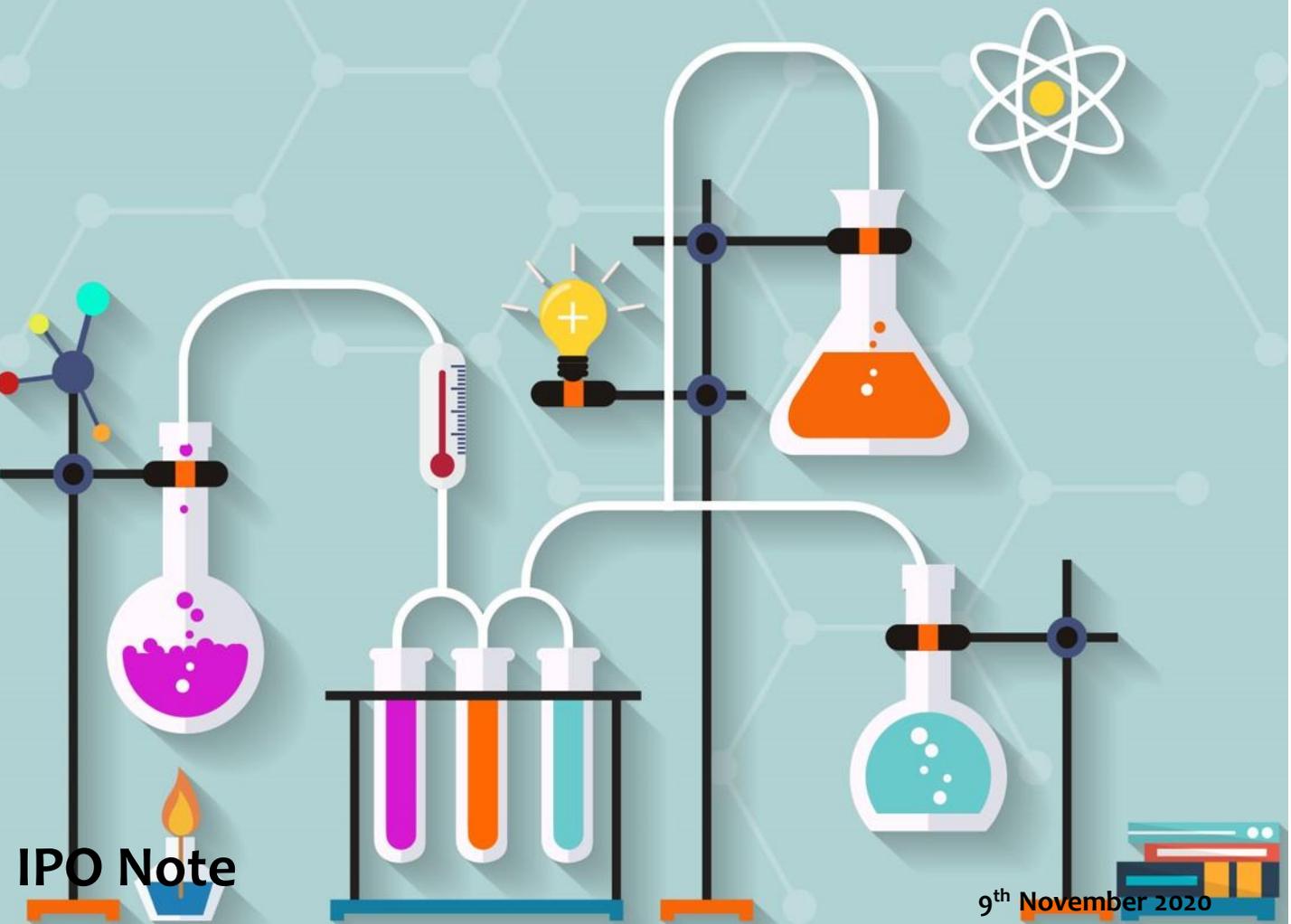


Gland Pharma Ltd.

IPO Note



Gland Pharma Ltd

Issue Opens On
November 09, 2020

Issue Closes On
November 11, 2020

Price Band (INR)
1,490-1,500

Issue Size (INR Cr.)
6,445-6,480

Rating
SUBSCRIBE

About Gland Pharma: Established in Hyderabad, India in 1978, Gland Pharma has grown over the years from a contract manufacturer of small-volume liquid parenteral products, to become one of the largest and fastest growing injectable-focused companies, with a global footprint across 60 countries, including the United States, Europe, Canada, Australia, India and other markets. The company operates primarily under a business to business (B2B) model and have an excellent track record in the development, manufacturing, and marketing of complex injectables. This presence across the value chain has helped the company to witness the exponential growth. Company is promoted by Shanghai Fosun Pharma, a global pharmaceutical major. Company has 7 manufacturing facilities, of which 4 are for formulations & 3 are for APIs. The entire API production is consumed internally.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	43,252,897 – 43,196,968
Net offer (# shares)	43,252,897 – 43,196,968
Price band (INR)	1,490-1,500
Post issue MCAP (INR Cr.)	24,337 – 24,493

Source: RHP

Indicative Timetable	
Offer Closing Date	November 11 th , 2020
Finalization of Basis of Allotment with Stock Exchange	On or about 17 th November-20
Initiation of Refunds	On or about 18 th November-20
Credit of Equity Shares to Demat accounts	On or about 19 th November-20
Commencement of Trading of Eq.shares on NSE	On or about 20 th November-20

Source: RHP

Issue break-up	No. of shares (#)
QIB	Not more than 50% of the Offer
Non-Institutional	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer
Net Offer	43,252,897 – 43,196,968

Source: RHP

Selling Shareholders	
Name of the Shareholder	Shares offered in the OFS
Promotor Selling Shareholders:	
1. Fosun Singapore	Up to 19,368,686 shares
Other Selling Shareholders	
1. Gland Celsus	Up to 10,047,435 shares
2. Empower Trust	Up to 3,573,014
3. Nilay Trust	Up to 1,874,500

Source: RHP

Particulars (In INR mn)	FY18	FY19	FY20	LTM (Ended June 30, 20)
Revenue	16,199	20,442	26,332	28,430
EBITDA	5,353	7,065	9,554	11,049
EBITDA Margin	33.0%	34.6%	36.3%	38.9%
PAT	3,211	4,519	7,728	9,026
PAT Margin	19.8%	22.1%	29.3%	31.8%
ROE	13.3%	15.8%	21.2%	22.8%
ROCE	18.9%	21.8%	23.6%	25.4%

Source: RHP, KRChoksey Research

Gland Pharma Ltd

INVESTMENT RATIONALE

1. Fastest growing generic injectable company in the US:

Gland pharma, which drives ~67% of its revenue from the US ranks 23rd in the list of small molecule generic injectables player in the US but is the fastest growing. The company grew at a CAGR of ~38% from 2014 to 2019 (as per IQVIA) and was the fastest growing small molecule generic injectables company in the US.

2. Vertically integrated facilities; internal R&D capabilities:

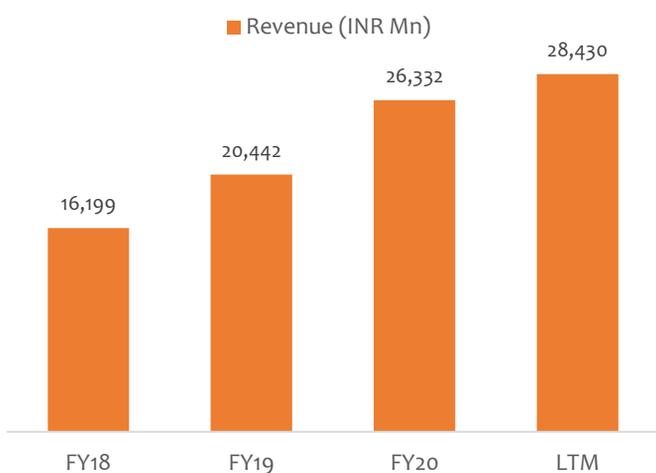
With three API facilities, Gland Pharma has vertically integrated injectables manufacturing facilities. These API facilities are for captive consumption & supports in-house manufacturing of critical APIs. Company's 24 ANDAs, which cover key products are supported by in-house APIs. Company is also equipped with an extensive portfolio of complex products which is supported by internal R&D & regulatory capabilities.

3. Able management; with proven track record:

Founded by technocrats having extensive knowledge of the industry, company has a proven track record of growth, profitability, a diversified revenue base & healthy cashflows. Company had a CAGR growth of 27.5%/33.6%/55.2 in Revenue/EBITDA/PAT, respectively, over FY18-20.

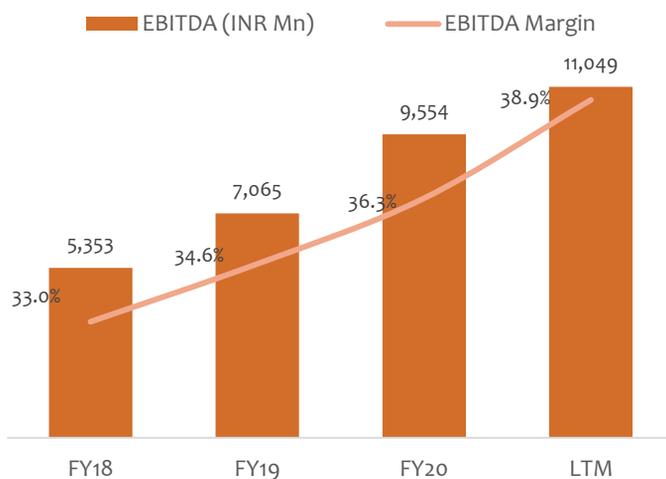
Company also has an impressive return profile with ROE/ROCE/ROA of 21.2%/23.6% & 18.9%, respectively, in FY20. ROE has improved from 13.3% in FY18 to 21.2% in FY20, primarily because of improvement in Net Profit Margin from 19.8% in FY18 to 29.3% in FY20.

Revenue CAGR of 27.5% over FY18-20



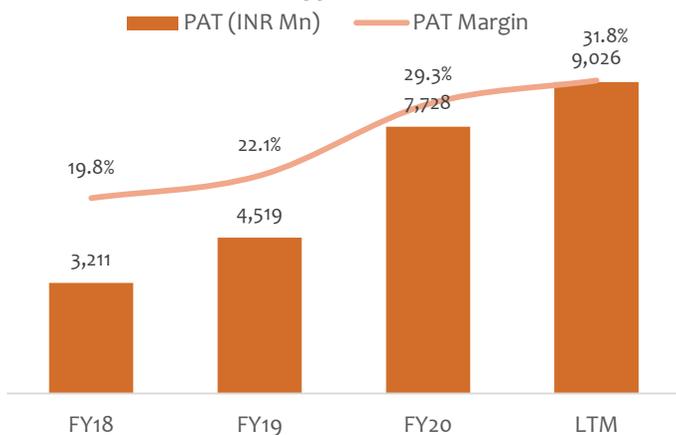
Source: RHP, KRChoksey; Note: LTM ended June 30, 2020

EBITDA CAGR of 33.6% over FY18-20



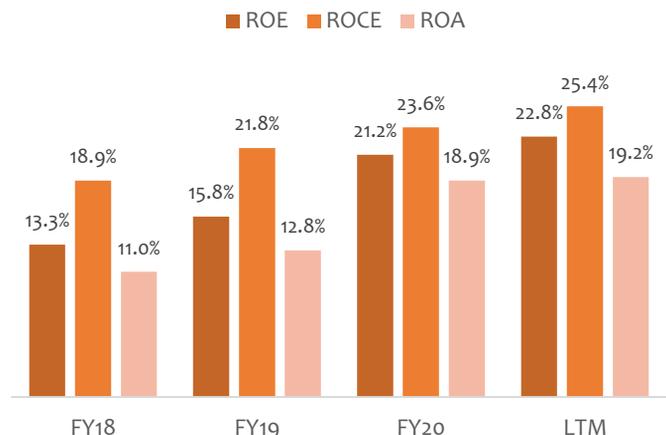
Source: RHP, KRChoksey; Note: LTM ended June 30, 2020

PAT CAGR of 55.2% over FY18-20



Source: RHP, KRChoksey; Note: LTM ended June 30, 2020

Return Profile



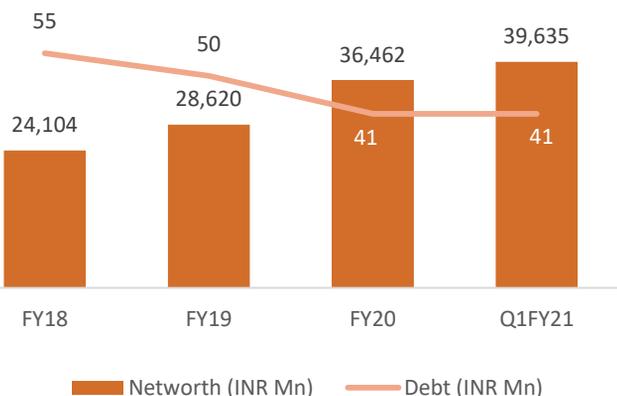
Source: RHP, KRChoksey; Note: LTM ended June 30, 2020

Gland Pharma Ltd

4. Strong Balance sheet with negligible debt:

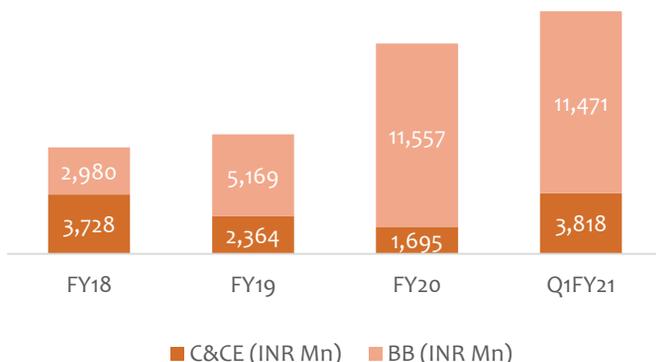
Gland Pharma has an impressive cash balance of INR 15,289 mn on its books as of Q1FY21. With negligible debt of INR 41 mn, it is a negative net debt company. Debt profile to remain at similar level in the future as company would be using the money from internal accruals & IPO proceeds for future expansion.

Strong Balance Sheet



Source: RHP, KRChoksey

Substantial cash on Balance Sheet



Source: RHP, KRChoksey

5. Future growth drivers of the business:

Company is currently looking at expanding its development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges.

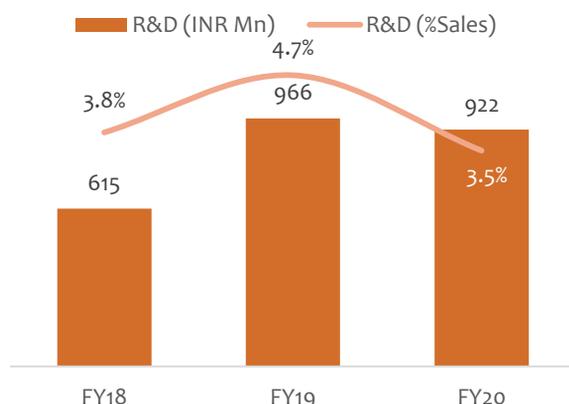
Future growth drivers for the company are as follows;

- Expanding manufacturing footprints:** Commissioning additional capacity to support future portfolio of complex injectables and new delivery system formats including pens & cartridges.
- Strong pipeline of filed ANDAs:** Company has a pipeline of 52 ANDAs fillings pending for approval. Growth opportunities in the generic injectable also arises from the fact that USD 68 bn in injectable brand sales are expected to lose patent protection between 2021-25.
- Geographical expansion into new markets:** Company is pursuing growth opportunities in China, India, Brazil & ROW. Company has filed 6 products in China in FY20 and plans to further accelerate filing rate.
- Strong track record of new launches:** Company has a track record of producing complex products. In FY19, FY20 & Q1FY21 the company has launched 45, 51 & 18 new products, respectively. Company also has extensive experience in regulatory requirements of key markets to facilitate new product registrations.

Building blocks to implement future strategy

- Expand product portfolio and delivery systems
- Continue to invest in manufacturing and technological capabilities
- Increase current market presence and enter new markets
- Align with Shanghai Fosun Pharma to increase market share
- Pursue strategic acquisitions and partnerships
- Continued focus on cost management

Avg R&D spend in the range of 3.5-5%



Source: RHP, KRChoksey

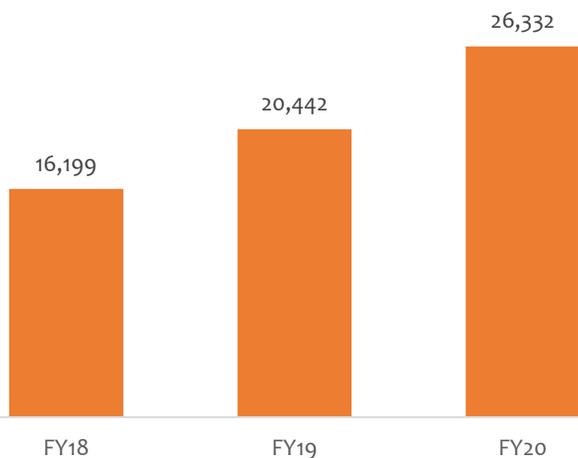
Gland Pharma Ltd

Company Overview

Gland Pharma is predominantly a B2B player with 97% revenue drawn from B2B business though it also has a small India focused B2C business. In terms of geographic spread, the company is present in over 60 countries, with major revenue coming from the USA, India, Europe, Canada, and Australia. Company has an excellent regulatory track record with no warning letters from USFDA since inspection for any of its facilities. Key regulatory agencies for which some of company's facilities have approvals include MHRA (UK), TGA (Australia), ANVISA (Brazil), AGES (Austria) and BGV Hamburg. Chinese firm Fosun Group had acquired ~74% stake in the Gland Pharma in 2017. Top 5 products contribute 40-44% to topline & 30-33% to the margin in FY20.

Revenue CAGR of 27.5% over FY18-20

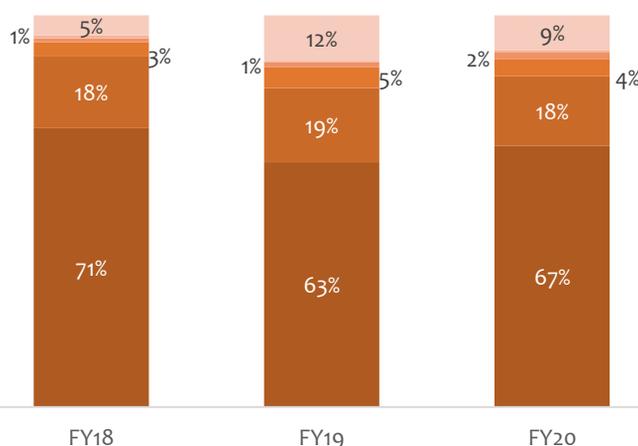
■ Revenue (INR Mn)



Source: RHP, KRChoksey

Geographic Breakup

■ USA ■ India ■ Europe ■ Canada ■ Australia ■ ROW



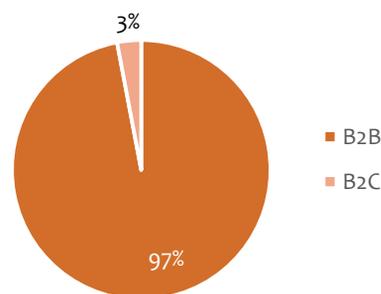
Source: RHP, KRChoksey

Overview of business: As per IQVIA, Gland Pharma is one of the fastest growing generic injectables-focused companies by revenue in the United States from 2014 to 2019. The company has an extensive track record in complex injectables development, manufacturing and marketing. The company has evolved from originally being a liquid parenterals company to now covering injectables value chain, including contract development, own development, dossier preparation and filing, technology transfer and manufacturing across a range of delivery systems.

Company is present in sterile injectables, oncology and ophthalmics, and focus on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. Company's delivery systems include liquid vials, lyophilized vials, pre-filled syringes, ampoules, bags and drops.

As of June 30, 2020, company had 267 ANDA filings in the US, of which 215 were approved and 52 were pending approval. The 267 ANDA filings comprise 191 ANDA filings for sterile injectables, 50 for oncology and 26 for ophthalmic related products. Out of these 267 ANDA filings, 101 represent ANDAs owned by Gland Pharma, of which 71 ANDA filings are approved and 30 are pending approval.

Along with partners, company has total of 1,427 product registrations, comprising 371 product registrations in the US, Europe, Canada and Australia, 54 in India and 1,002 in the Rest of the world.



Source: RHP, KRChoksey

Particulars	Details
Key Customers	Sagent Pharmaceuticals, Inc., Apotex Inc, Fresenius Kabi USA, LLC, Athenex Pharmaceutical Division, LLC
Key Strengths	<ol style="list-style-type: none"> 1. Extensive and vertically integrated injectables manufacturing capabilities with a consistent regulatory compliance track Record. 2. Diversified B2B-led model across markets, complemented by a targeted B2C model in India. 3. Extensive portfolio of complex products supported by internal R&D and regulatory capabilities.

Gland Pharma Ltd

VALUATION & View:

At the upper band of issue price, Gland Pharma to have a PE multiple of 25.7x on LTM earnings, which is at a steep discount to its listed global peers like Lonza (53.3x), Catalant (64.6x), Recipharm (51.5x). Also, the company doesn't have any direct listed peer in the domestic market. We believe that company has a unique business model of B2B nature, aided by vertical integration & R&D expertise. Moreover, company has expansion plans in terms of geographical & capacity expansion & is open to inorganic opportunities as well. It also has a strong balance sheet with negligible debt & strong cashflows. Hence, we recommend a "Subscribe" rating on the biggest Pharma IPO issue in the country, available at an attractive valuations.

Valuation	P/E			P/B			EV/EBITDA		
	Company	TTM	FY21E	FY22E	TTM	FY21E	FY22E	TTM	FY21E
Gland Pharma	25.7	-	-	5.9	-	-	20.8	-	-
Lonza Group AG	53.3	39.1	33.6	7.0	5.6	5.2	30.3	21.2	19.0
Catalant Inc.	64.6	40.8	35.3	5.5	4.8	4.2	27.2	26.1	22.8
Recipharm AB	51.5	19.3	15.0	1.9	1.5	1.4	14.5	11.2	985.0
Average	56.5	33.1	28.0	4.8	4.0	3.6	24.0	19.5	342.2
Median	53.3	39.1	33.6	5.5	4.8	4.2	27.2	21.2	22.8

Source: Bloomberg

KEY RISKS & CONCERNS

Regulatory Risk: Pharma industry is heavily regulated, and company's business activities require various approvals, licenses, registrations and permissions. If there is any change to such regulations or failure or delay in obtaining necessary permits or approvals, or if such permits or approvals are revoked or not renewed for any reason, company's business, financial condition, cash flows and results of operations may be adversely affected.

Risk from customers/partners: Company's success is dependent on its business arrangements with marketing partners and customers for the sale of the products. If any of these arrangements is terminated for any reason, or if marketing partners fail to fulfil their obligations then the business, financial condition, cash flows and results of operations of the company may be adversely affected.

Supply chain risk from China: Company imports 35-40% of its RM from China (mainly Heparin RM). Adverse political scenario between two countries or disruption in supply chain due to events like COVID-19 can impact supply of RM & have a negative impact on the business.

Gland Pharma Ltd

Financials:

Ratio Analysis (%)	FY18	FY19	FY20	Q1FY21
EBITDA Margin	33.0%	34.6%	36.3%	46.7%
PAT Margin	19.8%	22.1%	29.3%	35.5%
ROE	13.3%	15.8%	21.2%	22.8%*
ROCE	18.9%	21.8%	23.6%	25.4%*
AT (x)	0.55	0.58	0.64	0.61*
Diluted EPS	20.7	29.2	49.9	20.2

Source: RHP, KRChoksey, *Based on : LTM ended June 30, 2020

Income Statement (INR Millions)	FY18	FY19	FY20	Q1FY21
Revenue	16,199	20,442	26,332	8,842
Material Cost	6,608	8,570	11,020	3,200
Gross profit	9,592	11,872	15,312	5,643
Employee cost	1,791	2,229	2,777	723
Power and fuel	604	740	785	168
Other expenses	1,845	1,837	2,196	625
EBITDA	5,353	7,065	9,554	4,126
EBITDA Margin	33.0%	34.6%	36.3%	46.7%
Depreciation & amortization	784	821	946	242
EBIT	4,569	6,244	8,609	3,884
Interest expense	42	37	72	5
Other income	488	856	1,392	321
Exceptional Items	0	200	0	0
PBT	5,015	6,863	9,928	4,200
Tax	1,804	2,344	2,200	1,064
PAT	3,211	4,519	7,728	3,136
PAT Margin	19.8%	22.1%	29.3%	35.5%
Diluted EPS (INR)	20.7	29.2	49.9	20.2

Source: RHP, KRChoksey

Cashflow Statement (INR Millions)	FY18	FY19	FY20	Q1FY21
Net cash flow from operating activities (A)	2,021	1,853	7,009	2,931
Net cash flow used in investing activities (B)	-3,588	-3,141	-7,661	-805
Net cash flow generated from / (used in) in financing activities (C)	-38	-31	-69	-4
Net increase / (decrease) in cash and cash equivalents (A+B+C)	-1,605	-1,320	-720	2,122
Opening Cash and cash equivalents	5,331	3,728	2,364	1,695
Effects of exchange rate changes	3	-44	51	0.4
Closing Cash and cash equivalents	3,728	2,364	1,695	3,818

Source: RHP, KRChoksey

Gland Pharma Ltd

Financials:

Balance Sheet (INR Millions)	FY18	FY19	FY20	Q1FY21
Assets				
Non-current assets				
Property, plant and equipment	8,426	9,287	9,671	9,502
Capital work in progress	1,989	1,232	1,885	2,544
Right-of-use assets	11	10	10	9
Financial assets				
Other financial assets	61	64	69	574
Tax assets (net)	198	190	15	16
Other non-current assets	1,287	878	748	568
Total Non-current assets	11,973	11,661	12,397	13,213
Current assets				
Inventories	5,128	9,119	7,563	10,089
Financial assets				
Loans	3	3	5	10
Trade receivables	4,752	5,061	6,018	6,740
Cash and cash equivalents	3,728	2,364	1,695	3,818
Bank balances other than cash and cash equivalents	2,980	5,169	11,557	11,471
Other financial assets	34	71	151	156
Tax assets (net)	0	0	95	0
Other current assets	696	1,788	1,379	1,414
Total current assets	17,322	23,575	28,463	33,699
Total assets	29,295	35,235	40,860	46,913
Equity and Liabilities				
Equity				
Equity share capital	155	155	155	155
Other equity	23,949	28,465	36,307	39,480
Total Equity	24,104	28,620	36,462	39,635
Liabilities				
Non-current liabilities				
Financial liabilities				
Borrowings	55	50	41	41
Other financial liabilities	387	163	27	27
Deferred tax liabilities (net)	957	1,076	741	733
Total non-current liabilities	1,399	1,288	808	800
Current liabilities				
Financial liabilities				
Borrowings	0	0	0	0
Trade payables	2,918	4,462	2,491	4,775
Other financial liabilities	149	220	304	282
Provisions	21	29	175	210
Current tax liabilities (net)	129	110	107	758
Other current liabilities	575	507	513	453
Total current liabilities	3,792	5,328	3,590	6,478
Total equity and liabilities	29,295	35,235	40,860	46,913

Source: RHP, KRChoksey

Gland Pharma Ltd

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.