

# Gland Pharma

24 December 2020

Reuters: GLAD.NS; Bloomberg: GLAND IN

## Earnings to compound led by foray into new markets, complex injectables and portfolio expansion

We initiate coverage on Gland Pharma with an Accumulate rating and target price (TP) of Rs2,330. Gland Pharma (Gland) is one of the fastest-growing generic injectable-focused companies by revenue. Shanghai Fosun Pharma (Chinese MNC) is the promoter company of Gland and is a global pharmaceutical major. Gland primarily operates on a B2B model, with revenue distributed over 60 countries. A B2B business model together with a sharp focus on manufacturing of sterile dosage forms (injectable and ophthalmic) allows the company to operate on a very lean cost structure and also ensures regulatory compliance on a consistent basis. Ensuring consistent regulatory compliance is potentially a cornerstone of a successful injectable business, but unfortunately it has emerged as an Achilles heel for most generic companies. US remains the most important market for Gland (67% of revenue). A consistent compliance track record with a range of regulatory regimes across these markets is the hallmark of Gland.

**Strong revenue performance should sustain:** Over FY17-20, Gland revenue has grown at a CAGR of 21%, clocking Rs26,332mn revenue in FY20. We expect faster growth in FY21, led by new launches in the US and higher demand in select portfolio products due to the COVID-19 pandemic. Over FY21-FY23, we estimate 21.6% CAGR revenue growth while earnings growth will outpace revenue growth as the company will build on its capacity utilization. Existing manufacturing capacity, including the recent CapEx should suffice for attaining growth over the next four to five years.

**Consistent compliance track record is the hallmark of Gland:** Compliance remains the cornerstone of running a successful injectable/sterile dosage business. It's an area where most of the other larger-cap pharma peers in India have faltered. For Gland, a clean compliance track record is an outcome of regular compliance audits that its manufacturing facilities undergo by virtue of its partnership with multiple global injectable players. Each customer audit occurs at least once in two years with a frequency of 30 audits per year while regulatory agency audits occur every year with a frequency of eight audits per year. These audits provide a thorough scrutiny of compliance with quality systems and procedures. Incrementally, Gland also receives supervision and guidance from external consultants across its facilities.

**Foray into China, monetization of its complex injectable efforts are the long term drivers:** Foray into China by the end of FY22 or early FY23 and ongoing development of complex generic injectables (FY23 and onwards) would drive the next leg of growth for the company. The company continues to file for a portfolio of first-to-market generics in China and hopes to leverage the marketing/distribution reach of its parent company for a successful commercial execution. On the complex generic front, gauging the timing of approvals will remain a challenge, but investments are in place. The company is looking to target suspensions, peptides, hormonal and depot products.

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
Adjusted 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)	87.6	51.2	40.1	32.9	26.0
P/BV (x)	13.8	10.9	6.7	5.6	4.6
EV/EBITDA (x)	55.0	40.1	28.3	22.9	17.7
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

## ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs2,408

Target Price: Rs2,330

Downside: 3%

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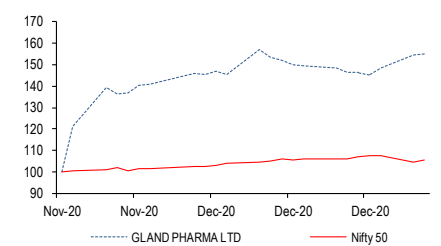
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### Key Data

Current Shares O/S (mn)	163.3
Mkt Cap (Rsbn/US\$bn)	380.2/5.1
52 Wk H / L (Rs)	2,440/1,700
Daily Vol. (3M NSE Avg.)	-

Share holding (%)	2QFY21	1QFY21	4QFY20
Promoter	58.4	-	-
Public	41.6	-	-
Others	-	-	-

### One-Year Indexed Stock Performance



### Price Performance (%)

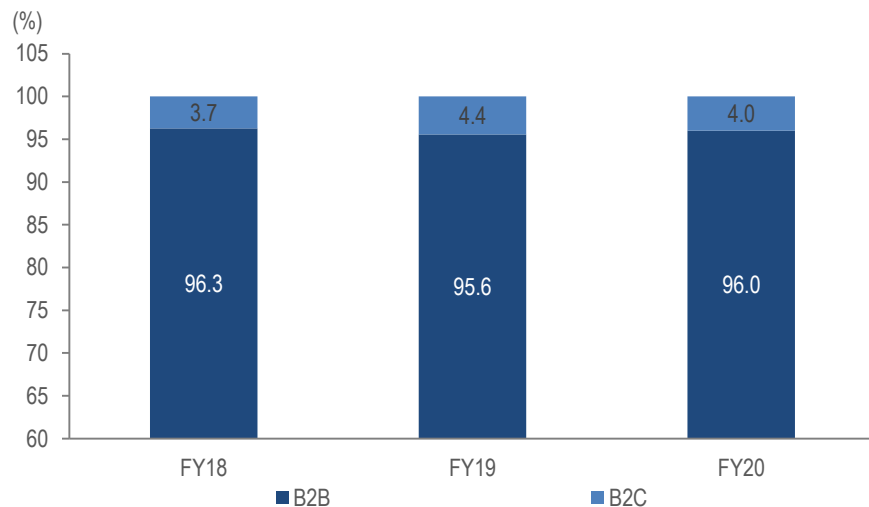
	1 M	6 M	1 Yr
Gland Pharma	11.5	-	-
Nifty Index	4.2	28.6	9.8

Source: Bloomberg

### B2B driven business model

Gland sells its products primarily under a business to business (B2B) model in over 60 countries as of March 31, 2020, including the United States, Europe, Canada, Australia, India and the Rest of the World. The company's B2B model covers IP-led, technology transfer and contract manufacturing models, complemented by a B2C model in India, leveraging the brand strength and sales network.

#### Exhibit 1: Split between revenue share of B2B and B2C business model

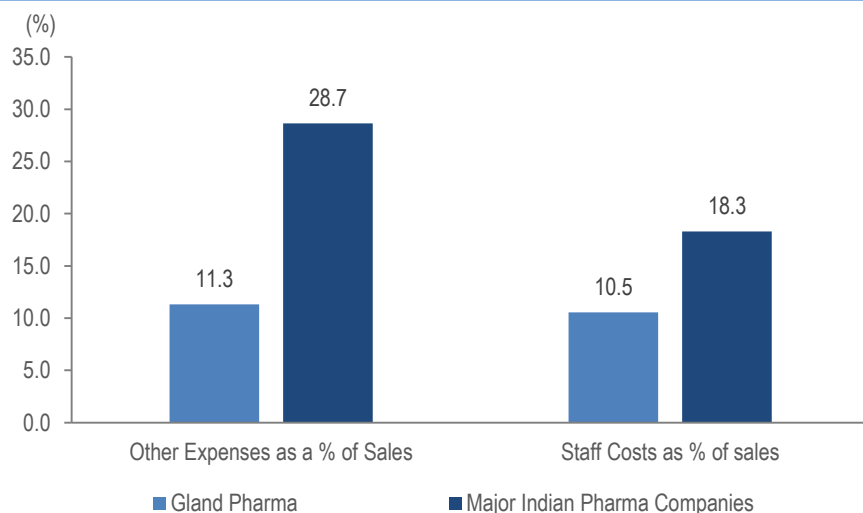


Source: Company, Nirmal Bang Institutional Equities Research

Gland has focused on remaining a B2B player and has refrained from building its own front end in most geographies that it operates. The B2C model is restricted to India geography and as of March 31, 2020, the company had a sales force of over 200 employees accompanied by an extensive countrywide distribution network to ensure coverage in approximately 2,000 corporate hospitals, nursing homes and government facilities. On the flip side, a B2B model impacts the value realization per unit, but for Gland, the benefits seem to outweigh. Gland operates at a similar margin as the largest injectable players with a front end. Gland operating margins are comparable to Hikma which is the third largest generic player on the injectable front and has its own front end.

A B2B model allows Gland the much needed focus that a sterile injectable manufacturing requires and it is reflected in Gland cost structure and the exemplary regulatory compliance track record.

#### Exhibit 2: Gland Pharma has an advantage due to its B2B business model



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: PROs and CONs**

Pros	Cons
<b>Exemplary Track record of Regulatory Compliance</b> - The company has consistently maintained compliance with the GMP norms across markets. This makes it a preferred supplier for most generic companies. It also ensures complete management focus on manufacturing, regulatory compliance and product development translating into efficiency.	<b>Increasing competitive intensity:</b> the competitive intensity in injectable space continues to increase which may translate into pricing pressures. A growing number of Indian players investing in injectable manufacturing, including some small and mid-sized ones too.
<b>Backward integration into API:</b> About 20-30% of portfolio is backward integrated with its own API. It is typically unusual for injectable companies to do so, but Gland does it selectively for APIs which has limited/single source suppliers and represent higher volume markets. The company has three USFDA approved API manufacturing facilities.	Gland is primarily a B2B player, which limits the value generated per ANDA filing. This is partially or completely offset by the volume gains.
<b>Fosun Pharma Advantage:</b> Gland's parent Shanghai Fosun Pharma has over 200 subsidiaries engaged in Pharmaceuticals business across the value chain and geographies. Gland can leverage the group's strength for superior distribution/marketing reach besides strengthening its supply chain.	Gland is yet to invest in a platform for developing injectable biosimilars or demonstrate capability in development of small molecule complex injectable formulations (depot, liposomal, nanosomal etc.)
<b>Business is less prone to price fluctuations in end markets</b> - Gland's B2B business model is helping it shield itself from price variations and erosion to an extent.	-
<b>Gland has got a strong balance sheet</b> , which it can leverage to leapfrog into segments it is currently not present in.	-

Source: Company, Nirmal Bang Institutional Equities

**Exhibit 4: Major events and milestones of Gland Pharma**

Calendar year	Event
2019	Filed Dextrazoxane for Injection, our first filing with the National Medical Products Administration, China, and received clinical waiver
2018	1) Received ANDA approval for Enoxaparin Sodium Injection USP for the US market 2) Received ANDA approval for Olopatadine Hydrochloride Ophthalmic Solution USP, 0.1%, our first Ophthalmic product approval
2017	Fosun Singapore acquired 74% stake in The Company
2016	1) Obtained USFDA approval for our facilities at Jawaharlal Nehru Pharma City, Visakhapatnam 2) Obtained USFDA approval for our manufacturing facility at Pashamylaram 3) Obtained USFDA approval for our facility at the Visakhapatnam Special Economic Zone
2014	1) Obtained USFDA approval for small volume parenteral manufacturing facility at Visakhapatnam 2) Commissioned the Pashamylaram Unit-II manufacturing facility 3) Received the 'Certificate of GMP Compliance of a Manufacturer' from MHRA (UK) for manufacturing facility at Dundigal 4) Capital infusion of US\$ 100 million into the Company pursuant to private equity investment aggregating to approximately US\$ 200 million with KKR Floorline Investment PTE Ltd
2012	Received the 'Certificate of GMP Compliance of a Manufacturer' from BGV Hamburg (Germany) for company's manufacturing facility at Dundigal
2010	Launched Heparin Sodium Injection in the US
2007	Capital infusion of approximately ₹1,000 million into the Company pursuant to private equity investment aggregating to approximately ₹1,200 million with EILSF Co-Invest I LLC
2004-05	Launch of Enoxaparin Sodium Injection (Cutenox) in India and Rest of the world markets
2003	Received USFDA approval for the manufacturing facility at Dundigal
2000	Set up the in-house R&D facility at Dundigal, Hyderabad
1978	Incorporation of The Company by P.V.N. Raju

Source: Company, Nirmal Bang Institutional Equities Research

### Gland is incrementally gaining prominence in the US injectable market with rising share of approvals, but competitive intensity is rising

Gland is not the largest player in US by revenues, but it figures among the top 3 players when it comes to incremental injectable approvals in the US. Over the last five years, Gland has maintained a healthy share in new approvals (~ 8-10% of approvals).

From a competition perspective, we continue to witness incremental entry of newer players in the older genericised molecules which leads to price erosion on an ongoing basis. Indian players are dominating new approvals with Aurobindo Pharma, Accord healthcare, Gland pharma, Dr. Reddy's Labs and Zydus-Cadila being the prominent ones.

#### Exhibit 5: Gland Share of New Injectable Approval

Year	Total generic Injectable Approvals	India Share in Approvals	Gland Share in Total Approvals
2020	131	37%	10%
2019	139	40%	9%
2018	177	21%	3%
2017	193	27%	8%
2016	102	38%	9%

Source: USFDA, Nirmal Bang Institutional Equities Research

#### Exhibit 6: Rising Competitive Intensity

Year	# of Injectable Products for which generics are approved	Share of First Generics in approval	# of Companies that gained an approval
2020	76	12%	61
2019	96	13%	67
2018	101	22%	70
2017	111	14%	64
2016	78	15%	46

Source: USFDA, Nirmal Bang Institutional Equities Research

### Can Gland scale up from current levels in the US?

Currently, Gland is relatively a medium-sized player in the US in terms of revenue in the injectable category, but from a perspective of injectable molecule coverage it is comparable to the large players in the injectable space. Gland's revenue in the US is ~US\$300mn annually, which comes from a portfolio of 204 approved ANDAs, of which 63 are its own ANDAs.

There is enough opportunity for Gland to build its portfolio further, as out of the ~650 different injectable molecules that are approved in the US, there are 315 molecules wherein there is single player on the market. Out of the 315, about 130 are injectables where patents have expired but a generic launch is yet to happen. Incrementally, our estimate suggests that Gland's existing portfolio covers only 15-20% of the injectable molecule and hence it has substantial scope to build on the molecule coverage. The generic injectable market in the US is worth ~US\$10bn and the global injectable market is ~US\$70bn.

#### Exhibit 7: Injectable market in USA

Competitive Intensity* (# of Players)	# of Injectable Products
1 (Novel Injectable yet to see generic competition)	~185
1 (Expired Injectable products with sole player)	~130
2	77
3	53
4	47
5	32
>5	119

Source: USFDA, Nirmal Bang Institutional Equities \*Competitive Intensity is number of players competing in a particular molecule

**Exhibit 8: Injectable approvals in USA**

Company	# of Approval in US*
Fresenius Kabi	153
Hospira Inc	116
Hikma	163
Sandoz	61
Teva	66
Mylan	105
Sun Pharma	32
Dr. Reddy	37
Aurobindo Pharma	63
Gland Pharma	58
Baxter	61
Sagent	52
Intas	34
Akorn	47

Source: USFDA, Nirmal Bang Institutional Equities \*Multiple doses of the same product is counted once

**Large patent expiry in the Oncology injectable space is around the corner and Gland will be a potential beneficiary**

Over the next few years, we also expect to see some very large patent expiries in the oncology segment, with Alimta and Velcade being the largest ones. Both Alimta and Velcade are due to lose their patents in 2022, where Gland is most likely to be a player. Alimta and Velcade cumulatively represent US\$2.5bn in annual sales in the US.

**Gland is also eyeing complex injectable formulation launches in the US**

Gland is in the process of developing and filing complex injectable in the US. We see a large pool of complex injectable assets wherein there are developmental challenges and are potential candidates for Gland to participate.

**Exhibit 9: Complex injectable opportunities in USA**

Complex Injectable Products	US Sales (US\$MN)
Venofer	300
Abraxane	900
InvegaSustena	2,000
Vivitrol	350
Onivyde	100
Bydureon / Byetta	500
Aristada	200
Somatulin	700
AbilifyMaintena	700
Ambisome	116
Exparel	400
Lupron Depot	1,400

Source: USFDA, Company, Nirmal Bang Institutional Equities

**Gland has a strong base of ANDA filings to support growth for the next 5 years in the US**

A portfolio of 61 unapproved ANDAs can add substantial growth on the existing revenue base over the next three years. Assuming ~25-30 new approvals (own + partner ANDAs) every year (in line with the trends seen in the past few years), we can expect Gland to add about mid to high single digit annualized growth on the revenue base from the US. Other geographies should complement the underlying growth rates, with China potentially being the most important geography.

### Can erosion in base business offset growth from new products in the US?

A Large part of the existing approved ANDA portfolio of Gland is into commoditized segments as indicated by the median competitive intensity. There are a median of 8 players across the various approved drugs in Gland's portfolio in the US. Incrementally, most portfolio drugs where Gland has a presence, it also has competition from the larger Indian origin injectable players (Aurobindo Pharma, Sun Pharma, Dr. Reddy's Labs, Intas etc.). Such high level of competition leaves little room for further price discovery. Besides, Gland operates on a B2B business model, which ensures that it is spared with a minimum margin of ~25% as determined by their transfer pricing.

#### Exhibit 10: Gland Pharma portfolio competitive intensity - own ANDAs

Competitive Intensity	# of Injectable Products
1	1
2	2
3	3
4	1
5	7
>5	44

Source: Company, USFDA, Nirmal Bang Institutional Equities

#### Exhibit 11: Peer Comparison - Portfolio Competitive Intensity - Molecule Wise\*

Company	Median Competitive Intensity
Gland Pharma	8
Aurobindo Pharma	8
Dr. Reddy's Labs	9
Sun Pharma	7
Fresenius Kabi	6
Hikma	6
Hospira	5.5
Akorn	6
Mylan	7
<b>Injectable Category</b>	<b>8</b>

Source: Company, USFDA, Nirmal Bang Institutional Equities \*Multiple doses of the same product is counted once

#### Exhibit 12: A reasonable part of Gland Pharma's portfolio figures in the Drug Shortage List

Drugs in Gland that figure in shortage list
Calcitriol Injection USP 1MCG /ML
Cisatracurium Besylate Injection
Dexamethasone Sodium Phosphate Injection
Dexmedetomidine Injection
Etomidate Injection
Furosemide Injection, USP
Leucovorin Calcium Lyophilized Powder for Injection
Metoprolol Tartrate Injection, USP
Metronidazole Injection, USP
Midazolam Injection, USP
Ondansetron Hydrochloride Injection
Oxytocin Injection, USP Synthetic
Tobramycin Lyophilized Powder for Injection
Vecuronium Bromide for Injection

Source: Company, USFDA, Nirmal Bang Institutional Equities



### Can margins expand from current levels?

Gland has seven manufacturing facilities, which are situated in Southern India, including two sterile injectables facilities, one dedicated Penems facility, one oncology facility and three API facilities. Gland's manufacturing process is designed to facilitate production flexibility and deliver high and consistent product quality. Gland's finished formulation manufacturing facilities with a total of 22 production lines have the flexibility to accommodate different product requirements without the need to install new production lines. This allows the company to adapt quickly to changes in product specifications, market demand and production requirements. The company also has diversified manufacturing of key products to mitigate exposure to regulatory risk with respect to any particular unit. The company's manufacturing facilities have established a consistent record of regulatory compliance with the USFDA. Gland is certified as GMP compliant at all of its manufacturing facilities by the USFDA and certain facilities by the MHRA (UK), ANVISA (Brazil), AGES (Austria), TGA (Australia) and BGV Hamburg (Germany). Gland has not received any warning letters from the USFDA (whether as a result of facility inspections or otherwise) since the inception of each of its facility.

Gland has a total of three API facilities with in-house manufacturing capabilities for critical APIs. 20-30% of the company's ANDAs covering key products are supported by in-house APIs. The company's vertical integration allows it to achieve greater control over manufacturing processes to meet required standards, increase operating efficiencies, accelerate product development, strengthen product quality control and improve supply chain efficiencies.

Gland has significant amount of spare manufacturing capacity available across various manufacturing units. Typically, for sterile manufacturing, ~85% of the operating costs kick in once a manufacturing line is commissioned. Hence, incremental capacity utilization will be margin accretive. Its Carbapenem and Oncology manufacturing lines are very sub-optimally utilized. Out of the 50 oncology filings that Gland has, only 20-25% are so far commercialized.

### Exhibit 13: Facility Status

No.	Location, Facility	Presentation	Capacity (Lines)	Existing Capacity (Units/annum)	Capacity Utilization (%) in FY20	Key Products	Key regulatory approvals
1	Dundigal, Hyderabad, India (Sterile injectables)	Liquid Vials	6	240 Mn	91	Enoxaparin Sodium, Caspofungin, Levetiracetam, Daptomycin	USFDA (US), MHRA (UK), ANVISA (Brazil), TGA (Australia), BGV Hamburg (Germany)
		Lyophilizers (7 Nos)	N/A	48 Mn	75		
		Ampoules	1	60 mn	26		
		Pre-filled Syringes	2	60 mn	50		
		Bags	2	5 mn	51		
		Ophthalmics	1	45 mn	17		
2	Pashamylaram, Hyderabad, India (Sterile injectables)	Liquid Vials	3	132 mn	73	Heparin Sodium, Vancomycin	USFDA (US), GUB Munich (Germany)
		Lyophilizers (3 Nos)	N/A	18 mn	76		
		Ampoules	2	120 mn	29		
3	Pashamylaram, Hyderabad, India (Penems)	Vials ( 2 Lyophilizers)	1	8 mn	-	-	USFDA (US)
		Dry Powder	1	4 mn	-		
4	Vishakhapatnam, India (Oncology)	Liquid Vials	3	11 mn	48	Paclitaxel, Bortezomib	USFDA (US), AGES (Austria), TGA (Australia),
		Lyophilizers (4 +1)#	N/A	5 mn	24		
5	Dundigal, Hyderabad, India (API)*	-	-	N/A^	-	-	USFDA (US), MHRA (UK), ANVISA (Brazil), TGA (Australia), BGV Hamburg (Germany)
6	Vishakhapatnam, India (API)*	-	-	3,000 kg/year	-	-	USFDA (US), ANVISA (Brazil)
7	Vishakhapatnam, India (API)*	-	-	8,000 kg/year	-	-	USFDA (US), DMA (Denmark)

Source: Company, Nirmal Bang Institutional Equities Research

**Increasing competitive intensity in injectable space poses a threat** - A growing number of Indian generic players are looking to build and ramp up their injectables portfolio in the US. Among the established Indian injectable players, Aurobindo Pharma, Dr. Reddy's Labs, Sun Pharma and Intas are ramping up their portfolio, and there are aspirants as well eyeing this space and have just embarked on the journey. The aspirants include Lupin, Alembic Pharma, Puniska Healthcare, Astral Steritech and Caplin Sterile

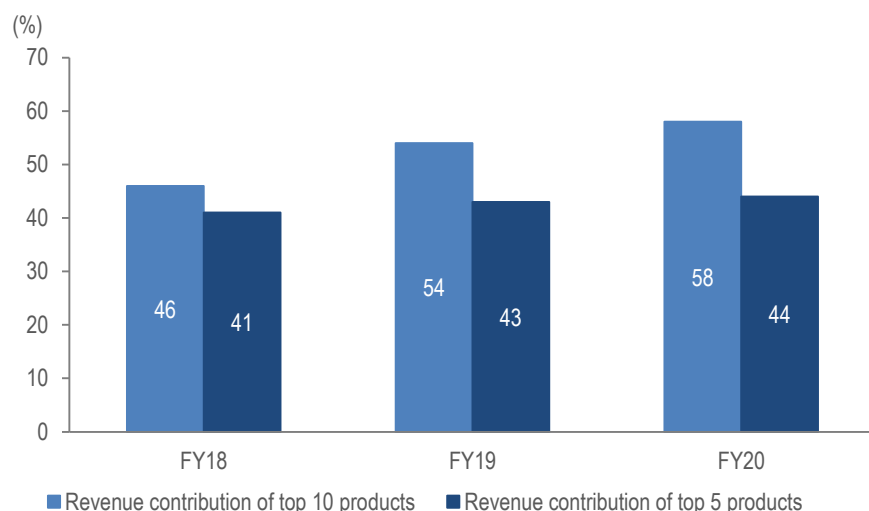
**Gland does not have a front end in the US – glass half full or half empty?** Absence of a front end in the US does dilute the value add that Gland can generate on its portfolio, but it offers it the benefits of focusing on manufacturing, regulatory compliance and ability to leverage the marketing scale of multiple partners to maximize volumes. We estimate that Gland has a broad based client list that it partners with in the US (~50 different partners). Gland has been able to partner with the big boys of injectable space, which allows it the benefit of maximizing volumes that help it to offset the value.

**China can start delivering FY23 and beyond** - Other growth avenues for Gland include entering new geographies and scaling up its presence. Among the new geographies, China represents the most attractive market. With the Fosun parentage, carving a share in the China market is unlikely to be a challenge. The company has filed 6 ANDAs in China, which should be approved over the next 12–18 months. The filings in China are targeted as first generics and hence could be attractive. Gland is also building scale in other important geographies like Canada, Australia and Latin America. Even its India (B2C) business, which is ~4% of sales, can offer a steady growth trajectory.

**Synergies with Fosun** – China-based Fosun, which is the promoter entity of Gland and is a global pharma major, offers additional bandwidth to the Gland management and a global network that Gland can leverage for maximizing its reach. Fosun has a marketing/distribution network in Europe and Africa, which it can leverage for expanding its geographic presence. Incrementally, Fosun owns a large pharma distributor in China and also has a hospital network, which should also help it to expeditiously build presence in China for its injectable portfolio once approved.

**Product concentration risk** - Around 58% of the Gland's revenue comes from the top 10 products and ~44% of the revenue comes from top 5 products. While the Top 10 products contributing 58% to the total revenue may be a concentration risk, but the actual top 10 products keep changing YoY.

**Exhibit 14: Revenue contribution from top products**



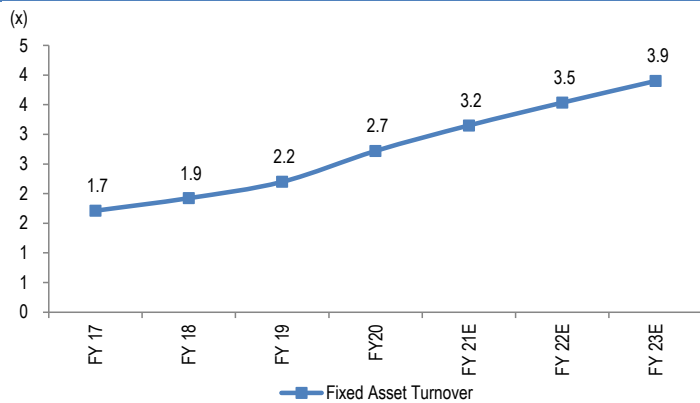
Source: Company, Nirmal Bang Institutional Equities Research



### Strong RoCE Profile led by Capital and operational efficiency

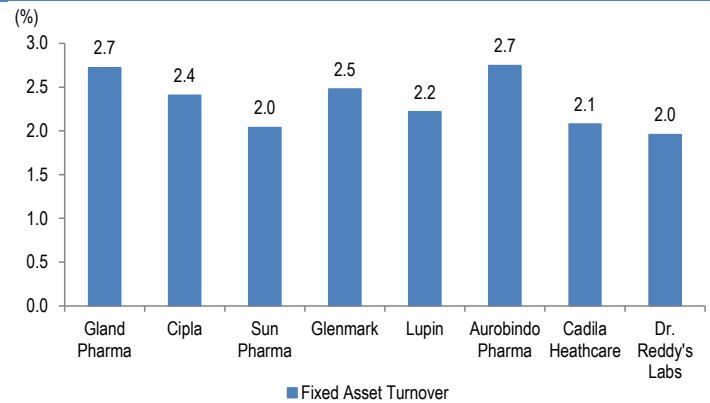
Gland is currently operating at a fixed asset turnover of 2.3. The company is expected to incur growth-oriented capital expenditure of around Rs3,000mn over FY21 and FY22. The company expects to cater to business demand till FY24 with current capacities. The company will begin its capex cycle for the next five years in FY23.

**Exhibit 15: Gland Pharma's fixed asset turnover**



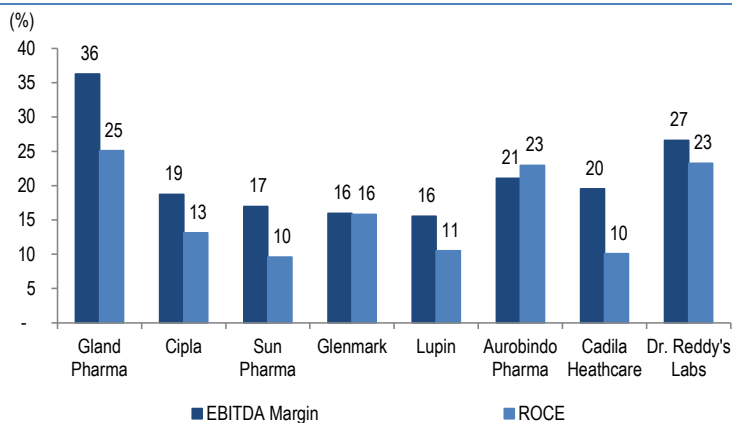
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: Comparative fixed asset turnover**



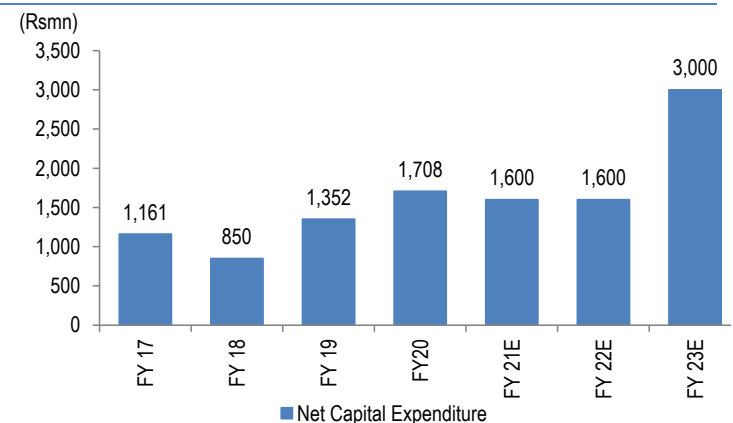
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: Comparative EBITDA margin and RoCE**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 18: Net Capital Expenditure**



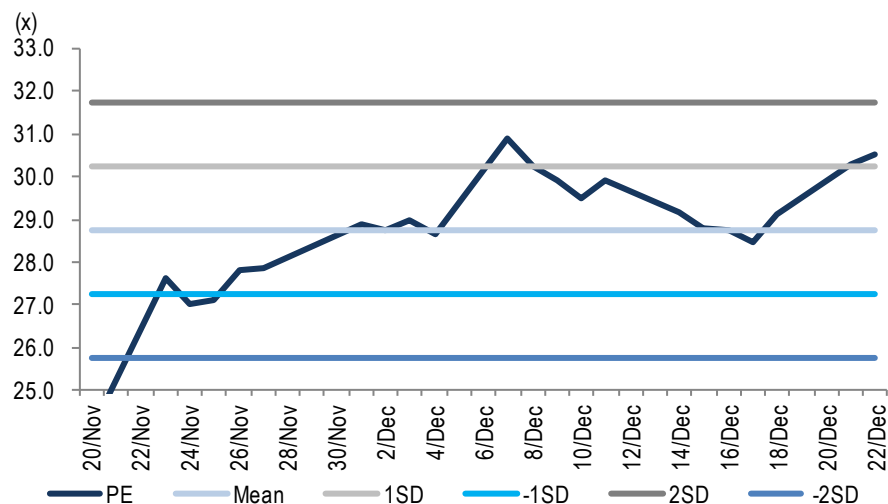
Source: Company, Nirmal Bang Institutional Equities Research

**Valuation** - We value Gland at 25x FY23E earnings, which is a 10% premium over the major Indian generic pharma companies.

The higher valuation multiple is to basically account for the following:

- 1) Consistent track record of regulatory compliance
- 2) Shanghai Fosun Pharma enabling smooth entry and faster market penetration in China
- 3) Strong RoCE profile despite growing competition
- 4) Headroom to scale up operations led by approvals of complex injectable formulations and foray into newer geographies

**Exhibit 19: Historical price/earnings ratio of Gland Pharma**



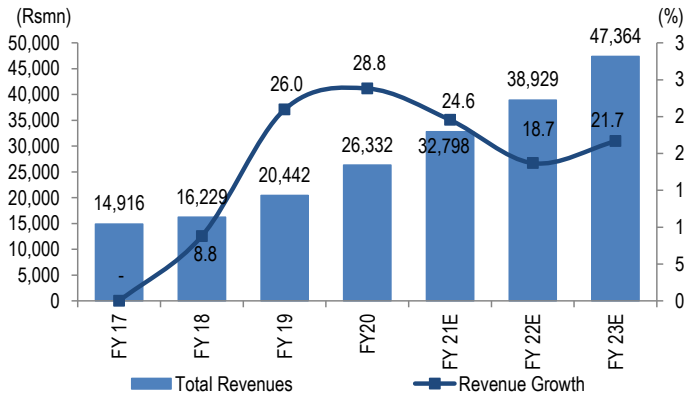
Source: Bloomberg, Nirmal Bang Institutional Equities Research

### Risks to our recommendation

- 1) **Competition from generic Indian pharma companies** is growing as more and more companies are getting into injectable products.
- 2) **Product concentration risk** – Around 60% of Gland's revenue comes from top 10 products while 45% of its revenue comes from top 5 products. Drugs remain subject to competitive risks from alternative drugs in development or marketed one'.
- 3) **Exchange rate** – Depreciation/appreciation of USD versus INR can have an adverse/favorable impact on earnings versus our forecasts.
- 4) **Regulatory compliance** – While Gland has maintained a high regulatory compliance, we cannot rule out the risk of regulatory complications.
- 5) **Heparin is one of the key API's where Gland has dependence on China** – Any Supply chain disruption can impact sale of end product (Enoxaparin and Heparin Sodium) for Gland pharma.

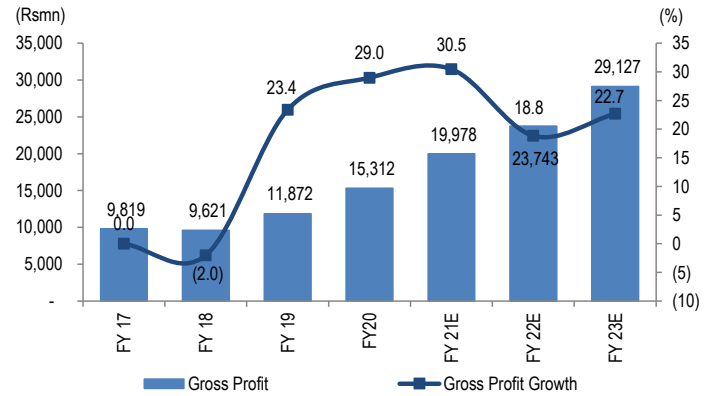
## Ratio charts

**Exhibit 20: Revenue and revenue growth**



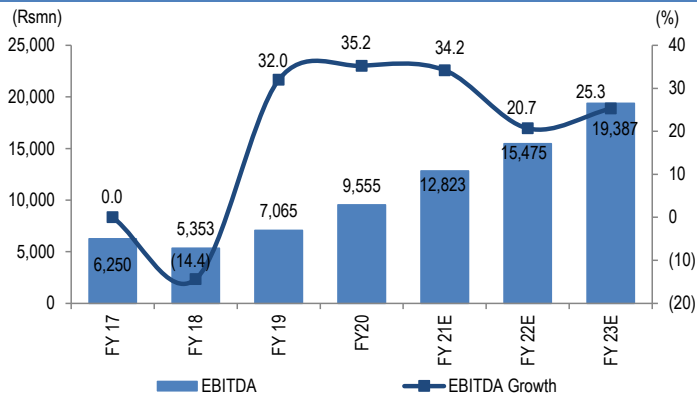
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 21: Gross Profit and Growth**



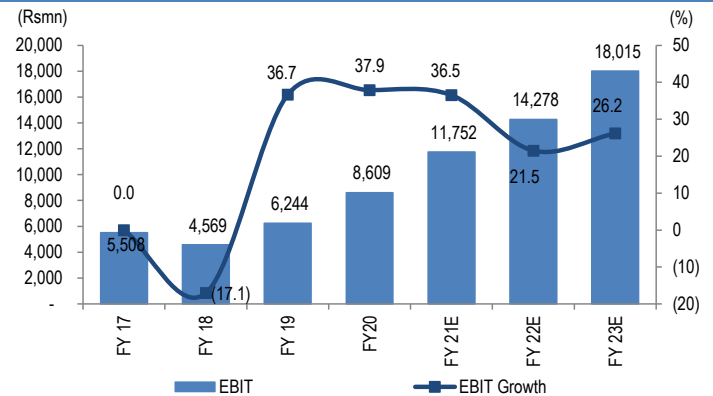
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 22: EBITDA and EBITDA Growth**



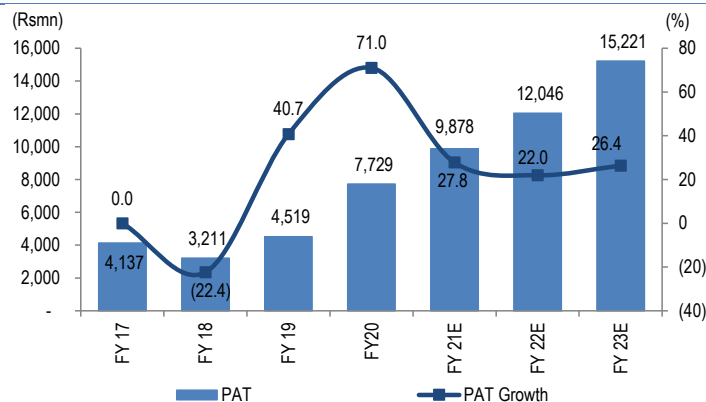
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 23: EBIT and EBIT growth**



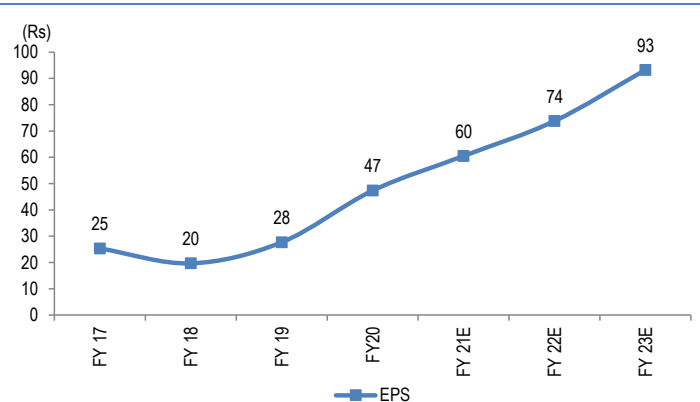
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 24: PAT and PAT growth**



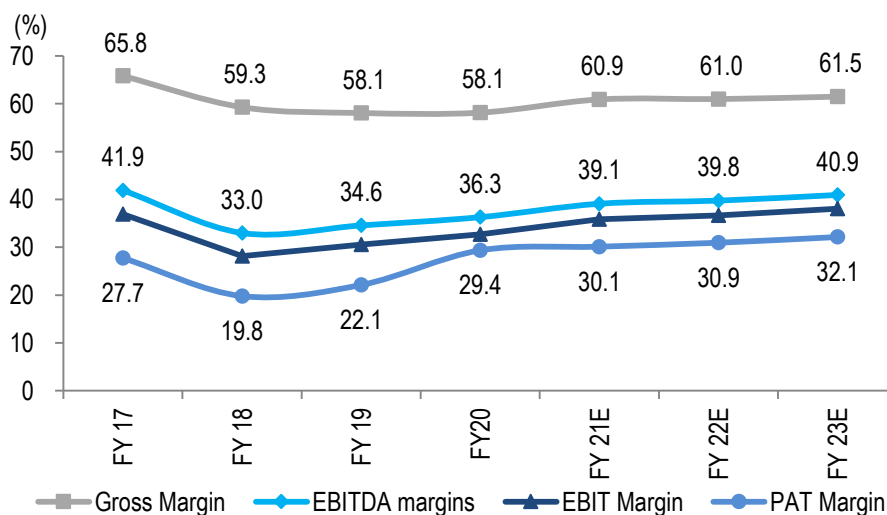
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 25: EPS**



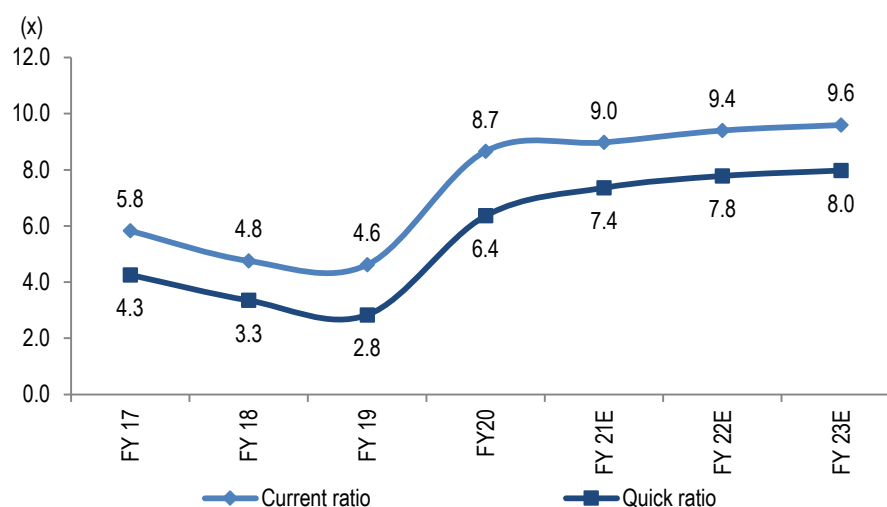
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 26: Margin Profile**



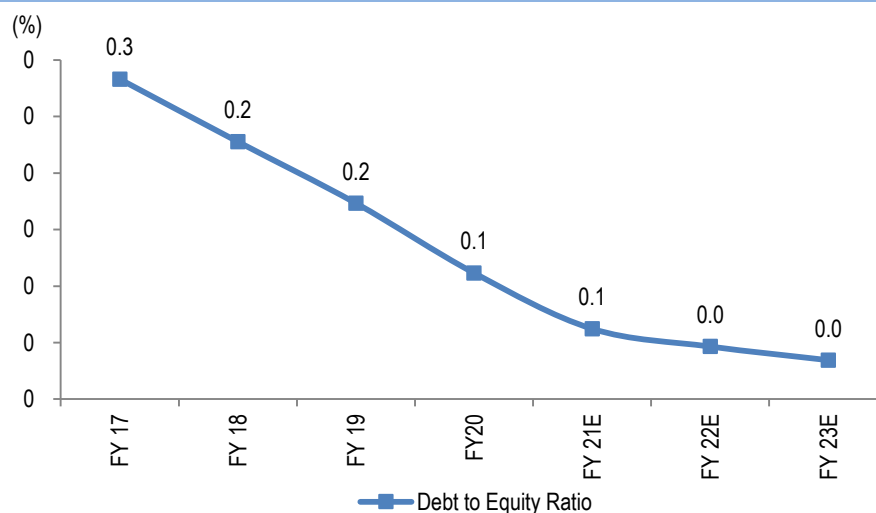
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 27: Current ratio and cash ratio**



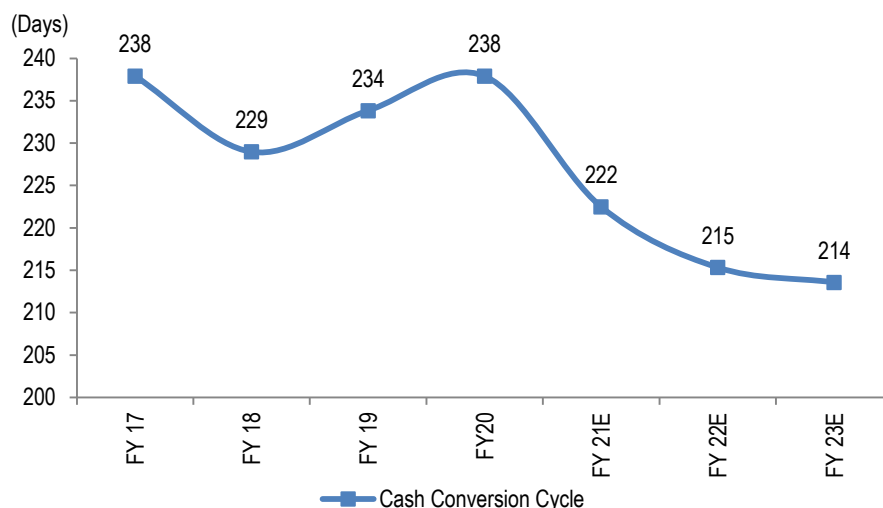
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 28: Debt-to-equity ratio**



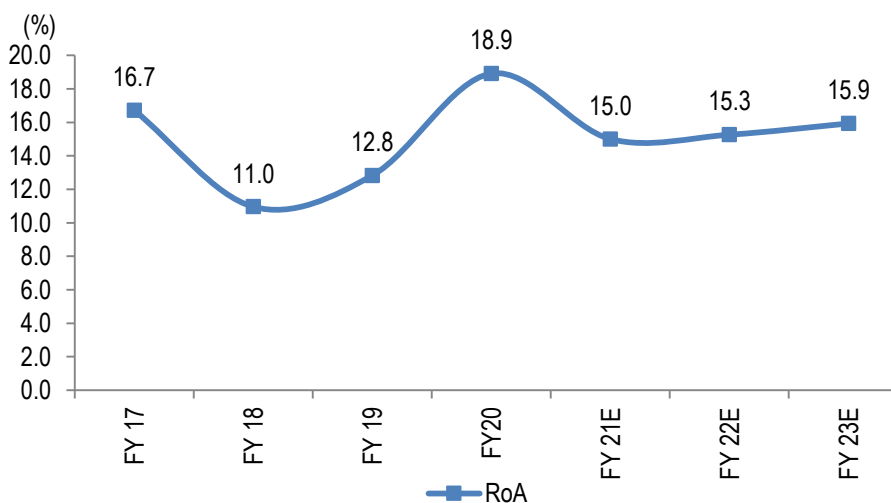
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 29: Cash conversion cycle**



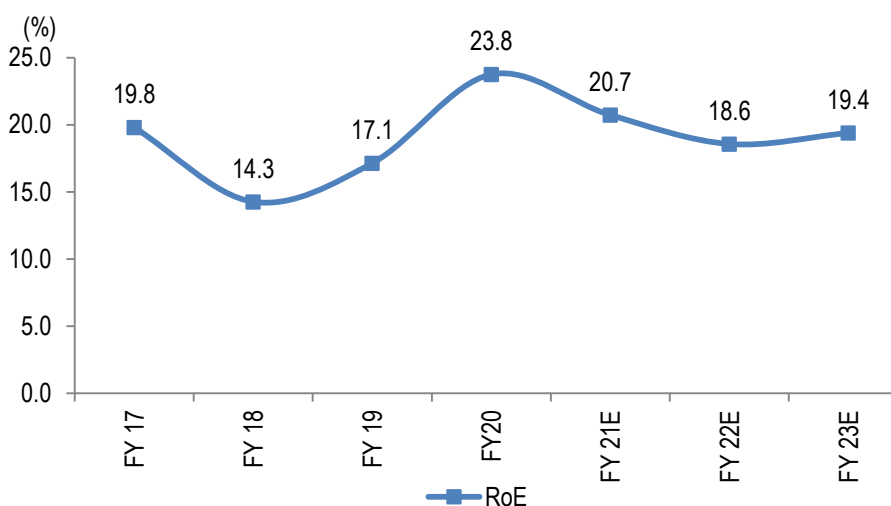
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 30: Return on Assets**



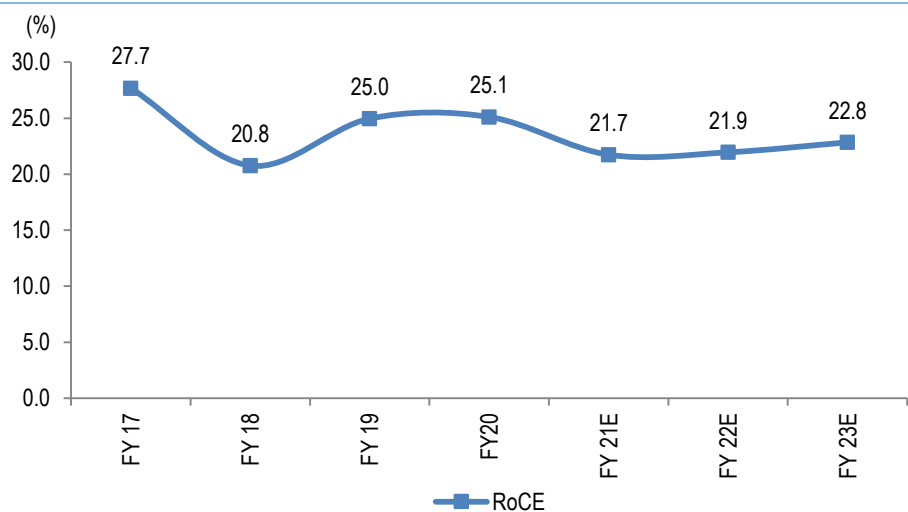
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 31: Return on Equity**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 32: Return on Capital Employed**



Source: Company, Nirmal Bang Institutional Equities Research



## Gland Pharma - Overview

Gland Pharma was established in Hyderabad, India in 1978 and has expanded from liquid parenterals to cover other elements of the injectables value chain, including contract development, own development, dossier preparation & filing, technology transfer and manufacturing across a range of delivery systems. Gland has a professional management team and one of the promoters, Shanghai Fosun Pharma, is a global pharmaceutical major. Gland is one of the fastest growing generic injectables-focused companies by revenue in the US from 2014 to 2019 (Source: IQVIA Report). Gland sells its products primarily under a B2B model in over 60 countries as of March 31, 2020, including the US, Europe, Canada, Australia, India and the Rest of the World. The company has had a consistent compliance track record with a range of regulatory regimes across these markets. The company also has an extensive track record in complex injectables development, manufacturing and marketing and a close understanding of the related sophisticated scientific, technical and regulatory processes. The company has established a portfolio of injectable products across various therapeutic areas and delivery systems. It is present in sterile injectables, oncology and ophthalmics, and focuses on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. The company's delivery systems include liquid vials, lyophilized vials, pre-filled syringes, ampoules, bags and drops. The company has seven manufacturing facilities in India, comprising four finished formulations facilities with a total of 22 production lines and three API facilities. As of March 31, 2020, it had manufacturing capacity for finished formulations of approximately 755mn units per annum. The API facilities provide the company with in-house manufacturing capabilities for critical APIs.

### Exhibit 33: Business Model

Business Model	Description	Product Ownership/Rights	Remuneration
B2B IP-Led Model	Involves Gland Pharma getting into long-term development, licensing and manufacturing and supply agreements with leading pharmaceutical companies with strong and independent sales and distribution networks.	If Gland Pharma files the dossier then it owns dossier as well as development, intellectual property and marketing rights of the product. The company can then out license it to other marketing partners on an exclusive or non-exclusive basis. Where the partner is responsible for filing, the company co-owns the development and intellectual property rights whereas the partner retains ownership of the relevant dossier and marketing rights.	Gland Pharma receives licensing fees along with milestone payments tied to completion of specific product development stages. Upon commercialization of the product, The company receive the selling price per unit dose of the product and may additionally receive a profit share or royalties.
B2B technology transfer model	The product is partially developed by Gland Pharma's customer and the technology required for the manufacture, testing and packaging of such product is subsequently transferred to them.	Gland Pharma's partner retains ownership of the relevant dossier as well as intellectual property and marketing rights of the product, while The company retains the manufacturing right during the term of the technology transfer agreement.	Gland receives selling price per unit dose of the product. The company may also be entitled to receive royalties and/or tech. transfer fee depending on the agreement with the partner.
B2B CMO model	This model is primarily used for the India market, where Gland Pharma provides fill and finish services for aseptically or terminally sterilized injectable to other pharmaceutical companies for already approved products.	Gland Pharma's customer retains ownership of the relevant dossier as well as development, intellectual property and marketing rights of a product, while the company retains the manufacturing right during the term of the agreement.	We enter into loan and license agreements with these pharmaceutical companies and receive manufacturing and packaging payments per unit manufactured.
B2C Model (in India only)	Engaged in direct marketing solely in India which leverages Gland Pharma's brands in this market to drive company's focus on injectable.	Company's Existing sterile injectable products are marketed.	Direct revenue to the company

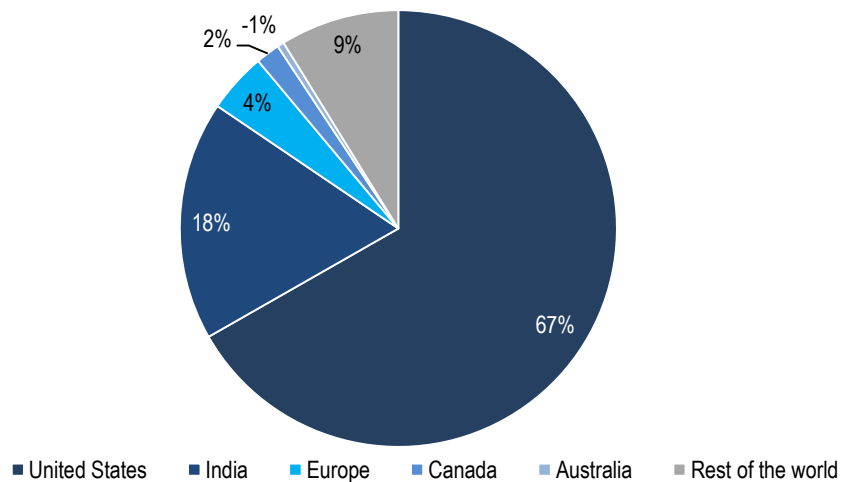
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 34: Shareholding pattern**

Particulars	No. of shares (mn)	% held
<b>Promoter &amp; promoter group</b>	<b>95.3</b>	<b>58.36</b>
Fosun Pharma	95.3	58.36
<b>Mutual funds/Alternate funds</b>	<b>20.8</b>	<b>12.73</b>
SBI Mutual Fund	5.6	3.43
Axis Asset Management	1.8	1.09
Nippon Life India Asset Management	1.7	1.05
<b>Foreign portfolio investors</b>	<b>13.9</b>	<b>8.51</b>
Government of Singapore	4.4	2.66
<b>Others</b>	<b>31.2</b>	<b>19.10</b>

Source: BSE, Nirmal Bang Institutional Equities Research

**Exhibit 35: Revenue break-up**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 36: Income statement**

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>20,442</b>	<b>26,332</b>	<b>32,798</b>	<b>38,929</b>	<b>47,364</b>
% 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
<b>EBITDA</b>	<b>7,065</b>	<b>9,555</b>	<b>12,823</b>	<b>15,475</b>	<b>19,387</b>
% growth	31.3	35.2	34.2	20.7	25.3
<b>EBITDA margin (%)</b>	<b>34.6</b>	<b>36.3</b>	<b>39.1</b>	<b>39.8</b>	<b>40.9</b>
Other income	856	1,392	1,458	1,818	2,309
Interest costs	37	72	40	35	30
<b>Gross profit</b>	<b>11,872</b>	<b>15,312</b>	<b>19,978</b>	<b>23,743</b>	<b>29,127</b>
% growth	23.4	29.0	30.5	18.8	22.7
Depreciation	821	946	1,071	1,197	1,372
<b>Profit before tax &amp; Exceptional Items</b>	<b>7,063</b>	<b>9,929</b>	<b>13,170</b>	<b>16,061</b>	<b>20,294</b>
Exceptional Items	-200	0	0	0	0
<b>Profit before tax</b>	<b>6,863</b>	<b>9,929</b>	<b>13,170</b>	<b>16,061</b>	<b>20,294</b>
% growth	40.8	40.6	32.6	22.0	26.4
Tax	2,344	2,200	3,293	4,015	5,074
<b>Effective tax rate (%)</b>	<b>33</b>	<b>22</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>PAT</b>	<b>4,519</b>	<b>7,729</b>	<b>9,878</b>	<b>12,046</b>	<b>15,221</b>
% growth	40.7	71.0	27.8	22.0	26.4
<b>EPS (Rs)</b>	<b>27.7</b>	<b>47.3</b>	<b>60.5</b>	<b>73.8</b>	<b>93.2</b>
% growth	40.7	71.0	27.8	22.0	26.4

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 38: 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
<b>Liabilities</b>	<b>30,128</b>	<b>37,574</b>	<b>59,947</b>	<b>71,989</b>	<b>87,207</b>
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
<b>Total assets</b>	<b>30,128</b>	<b>37,574</b>	<b>59,947</b>	<b>71,989</b>	<b>87,207</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 37: 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
<b>Cash flow from operations</b>	<b>3,323</b>	<b>9,129</b>	<b>11,312</b>	<b>13,524</b>	<b>16,883</b>
Interest	26	63	40	35	30
Other income	-389	-911	-1,458	-1,818	-2,309
Other Adjustments	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
<b>Net cash from operations</b>	<b>1,853</b>	<b>7,009</b>	<b>7,673</b>	<b>8,922</b>	<b>10,903</b>
Capital expenditure (-)	-1,352	-1,708	-1,600	-1,600	-3,000
<b>Net cash after capex</b>	<b>501</b>	<b>5,302</b>	<b>6,073</b>	<b>7,322</b>	<b>7,903</b>
Other Investing activities	-1,789	-5,953	1,274	1,644	2,069
<b>Cash from Financial Activities</b>	<b>-31</b>	<b>-69</b>	<b>12,456</b>	<b>-39</b>	<b>-33</b>
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 39: Key ratios**

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Profitability &amp; return ratios</b>					
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
<b>Working capital &amp; liquidity ratios</b>					
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
<b>Valuation ratios</b>					
EV/sales (x)	19.0	14.5	11.1	9.1	7.3
EV/EBITDA (x)	55.0	40.1	28.3	22.9	17.7
P/E (x)	87.6	51.2	40.1	32.9	26.0
P/BV (x)	13.8	10.9	6.7	5.6	4.6

Source: Company, Nirmal Bang Institutional Equities Research

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