driven by older products gaining volumes as well as some new big ticket launches like Micafungin. The company received 24 approvals in 9MFY21 out of which 21 have already been launched with rest of the SKUs slated for launch in the last quarter of FY21.

Emerging markets will continue to grow with entry in newer markets: Gland's emerging markets business continues on an upward trajectory with a 161% YoY growth during the quarter. The company continues to expand its geographical reach with entry into new markets like Singapore, Israel, Armenia, and Saudi Arabia.

Outlook and valuation: We value Gland at 25x FY23E earnings to arrive at a target price of Rs2,330 and assign an accumulate rating. The higher valuation multiple is to basically account for the following: 1) Gland has maintained a consistent track record of regulatory compliance. 2) Shanghai Fosun Pharma will be enabling smooth entry and faster market penetration in China where the company has already filed 6 products. 3) Strong RoCE profile despite growing competition in injectable space. 4) Headroom to scale up operations led by approvals of complex injectable formulations and foray into newer geographies.

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs2,283

Target Price: Rs2,330

Upside: 2%

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Key Data

Current Shares O/S (mn)	163.3
Mkt Cap (Rsbn/US\$bn)	373/5.1
52 Wk H / L (Rs)	2,509/1,700
Daily Vol. (3M NSE Avg.)	-

Price Performance (%)

	1 M	6 M	1 Yr
Gland Pharma	(2.9)	-	-
Nifty Index	4.5	28.4	17.3

Source: Bloomberg

[Latest Results](#)

Y/E March (Rsmn)	3QFY20	2QFY21	3QFY21	YoY (%)	QoQ (%)	9MFY20	9MFY21	YoY (%)
Total income	6,459	8,315	8,594	33.1	3.4	19,980	25,751	28.9
Total material costs	2,774	3,735	4,069	46.7	8.9	8,465	11,003	30.0
% of revenue	43	45	47	439 bps	242 bps	42	43	36 bps
Staff costs	672	786	822	22.3	4.6	2,105	2,331	10.7
% of revenue	10	9	10	(84) bps	11 bps	11	9	(148) bps
Power and Fuel Costs	199	192	193	(2.9)	0.7	603	553	-8.3
% of revenue	3	2	2	(83) bps	(6) bps	3	2	(87) bps
Other expenses	696	625	868	24.7	38.8	1,651	2,119	28.3
% of revenue	11	8	10	(67) bps	258 bps	8	8	(4) bps
EBITDA	2,118	2,977	2,642	24.8	(11.2)	7,156	9,746	36.2
EBITDA margin (%)	33	36	31	(204) bps	(506) bps	36	38	203 bps
Other income	253	204	351	38.9	72.6	930	876	-5.8
Interest costs	57	8	12	(79.6)	52.5	67	24	-64.4
Depreciation	242	247	250	3.0	1.2	705	739	4.7
PBT (Pre-Exceptional Items)	2,072	2,926	2,732	31.9	(6.6)	7,314	9,859	34.8
Exceptional items	0	0	0	0.0	0.0	0	0	0.0
Share of profit in JV	0	0	0	-	-	0	0	-
Tax	531	738	691	30.3	(6.3)	1,533	2,493	62.6
Tax rate (%)	26	25	25	(31) bps	9 bps	21	25	433 bps
Minority Interest	1,541	2,189	2,041	32.5	(6.7)	5,781	7,366	27.4
Reported PAT post MI	24	26	24	(11) bps	(257) bps	29	29	(33) bps
PAT Margin	6,459	8,315	8,594	33.1	3.4	19,980	25,751	28.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	20,442	26,332	32,798	38,929	47,364
EBITDA	7,065	9,555	12,823	15,475	19,387
Net profit	4,519	7,729	9,878	12,046	15,221
EPS (Rs)	27.7	47.3	60.5	73.8	93.2
EPS growth (%)	40.7	71.0	27.8	22.0	26.4
EBITDA margin (%)	34.6	36.3	39.1	39.8	40.9
PER (x)	82.5	48.2	37.7	30.9	24.5
P/BV (x)	13.0	10.2	6.3	5.3	4.3
EV/EBITDA (x)	51.7	37.6	26.5	21.4	16.6
RoCE (%)	25.0	25.1	21.7	21.9	22.8
RoE (%)	17.1	23.8	20.7	18.6	19.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimate and Bloomberg consensus estimate

(Rsmn)	Actual	NBIE	Var.(%)
Revenues	8,594	8,200	4.8
EBITDA	2,642	3,232	(18.3)
EBITDA margin (%)	30.7	39.4	(868) bps
PAT	2,041	2,482	(17.8)
PAT margin (%)	23.7	30.3	(652) bps

Source: Company, Nirmal Bang Institutional Equities Research

Earnings conference-call summary

CapEx: The Company has a planned organic CapEx of rs2500mn over the next two years for maintenance as well as for expansion of existing capacities. The company is additionally looking to add assets related to Fermentation, peptides and hormonal products.

Milestone revenue and profit share: The Company received Rs1,330mn as a milestone income and Rs2820mn as a profit share in 9MFY21. The management has guided for the milestone revenues to be around 5-6% of revenues and profit share to be 10-11% of the revenues.

Therapy wise revenue split: 9MFY20 had 32% of revenue comprised of anti-infectives whereas they have come down to 27% but are slowly going back to normal level. Cardiac therapy contributed 25% of the revenues in 9MFY21, Pain & Pain management contributed 11% of the revenues and anti-coagulants contributed 10% of the revenues.

Product approvals/launches in key geographies: The Company launched 6 product SKUs (4 molecules) in last quarter. Gland filed 19 ANDAs and received 24 approvals during the 9MFY21. The company has launched 31 product SKUs (19 molecules) during the 9 months ended FY21. The company also filed 5 DMFs.

Product Development: The suspension products are in the scale up level and the company has already installed lines.

Vaccines: Gland is looking to offer fill and finish services for Covid vaccines and is currently in discussion with two vaccine companies. The company currently has a capacity of 40mn vials and is looking to add more capacities not only in fill and finish but also in manufacturing of drug substance.

Enoxaparin: the company is focused on select markets as the company doesn't have backward integration.

Capacities: The Company is operating at the 70% of capacity for Liquid vials and the Lyo lines are almost full with expansion process ongoing.

API: 25% of the company's revenues come from the backward integrated products. The company is looking to build API capacities to avoid price fluctuation due to market dynamics and have better control over costs.

Gross Margin: The management has guided that the gross margin is expected to remain volatile on quarterly basis but expect it to remain stable on yearly basis.

Inventory: The inventory level is in expected levels as Gland being a B2B company usually requires large quantities in short time and for faster delivery needs to have the current inventory levels.

R&D: The R&D cost in 3QFY21 stood at Rs434mn, which was 5% of revenue. The management has guided for the R&D costs to remain 3-4% of the revenue.

Tax Rate: The tax rate for the 9MFY21 remains at 25% which is in line with the guidance. The tax rate for 9MFY20 was little lower due to onetime reversal of deferred tax liability of Rs324mn due to reduction of overall tax rate.

Exhibit 3: Revenue Summary

Revenue Summary	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Revenue Breakup							
USA, Europe, Canada and Australia	4,808	4,895	4,853	4,788	6,081	5,313	6,021
India	1,155	1,245	1,193	1,078	1,284	1,538	1,495
Rest of the world	781	637	413	486	1,477	1,464	1,078
Total	6,745	6,776	6,459	6,352	8,842	8,315	8,594
Revenue Mix (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
USA, Europe, Canada and Australia	71.3	72.2	75.1	75.4	68.8	63.9	70.1
India	17.1	18.4	18.5	17.0	14.5	18.5	17.4
Rest of the world	11.6	9.4	6.4	7.7	16.7	17.6	12.5
QoQ Growth (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
USA, Europe, Canada and Australia	0.0	1.8	-0.9	-1.3	27.0	-12.6	13.3
India	0.0	7.7	-4.1	-9.6	19.1	19.7	-2.8
Rest of the world	0.0	-18.5	-35.2	17.7	203.7	-0.9	-26.4
Total	0.0	-18.5	-35.2	17.7	203.7	-0.9	-26.4
YoY Growth (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
USA, Europe, Canada and Australia	0.0	0.0	0.0	0.0	26.5	8.5	24.1
India	0.0	0.0	0.0	0.0	11.2	23.6	25.3
Rest of the world	0.0	0.0	0.0	0.0	89.1	129.9	161.0
Total	0.0	0.0	0.0	0.0	89.1	129.9	161.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Margin Summary

Margins (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Gross Margin	59.6	56.2	57.0	59.8	63.8	55.1	52.7
EBITDA Margin	39.0	35.5	32.8	37.8	46.7	35.8	30.7
EBIT Margin	35.7	32.0	29.0	34.0	43.9	32.8	27.8
PAT Margin	27.2	35.4	23.9	30.7	35.5	26.3	23.7

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 5: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	20,442	26,332	32,798	38,929	47,364
% growth	26.0	28.8	24.6	18.7	21.7
Raw material costs	8,570	11,020	12,821	15,186	18,236
Staff costs	2,229	2,777	3,276	3,866	4,639
Other expenditure	2,577	2,981	3,878	4,402	5,101
R&D Expenses	966	922	1,148	1,363	1,658
Total expenditure	13,377	16,778	19,975	23,454	27,976
EBITDA	7,065	9,555	12,823	15,475	19,387
% growth	31.3	35.2	34.2	20.7	25.3
EBITDA margin (%)	34.6	36.3	39.1	39.8	40.9
Other income	856	1,392	1,458	1,818	2,309
Interest costs	37	72	40	35	30
Gross profit	11,872	15,312	19,978	23,743	29,127
% growth	23.4	29.0	30.5	18.8	22.7
Depreciation	821	946	1,071	1,197	1,372
Profit before tax & Exceptional Items	7,063	9,929	13,170	16,061	20,294
Exceptional Items	-200	0	0	0	0
Profit before tax	6,863	9,929	13,170	16,061	20,294
% growth	40.8	40.6	32.6	22.0	26.4
Tax	2,344	2,200	3,293	4,015	5,074
Effective tax rate (%)	33	22	25	25	25
PAT	4,519	7,729	9,878	12,046	15,221
% growth	40.7	71.0	27.8	22.0	26.4
EPS (Rs)	27.7	47.3	60.5	73.8	93.2
% growth	40.7	71.0	27.8	22.0	26.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	155	155	163	163	163
Reserves	28,465	36,307	58,677	70,722	85,943
Net worth	28,620	36,462	58,840	70,886	86,106
Net deferred tax liabilities	1,076	741	741	741	741
Total Loans	50	41	37	33	30
Other Financial Liabilities	382	330	330	330	330
Liabilities	30,128	37,574	59,947	71,989	87,207
Net Block	9,287	9,671	10,401	11,005	12,133
CWIP	1,232	1,885	1,685	1,485	1,985
Right of Use Assets	10	10	9	8	8
Other Non Current Assets	1,132	832	1,016	1,190	1,429
Inventories	9,119	7,563	9,487	11,238	13,495
Debtors	5,061	6,018	8,200	9,732	11,841
Cash	7,533	13,252	33,055	41,982	51,921
Other current assets	1,861	1,630	1,969	2,290	2,732
Total current assets	23,575	28,463	52,710	65,242	79,989
Creditors	4,462	2,491	4,487	5,315	6,383
Other current liabilities	646	796	1,386	1,625	1,954
Total current liabilities	5,108	3,286	5,874	6,941	8,337
Net current assets	18,467	25,176	46,837	58,302	71,651
Total assets	30,128	37,574	59,947	71,989	87,207

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PBT	6,863	9,929	13,170	16,061	20,294
(Inc.)/dec. in working capital	-3,539	-799	-1,858	-2,537	-3,411
Cash flow from operations	3,323	9,129	11,312	13,524	16,883
Interest	26	63	40	35	30
Other income	-389	-911	-1,458	-1,818	-2,309
Other Expenses	305	224	0	0	0
Depreciation	821	946	1,071	1,197	1,372
Tax paid (-)	-2,235	-2,441	-3,293	-4,015	-5,074
Net cash from operations	1,853	7,009	7,673	8,922	10,903
Capital expenditure (-)	-1,352	-1,708	-1,600	-1,600	-3,000
Net cash after capex	501	5,302	6,073	7,322	7,903
Other Investing activities	-1,789	-5,953	1,274	1,644	2,069
Cash from Financial Activities	-31	-69	12,456	-39	-33
Opening cash	3,728	2,364	13,252	33,055	41,982
Closing cash	2,364	1,695	33,055	41,982	51,921
Change in cash	-1,320	-720	19,803	8,927	9,939

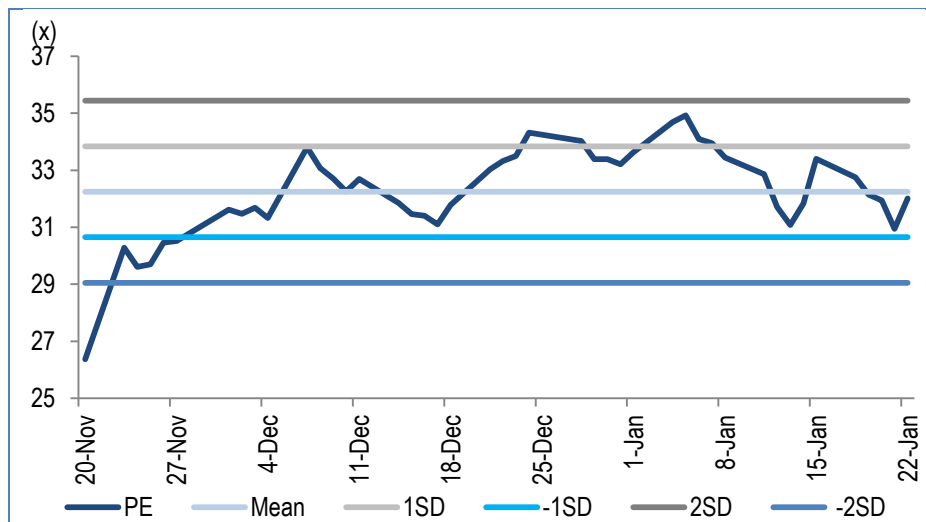
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Profitability & return ratios					
EBITDA margin (%)	34.6	36.3	39.1	39.8	40.9
EBIT margin (%)	30.5	32.7	35.8	36.7	38.0
Net profit margin (%)	22.1	29.4	30.1	30.9	32.1
RoE (%)	17.1	23.8	20.7	18.6	19.4
RoCE (%)	25.0	25.1	21.7	21.9	22.8
Working capital & liquidity ratios					
Receivables (days)	88	77	79	84	83
Inventory (days)	303	276	243	249	248
Payables (days)	157	115	99	118	117
Current ratio (x)	4.6	8.7	9.0	9.4	9.6
Quick ratio (x)	2.8	6.4	7.4	7.8	8.0
Valuation ratios					
EV/sales (x)	17.9	13.7	10.4	8.5	6.8
EV/EBITDA (x)	51.7	37.6	26.5	21.4	16.6
P/E (x)	82.5	48.2	37.7	30.9	24.5
P/BV (x)	13.0	10.2	6.3	5.3	4.3

Source: Company, Nirmal Bang Institutional Equities Research

P/E Chart

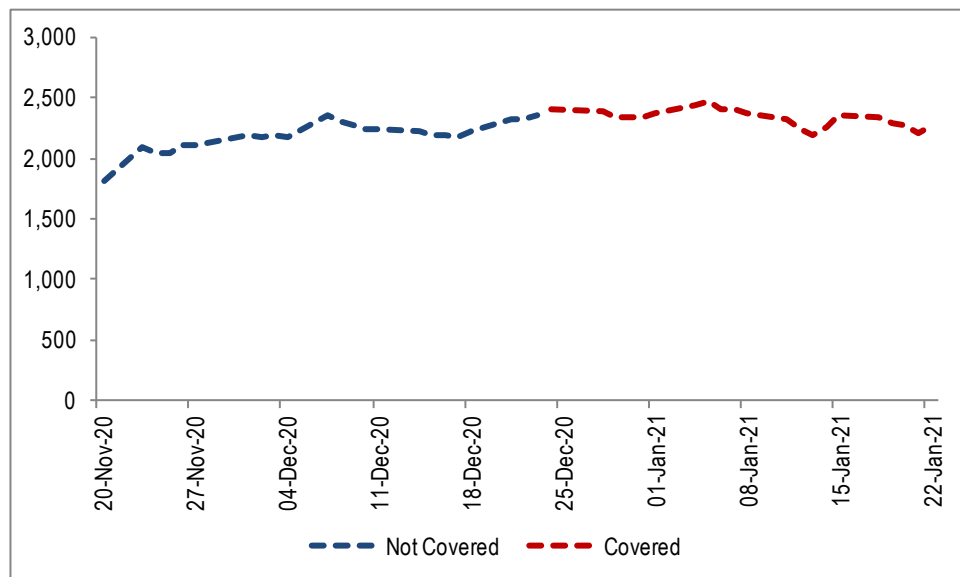


Source: BSE, Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
24 December 2020	Accumulate	2,408	2,330
07 January 2021	Accumulate	2,410	2,330
24 January 2021	Accumulate	2,283	2,330

Rating track graph



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