Glenmark Life Sciences Ltd.

23-Jul-21

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Issue Details

Issue Details	
Issue Size (Value in Rs. Million, Upper Band)	15,136
Fresh Issue (No. of Shares in Million)	14.7
Offer for Sale (No. of Shares in Million)	6.3
Bid/Issue opens on	27-July-2021
Bid/Issue closes on	29-July-2021
Face Value	Rs. 2
Price Band	Rs. 695-720
Minimum Lot	20

Objects of the Issue

Fresh Issue: ₹10,600 Million

The company proposes to utilize the Net Proceeds towards funding the following:

- Payment of outstanding purchase consideration to the Promoter for the Spin - off of the API business from the Promoter into their Company pursuant to the Business Purchase Agreement dated October 2018.
- Funding working capital requirements.
- General corporate purposes.

Offer for Sale: ₹ 4536 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Kotak Mahindra Capital Company Ltd.
BofA Securities India Ltd.
Goldman Sachs (India) Securities Private Ltd.
DAM Capital Advisors Ltd.
BOB Capital Markets Ltd.
SBI Capital Market Ltd.
Registrar to the Offer
KFin Technologies Private Ltd.

Capital Structure (₹ Million)	Aggregate Value
Authorized share capital	460
Subscribed paid up capital (Pre-Offer)	215.6
Paid up capital (Post - Offer)	245.1

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	100%	82.8%
Public	0	17.2%
Total	**100**	**100**

Financials

Particulars (Rs. In Mn)	FY21	FY20	FY19
Revenue	18,852	15,373	8,864
Other Income	8	120	4
Total Income	**18,860**	**15,493**	**8,869**
Expenses	12,941	10,654	6,387
Finance Cost	875	335	6
Depreciation	334	294	193
Total Expenses	**14,150**	**11,282**	**6,586**
Exceptional Item	-	-	-
PBT	**4,709**	**4,211**	**2,283**
Tax	1,194	1,080	327
Profit/(loss) after Tax	**3,516**	**3,131**	**1,956**
EPS (Rs.)	32.61	29.04	24.64

Company Description

Glenmark Life Sciences Ltd., a subsidiary of Glenmark Pharmaceuticals Ltd., was incorporated in the year 2011 and is a leading developer and manufacturer of select high value, non-commoditized active pharmaceutical ingredients ("APIs") in chronic therapeutic areas, including cardiovascular disease ("CVS"), central nervous system disease ("CNS"), pain management and diabetes. The company also manufactures and sells APIs for gastro-intestinal disorders, anti-infectives and other therapeutic areas. Their API product portfolio comprises Atovaquone, Perindopril, Adapalene, Zonisamide, Teneligliptin, Desloratadine, Riluzole, Telmisartan, Etoricoxib, Voriconazole, Olmesartan, Rosuvastatin and Oxcarbazepine, among others.

They currently operate four multi-purpose manufacturing facilities which are situated on leasehold properties located at Ankleshwar and Dahej in the state of Gujarat, India, and Mohol and Kurkumbh in the state of Maharashtra, India with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021.

As of March 31, 2021, Glenmark Life Sciences had a portfolio of 120 molecules globally and sold their APIs in India and exported their APIs to multiple countries in Europe, North America, Latin America, Japan and the rest of the world ("ROW"). As of May 31, 2021, the company had filed 403 Drug Master Files ("DMFs") and Certificates of suitability to the monographs of the European Pharmacopoeia ("CEPs") across various major markets (i.e. United States, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia). As of March 31, 2021, 16 of the 20 largest generic companies globally were their customers.

Since 2015, the facilities have been subject to 38 inspections and audits by regulators including the USFDA, PMDA, COFEPRIS, Health Canada, MFDS (Korea), EDQM, other European regulatory agencies and CDSCO conducted on a periodic basis. Their facilities have also been subject to 432 inspections and audits by their customers during this period. They have been consistently implementing current Good Manufacturing Practices ("cGMPs") across each of their manufacturing facilities, which are monitored by a comprehensive Quality Management System ("QMS") encompassing all areas of business processes from R&D and raw material procurement to manufacturing, packaging and delivery. They focus on building quality into their products through compliance with global regulatory standards as well as local and state laws.

The company has an established track record of delivering strong financial performance. Their total revenue from operations for the financial years 2021, 2020 and 2019 was ₹18,851.65 million, ₹15,373.13 million and ₹14,050.26 million, respectively. Their profit before tax for the financial years 2021, 2020 and 2019 was ₹4,709.44 million, ₹4,210.67 million and ₹4,038.39 million, respectively. Their EBITDA and EBITDA Margin for the financial years 2021, 2020 and 2019 were ₹5,918.85 million and 31.40%, ₹4,839.50 million and 31.48%, and ₹ 4,298.18 million and 30.59%, respectively. Their products are sold in both regulated markets and emerging markets. For the financial years 2021, 2020 and 2019, their revenue from regulated market products was ₹12,374.06 million, ₹10,966.21 million and ₹9,685.07 million, or 65.64%, 71.33% and 68.93% of their total revenue from operations, respectively.

They operate two business lines –Generic APIs (generics and complex APIs) and CDMO (including specialty). *(Continued on Page 2)*

Valuation

At the upper end of the IPO price band, Glenmark Life Sciences Ltd. is offered at 25.09x its FY21 earnings, with a market cap of Rs. 88,219 Million.

Given the company's leadership in select high value non-commercialized APIs in chronic therapeutic areas, cost leadership, strong management, strong balance sheet, growing business, high RoNW of 46.71% in the fiscal ended March 31, 2021 and reasonable valuations; we give this IPO a **"Subscribe"** rating.

API product portfolio: It spans across therapeutic areas including CVS, CNS, pain management, diabetes and others. Their API products are sold in both regulated markets and emerging markets.

CVS Therapeutic Area
As of March 31, 2021, their commercialized API portfolio comprised 21 CVS products. Key products include Olmesartan, Amiodarone, Telmisartan, Perindopril, Rosuvastatin and Cilostazol.
For the financial years 2021, 2020 and 2019, their revenue from the sale of products in the CVS therapeutic area was ₹7,763.23 million, ₹6,681.61 million and ₹5,438.54 million, or 45.44%, 51.64% and 43.07% of their revenue from operations from their generic API business, respectively.

CNS Therapeutic Area
As of March 31, 2021, their commercialized API portfolio comprised 27 CNS products. Key products include Oxcarbazepine, Zonisamide, Topiramate, Bupropion, Ropinirole, Riluzole and Lacosamide.
For the financial years 2021, 2020 and 2019, their revenue from the sale of products in the CNS therapeutic area was ₹1,677.15 million, ₹1,279.82 million and ₹1,219.51 million, or 9.82%, 9.89% and 9.66% of their revenue from operations from their generic API business, respectively.

Diabetes Therapeutic Area
As of March 31, 2021, their commercialized API portfolio comprised nine diabetes products. Key products include Glimepiride, Teneligliptin, Vildagliptin and Linagliptin.
For the financial years 2021, 2020 and 2019, their revenue from the sale of products in the diabetes therapeutic area was ₹618.67 million, ₹571.36 million and ₹795.02 million, or 3.62%, 4.42% and 6.30% of their revenue from operations from their generic API business, respectively.

Pain Management Therapeutic Area
As of March 31, 2021, their commercialized API portfolio comprised two pain management products, namely Etoricoxib and Lornoxicam.
For the financial years 2021, 2020 and 2019, the revenue from the sale of products in the pain management therapeutic area was ₹705.74 million, ₹726.97 million and ₹684.97 million, or 4.13%, 5.62% and 5.42% of their revenue from operations from their generic API business, respectively.

APIs in Other Therapeutic Areas
Their other generic API business is focused on manufacturing APIs for other therapeutic areas, such as gastro-intestinal disorders, anti-infective, respiratory, anti-emetic and other therapeutic areas. Key products include Atovaquone, Voriconazole, Mirabegron, Desloratadine, Esomeprazole Magnesium, Adapalene and Fluconazole.
For the financial years 2021, 2020 and 2019, their revenue from the sale of APIs in other therapeutic areas was ₹6,319.44 million, ₹3,678.75 million and ₹4,489.29 million, or 36.99%, 28.43% and 35.55% of their revenue from operations from their generic API business, respectively.

Contract development and manufacturing operations ("CDMO") services: In the last three years, the company has started working with innovator pharmaceutical companies in the area of CDMO. Their CDMO business currently comprises of applying for and procuring permission to market products in regulated markets as well as contract manufacturing of APIs for utilization by pharmaceutical companies to make formulations.
For the financial years 2021, 2020 and 2019, revenue from their CDMO business was ₹1,529.72 million, ₹2,004.90 million and ₹980.61 million, or 8.11%, 13.04% and 6.98% of their total revenue from operations, respectively.

Promoters and Management: The company has a professional and experienced management team led by their Managing Director and Chief Executive Officer, Dr. Yasir Rawjee, who has over 25 years of experience in the global API industry. Their operations team is headed by Mr. Vinod Naik who has over two decades of industry experience, their R&D team is headed by Dr. Palle V R Acharyulu with several years of industry experience and their Chief Financial Officer, Mr. Bhavesh Pujara has over 15 years of experience in finance. In particular, they have led the process through which they have created value through organic growth, built brand recognition and loyalty and identified new business opportunities. They have also helped the company in developing long-term relationships with their key customers. Glenmark Pharmaceuticals Limited is the Promoter of the Company, as on the date of the Red Herring Prospectus.

Strengths:

- ***Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas***
  They are a leading developer and manufacturer of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS and pain management and diabetes, and continue to branch into other APIs. Their API portfolio comprises specialized and profitable products, including niche and technically complex molecules, which reflects their ability to branch into other high value products. As of March 31, 2021, Glenmark life sciences sold their APIs in India and exported their APIs to multiple countries in Europe, North America, Latin America, Japan and the rest of the world. The total market size in terms of sales for their portfolio of 120 molecules globally was estimated to be around US$142 billion in 2020 and is expected to grow by about 6.8% over the next five years to reach to about US$211 billion by 2026. The future growth of these products is expected to remain stable driven by the increasing prevalence of non-communicable diseases (including heart disease, stroke, cancer, diabetes and chronic lung disease), growing demand from the regulated markets for drugs indicated for hypertension, diabetes and cancer, and an aging population. The market size in terms of volume for their 120 molecules was estimated to be at 9,959 tonnes in 2020 and is expected to grow at a rate of 6% over the next five years to reach to about 12,079 tonnes by 2026. They have gradually built scale and reach in their API offerings through economies of scale in their manufacturing operations and a portfolio buildup which has enabled them to service new markets and explore new product and service offerings to their customers. They work towards developing eight to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, they had filed 403 DMFs and CEPs across various major markets (i.e. United States, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada,

China and Australia). As of March 31, 2021, they had a portfolio of 120 molecules globally. The business positioning is strengthened by their service offerings across markets, which enables them to act as a one-stop shop for pharmaceutical product companies.

- ***Strong Relationships with Leading Global Generic Companies***
  As of March 31, 2021, 16 of the 20 largest generic companies globally were their customers and believe that Glenmark life sciences enjoy a reputation of trust and reliability with such companies. They have been able to build and strengthen their relationships with customers on account of their strong brand equity, high quality products, R&D skills, knowledge of the regulatory environment in the markets where they supply their products and track record of manufacturing APIs at different scales at their facilities, which have been inspected/audited by Indian and key global regulatory bodies such as the USFDA, MHRA, Health Canada and PMDA Japan. As a result, they have been able to maintain high customer loyalty with a high rate of repeat customers. For the financial years 2021, 2020 and 2019, approximately 69% of their customers were period-on-period repeat customers. They also have a long history with many of their key customers, including Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, Krka and another company which is a global leader in generic pharmaceuticals and biosimilars. For the financial year 2021, Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals and Aurobindo Pharma were among their 10 largest customers by revenue contribution, while these four key customers and Krka were among the 10 largest customers by revenue contribution for the financial years 2020 and 2019. The term of their relationship with their seven largest customers averages approximately five to 15 years, and approximately 41% of their customers for the financial year 2021 were also their customers in each of the financial years 2020 and 2019. On account of these relationships and their focus on customer service, they have been able to increase their sales volumes. During the financial years 2021, 2020 and 2019, they sold 467.7 MT, 404.3 MT and 403.5 MT of APIs, respectively.

- ***Quality-Focused Compliant Manufacturing and R&D Infrastructure***
  They currently operate four multi-purpose manufacturing facilities which are situated on leasehold properties located at Ankleshwar and Dahej in the state of Gujarat, India, and Mohol and Kurkumbh in the state of Maharashtra, India with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021. Since 2015, their facilities have been subject to 38 inspections and audits by regulators including the USFDA, PMDA, COFEPRIS, Health Canada, MFDS (Korea), EDQM, other European regulatory agencies and CDSCO conducted on a periodic basis. They believe that maintaining highest standards of quality and process innovation in their R&D and manufacturing operations is critical to their brand and maintenance of long-term relationships with their customers. They have been consistently implementing cGMPs across each of their manufacturing facilities, which are monitored by a comprehensive QMS encompassing all areas of business processes from R&D and raw material procurement to manufacturing to packaging and delivery. Their R&D laboratories focus on new product development and the development of complex molecules, cost improvement programs, process improvements and oncology product development. To assist them with R&D initiatives, they have established dedicated teams for new product development, complex products development, oncology product development, technology transfer, life cycle management and project management. For the financial years 2021, 2020 and 2019, their total expenditure for R&D activities was ₹405.17 million, ₹400.28 million and ₹375.76 million, or 2.15%, 2.60% and 2.67% of their total revenue from operations, respectively. As of May 31, 2021 they owned or co-owned 39 granted patents and had 41 pending patent applications in several countries and six pending provisional applications in India. As of March 31, 2021, they employed 213 personnel at their R&D laboratories, which constituted 13.86% of their total permanent employee strength. Their strong process research, analytical research and process chemistry research capabilities provide them significant competitive advantages.

- ***Strong Focus on Sustainability in Operations***
  They have undertaken various initiatives relating to energy efficiency, recovery and reuse of solvents and water conservation, recovery and reuse to reduce their carbon footprint and be a responsible corporate citizen in their endeavor to address global environment issues. All of their manufacturing facilities currently have zero liquid discharge ("**ZLD**") capabilities. They have an internal framework and governance structure in place for adherence to compliance standards. They have established various standard operating procedures ("**SOPs**"), including SOPs to handle different categories of waste, and their waste management strategy includes monitoring and control procedures for waste categorization, segregation, minimization, safe handling, transport and disposal of waste. In their efforts to ensure resource usage conservation, they have implemented solvent recovery systems at their Ankleshwar and Dahej facilities. The solvent recovery system enables them to recover and recycle spent solvent while also minimizing the volume of solvent being disposed. Their manufacturing facilities at Ankleshwar and Dahej were certified ISO 14001:2015 and ISO 45001:2018 for environment management and occupational health and safety management systems, which reflects their commitment to enhancing their environmental performance.

- ***Cost Leadership across Products through Careful Monitoring and Continuous Effort***
  They strive to achieve cost leadership across many of their products through the careful application of operations initiatives, sourcing initiatives and R&D initiatives supported through a continuous effort by their Quality and Regulatory Affairs teams. Their long-term relationships with global generic companies also help them plan their capital expenditure, enhance their ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower overall cost base, thereby maintaining a competitive cost structure to achieve sustainable growth and profitability. Their operations initiatives include solvent recovery and recycling, increase in batch sizes, the utilization of new downstream equipment for filtration or drying techniques and yield improvement. Their sourcing initiatives include ongoing negotiations with vendors based on the prevailing market environment and alternate vendor qualification. Their R&D initiatives include productivity improvement of existing processes through constant optimization, process cycle time reduction, qualifying lower-cost processes for regulated markets, better recovery and recycling and backward integration of key starting materials. They implement these measures to reduce costs, improve efficiencies and reallocate resources to support identified growth opportunities in diverse markets.

Key Strategies:

- ***Expand the Geographic Focus, API Portfolio and Scope of their Operations***
  They intend to expand the size and scope of their business by diversifying their customer base in existing markets and increasing their geographic market coverage. They intend to expand their presence in countries/regions that are adopting a more stringent regulatory

framework and are moving towards becoming well-regulated markets such as South Korea, Taiwan, Russia, Brazil, Mexico and Saudi Arabia. They also intend to create new opportunities in rest of the worlds markets by utilizing manufacturing in the least developed countries through local partnerships. They aim to continue growing their base generic business by focusing on (i) continued growth in their top existing products through increased market share and (ii) new generic product launches which will ensure growth in their top-line and retention of their bottom-line, which will enable them to deepen their presence in the existing markets. They expect revenue contribution from newly-commercialized products to increase over the next five years and narrow the proportion of revenue attributable to sales of their top existing products. In addition, they see the complex API business as a key growth opportunity and intend to leverage their expertise in the area of synthetic chemistry and analytical characterization to expand their existing technology platforms to manufacture and grow their complex API portfolio in oncology, peptides and iron compounds, thereby expanding their existing portfolio of API products.

- ***Grow their CDMO Business***

  In the last three years, they have started working with innovator pharmaceutical companies in the area of CDMO. Given their capabilities in process chemistry research, and their manufacturing and analytical research capabilities, they have the ability to attract innovator pharmaceutical companies to partner with them for providing unique solutions tailored to the needs of innovator and specialty pharmaceutical companies. They can continue to partner with such customers to provide lifecycle management solutions for their mature portfolio where genericization has happened or is impending. In their current portfolio of 120 molecules globally, they believe that many molecules offer such opportunities to a new set of customers. They will leverage their process research, analytical research and chemistry capabilities to provide CDMO services for a range of multinational corporations and specialty companies. They believe that innovators prefer to select vendors with a strong track record and maintain a concentrated supplier base. Their continuous focus on quality and on the sustainability of their operations makes them a serious contender to grow this business opportunity.

- ***Expand their Production Capacities***

  They currently operate four multi-purpose manufacturing facilities with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021. They intend to increase their API manufacturing capabilities by enhancing the existing production capacities at their Ankleshwar facility during the financial year 2022 and their Dahej facility during the financial years 2022 and 2023 by an aggregate annual total installed capacity of 200 KL. This additional production capacity is expected to help them further expand their generic API production and also grow their oncology product pipeline. They intend to develop a new manufacturing facility in India for the manufacture of generic APIs from the financial year 2022 which is expected to become operational in the fourth quarter of the financial year 2023. The new facility will provide a platform for the growth of their CDMO business and also add capacity for their generic API business. This facility will be a greenfield project built on a 40-acre footprint with a plan to manufacture both APIs and intermediates and will house several multi-purpose manufacturing blocks with mid to high-volume capacity. It will include a high degree of automation and comply with global regulatory standards, and will have an aggregate capacity of 800 KL over the next three to four years. This facility is intended to be funded from internal accruals and debt financing (if required). In connection with the expansion of their production capacity, they also plan to invest in backward integration of key starting materials to become more self-reliant and less dependent on their vendors for raw materials, as such dependence on vendors may sometimes impact their timely manufacture and delivery of APIs to their customers. They also plan to expand their technology platform and manufacturing footprint at their Dahej facility to grow the oncology product portfolio, and implement the use of more automation in processes to increase efficiency and improve compliance.

- ***Improving Financial Performance through Focus on Operational Efficiencies***

  They continually aim to improve their financial performance by focusing on enhancing their operational efficiencies through initiatives such as solvent recovery and recycling, increase in batch sizes, the utilization of new downstream equipment for filtration or drying techniques and yield improvement. They will also continue to implement sourcing initiatives include ongoing negotiations with vendors based on the prevailing market environment and alternate vendor qualification. They also intend to reinforce their R&D capabilities through prudent investments aimed at sustainable business opportunities and expect their R&D initiatives to support development of new, innovative processes aimed at improving production efficiencies and to also address strategic business opportunities in the global pharmaceuticals industry. Their R&D initiatives include productivity improvement of existing processes through constant optimization, process cycle time reduction, qualifying lower-cost processes for regulated markets, better recovery and recycling and backward integration of key starting materials. They believe that these initiatives will allow them to de-risk their operations by continuing to diversify their procurement base, reduce the amount of materials that they import and procure more materials from Indian suppliers.

Industry Snapshot*:*

Globally, India is one of the top suppliers of bulk drugs and formulations. The country has the highest number of USFDA-approved plants outside the US as well as 44% of global abbreviated new drug applications ("**ANDA**"). The Indian generics industry can benefit substantially from the patent cliff as patents for branded molecules with cumulative global sales of over US$251 billion are expected to expire between 2018 and 2024, opening new opportunities for the industry.

India supplies a bulk of generic drugs globally not just to under-developed countries but also to the United States and UK. India supplies almost 40% of the total American generic drug demand and addresses as much as 25% of the total drug demand in the UK. India also accounts for 60% of global vaccine production, contributing 40 to 70% of the WHO demand. This success can be attributed to the advanced capabilities in the formulation development, the entrepreneurial ability and the vision of the industry to establish India's footprint in large international markets. However, within the APIs and bulk drug manufacturing segment, India lags behind China. Currently, India imports around 68% of its API consumption by value from China and is highly reliant on China for fermentation-based APIs (antibiotics), feedstock and many key starting materials ("**KSMs**").

The COVID-19 pandemic has shed light on India's excessive dependence on China for APIs and KSMs. India's pharma sector is now trying to reinvent itself and move forward from its long standing dependence on export of generics towards enabling the industry to become an end-to-end drug manufacturer. This includes a parallel thrust on localizing API and bulk drug manufacturing. The Indian government has set up a production linked ncentive ("**PLI**") package focusing on APIs and the API Parks scheme to boost competitiveness of India's manufacturing and promote domestic manufacturing of critical intermediates and APIs.

In March 2020, the government approved INR 10,000 Crore PLI scheme to reduce India's dependence on China for raw materials and produce crucial antibiotics, anti-HIV drugs, vitamins and drugs for cardiovascular diseases locally. The government is expected to provide INR 10 Crore (~US$1.4 million) each to domestic companies for setting up plants to produce 41 products covering 53 crucial APIs. The government is expected to incentivize API companies which manufacture products with complete backward integration and supply only to the domestic formulation manufacturers. The government has notified a scheme to promote bulk drug parks where for selected parks, a financial assistance ranging between 70-90% of the project cost of common infrastructure facilities will be funded. In May 2021, the government issued revised guidelines for the PLI scheme. The new PLI scheme is expected to boost the existing brownfield API units in India and will bring first priority 20 molecules to be produced with scale, thereby, decreasing dependency on China. The Union cabinet cleared the new PLI scheme for the domestic pharmaceutical sector for financial years 2021 to 2029. Around INR 15,000 crore of incentives is envisaged to be provided under the scheme. Through this scheme, the government expects total incremental sales of INR 2.94 trillion and incremental exports of INR 1.96 trillion during the six years.

Overview of Global API Market

The global API market was estimated to be around US$181.3 billion in 2020 and is expected to grow at a CAGR of 6.2% to reach to about US$259.3 billion by 2026. The market is likely to exhibit a positive outlook with the growing trend towards the development of innovative therapeutic drugs by various pharmaceutical and biotechnology companies. The rising prevalence of chronic disorders, increasing demand for personalized medicine and emergence of novel drug delivery devices are some of the key factors expected to drive the API market over the next five years.

Key players in the global API market include Centrient, AMRI, Midas Pharma, TAPI, Lonza, Wuxi Apptec, Huadong, Nanjing King-friend, Livnoz Pharma, Zhejiang Jiuzhou Pharma and others.

Key players in the Indian API market include Divi's Labs, Suven, Dishman, Jubilant, Laurus Labs, Neuland, Solara, Granules India, Aarti Drugs, Shilpa Medicare and others.

The API market is highly fragmented with approximately 1,500 API manufacturing plants. As of 2017, the top 14-16 API players comprised just 16-17% of the total market share.

Overview of Global CDMO Market

Total growth in the United States, Europe, APAC, and India was around 7.1% between 2018 and 2020 and is expected to further grow by a CAGR of 7.6% between 2021 and 2026. The United States had the highest growth rate of 8.2% between 2018 and 2020 followed by APAC at 7.0%, Europe and ROW at 5.0%. Being the biggest pharmaceutical market in the world, United States holds the highest potential for revenue growth. This market is expected to see a steady growth rate of 7.7% from 2021 to 2026, largely from new drug development. APAC, with India and China in focus, will see the highest growth rate of about 8.5% from 2021 to 2026. APAC has been leading the market in pharma production; it has faced headwinds in the form of trade wars, environmental concerns leading to factory shutdowns, and continued quality-related concerns.

The top Indian CDMO companies have grown at a CAGR of 14.1% over the last 5-year period compared to the top global CDMO companies which grew at a CAGR of 9.7%. Even in terms of profitability, the Indian companies outperformed global peers, with the top Indian companies having EBITDA margins in the range of 20-30% as compared to the 10-25% range for the top global ones, thus delivering excellent returns for their stakeholders.

Key Risk:

- Their business is dependent on the sale of their products to their key customers, and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for the products could adversely affect the business, results of operations, financial condition and cash flows.
- They derive a significant portion of their revenue from their API business, of which a limited number of therapeutic categories and key products generate a significant portion of their total revenue, and their business may be adversely affected if their API business or products in these therapeutic categories or their key products do not perform as well as expected or if substitute products become available or gain wider market acceptance.
- Any delay, interruption or reduction in the supply of raw materials to manufacture their products may adversely affect their business, results of operations, financial condition and cash flows
- The COVID-19 pandemic, or any future pandemic or widespread public health emergency, could materially and adversely impact the business, financial condition, cash flows and results of operations.
- They have significant working capital requirements. If they experience insufficient cash flows to fund their working capital requirements or if they are not able to provide collateral to obtain letters of credit and bank guarantees in sufficient quantities, there may be an adverse effect on their business, cash flows and results of operations
- Pricing pressure from customers may affect gross margin, profitability and ability to increase their prices, which in turn may materially adversely affect the business, results of operations and financial condition.
- The business is subject to extensive government regulation and if they fail to obtain, maintain or renew their statutory and regulatory licenses, permits and approvals required to operate their business, results of operations and cash flows may be adversely affected.

- Their ability to adopt new technology to respond to new and enhanced products poses a challenge in the business. The cost of implementing new technologies for their operations could be significant and could adversely affect their business, results of operations, cash flows and financial condition.

Comparison with Listed Industry Peers

Name of Company	Face Value (Rs. / Share)	P/E	EPS	RoNW (%)	NAV (Rs. Per Share)
Glenmark Life Sciences Limited	2.0	*	32.61	46.71	69.82
Peer Group					
Divis Laboratories Limited	2.0	63.65	74.75	21.35	350.12
Laurus Labs Limited	2.0	36.59	18.28	37.87	48.41
Shilpa Medicare Limited	1.0	33.37	18.13	9.99	181.37
Aarti Drugs Limited	10.0	24.28	30.09	24.28	98.01
Solara Active Pharma Sciences Limited	10.0	25.83	64.52	25.83	442.12

Valuation:

At the upper end of the IPO price band, Glenmark Life Sciences Ltd. is offered at 25.09x its FY21 earnings, with a market cap of Rs. 88,219 Million.

Given the company's leadership in select high value non-commercialized APIs in chronic therapeutic areas, cost leadership, strong management, strong balance sheet, growing business, high RoNW of 46.71% in the fiscal ended March 31, 2021 and reasonable valuations; we give this IPO a **"Subscribe"** rating.

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Ratings Methodology

- Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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