

IPO Note: Glenmark Life Sciences Ltd.

Industry: Pharmaceuticals

Reco: Subscribe

Date: July 26, 2021

Issue Snapshot		Issue Break up		
Company Name	Glenmark Life Sciences Ltd.	QIB ex Anchor	20%	4,204,444
Issue Opens	July 27, 2021 to July 29, 2021	Anchor Investor	30%	6,306,667
Price Band	Rs. 695 to Rs. 720	HNI	15%	3,153,333
Bid Lot	20 Equity Shares and in multiples thereof.	RII	35%	7,357,778
The Offer	Public issue of 21,022,222 Equity shares of Face value Rs. 2 each, (Comprising of fresh issue of 14,722,222 Equity Shares* (Rs. 1060 cr.) and Offer for Sale of 6,300,000 Equity Shares (Rs. 453.6 cr.*) by Selling Shareholder).	Total Public	100%	21,022,222
Issue Size	Rs. 1497.85 – 1513.60 Crore	Equity Share Pre Issue (Nos. Cr.)		10.8
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)		1.5
Face Value	Rs. 2.00	OFS Share (Nos. Cr.)		0.6
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		12.3
BRLM	Kotak Mahindra Capital Company Ltd, BofA Securities India Ltd, Goldman Sachs (India) Securities Private Ltd, DAM Capital Advisors Ltd, BOB Capital Markets Ltd and SBI Capital Markets Ltd.	Market Cap (Rs. Cr.)		8,822.0
Registrar	KFin Technologies Private Limited	Equity Dilution		12.0%
		Stake Sale by OFS		5.1%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (By Glenmark Pharmaceuticals Limited)

Fresh Issue

- Payment of outstanding purchase consideration to the Promoter for the spin-off of the API business from the Promoter into the Company pursuant to the Business Purchase Agreement dated October 9, 2018 (Rs. 800 cr.);
- Funding capital expenditure requirements (Rs. 152.76 cr.); and
- General corporate purposes.

Company Highlights

- Glenmark Life Sciences Ltd. (GLS) 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 manufacture and sell APIs for gastro-intestinal disorders, anti-infectives and other therapeutic areas. The API portfolio comprises specialized and profitable products, including niche and technically complex molecules, which reflects their capability to branch into other high value products.
- GLS has strong market share in select specialized APIs such as Telmisartan (anti-hypertensive), Atovaquone (anti-parasitic), Perindopril (anti-hypertensive), Tenecliptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology). The company are also increasingly providing contract development and manufacturing operations (CDMO) services to a range of multinational and specialty pharmaceutical companies.
- GLS is a research and development (R&D)-driven API manufacturer, focused on undertaking dedicated R&D in their existing products and in areas where there is growth potential in the future. Maintaining high standards of process innovation and quality in the R&D and manufacturing operations is critical to their brand and maintenance of long-term relationships with the customers.
- As of March 1, 2021, GLS 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, they 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.

- The company currently operates 4 multi-purpose manufacturing facilities which are situated on leasehold properties located at Ankleshwar and Dahej in Gujarat, and Mohol and Kurkumbh in Maharashtra with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021.
- Since 2015, the facilities have been subject to 37 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. GLS has not received any warning letters or import alerts from such regulatory authorities. The facilities have also been subject to 432 inspections and audits by the 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.

View

- GLS's API portfolio comprises specialized and profitable products, including niche and technically complex molecules, which reflects the ability to branch into other high value products. As of March 2021, the company sold APIs in India and exported the APIs to multiple countries in Europe, North America, Latin America, Japan and ROW.
- The company has gradually built scale and reach in the API offerings through economies of scale in the manufacturing operations and a portfolio build-up which has enabled them to service new markets and explore new product and service offerings to the customers. The company work towards developing 8 to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, GLS had filed 403 DMFs and CEPs across various major markets.
- GLS intends to expand the size and scope of the business by diversifying the customer base in existing markets and increasing the geographic market coverage. The company intend to expand the 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. GLS also intend to create new opportunities in ROW markets by utilizing manufacturing in the least developed countries through local partnerships.
- In the last 3 years, GLS has started working with innovator pharmaceutical companies in the area of CDMO. Given the capabilities in process chemistry research, and the manufacturing and analytical research capabilities, the company has 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.
- The company intends to increase their API manufacturing capabilities by enhancing the existing production capacities at the Ankleshwar facility during FY22 and the Dahej facility during FY22 and FY23 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. In connection with the expansion of the production capacity, the company also plan to invest in backward integration of key starting materials to become more self-reliant and less dependent on the vendors for raw materials.
- The API market USD 190 billion market globally to reach USD 260 billion by FY26. India ranked 3rd globally in API segment and Indian bulk drug growth has grown at 9% during 2016-2020.
- Company has portfolio of 120 molecules and most of the molecules are non commoditized. Commoditized are simpler molecules and non commoditized molecules are large and complex and mainly command higher pricing than commoditized molecules. Company use to take 8-10 molecules every year for development.
- GLS's financial performance has been quite impressive on all counts. Revenue and EBITDA recorded a CAGR growth of 15.8% and 17.3%, respectively through FY18- FY21, its net profit recorded a 9.6% CAGR over the same period. EBITDA margin has remained stable at ~31%.
- In terms of the valuations, on the higher price band, GLS demands a P/E multiple of 25.1x based on FY21 post issue fully diluted EPS. Almost all listed peers are trading in the range of 30x – 60x and industry average is at 40x. GLS is valued at discount to peers. Thus, issue appears attractive for investment.
- GLS has a good performance execution and clean regulatory track record. Given the healthy growth prospects, leading manufacturer of select high value non-commoditised APIs in chronic therapies, expanding manufacturing facility, expanding R&D infrastructure, servicing new markets, explore new product, strong financials, healthy balance sheet and strong promoter backing with synergies augur well for the company's performance going forward. Hence, it is recommended to "SUBSCRIBE" the issue.

API Product Portfolio

Product Area	No of Products	Key Products
CVS Therapeutic Area	21 CVS products	Olmesartan, Amiodarone, Telmisartan, Perindopril, Rosuvastatin and Cilostazol.
CNS Therapeutic Area	27 CNS products	Oxcarbazepine, Zonisamide, Topiramate, Bupropion, Ropinirole, Riluzole and Lacosamide.
Diabetes Therapeutic Area	9 Diabetes products	Glimepiride, Tenelegliptin, Vildagliptin and Linagliptin.
Pain Management Therapeutic Area	2 Pain Management Products	Etoricoxib and Lornoxicam.
APIs in Other Therapeutic Areas	-	The 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.

Revenue from API Business

Particulars	FY19		FY20		FY21	
	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total
CVS Therapeutic Area	543.85	43.07%	668.16	51.64%	776.32	45.44%
CNS Therapeutic Area	121.95	9.66%	127.98	9.89%	167.72	9.82%
Diabetes Therapeutic Area	79.5	6.30%	57.14	4.42%	61.87	3.62%
Pain Management Therapeutic Area	68.5	5.42%	72.7	5.62%	70.57	4.13%
APIs in Other Therapeutic Areas	448.93	35.55%	367.88	28.43%	631.94	36.99%
Total	1,262.73	100.00%	1,293.86	100.00%	1,708.42	100.00%

Volume of key APIs and their global market share position

Market Share Range	Contribution to Sales from API Business in FY21		Key Products
	Quantity	Value	
<10%	27.26%	35.58%	Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole
10 – 20%	30.97%	17.82%	Telmisartan, Etoricoxib, Tenelegliptin
20 – 30%	1.04%	2.99%	Desloratadine, Riluzole, Cilazapril
>30%	40.73%	43.61%	Atovaquone, Perindopril, Adapalene, Zonisamide

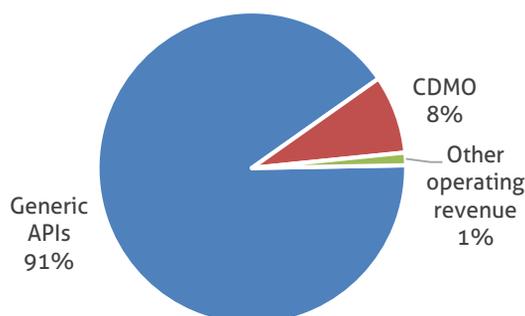
Installed Production Capacity and Utilisation

Unit	FY19			FY20			FY21		
	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization
Ankleshwar	251.2	206.0	82.0%	246.0	214.0	87.0%	301.2	259.0	86.0%
Dahej	121.7	101.0	83.0%	111.5	97.0	87.0%	151.1	133.0	88.0%
Mohol	27.3	21.2	77.6%	33.3	27.7	82.9%	54.8	47.0	85.8%
Kurkumbh	42.7	31.6	74.0%	43.2	32.4	75.0%	56.3	38.0	67.5%

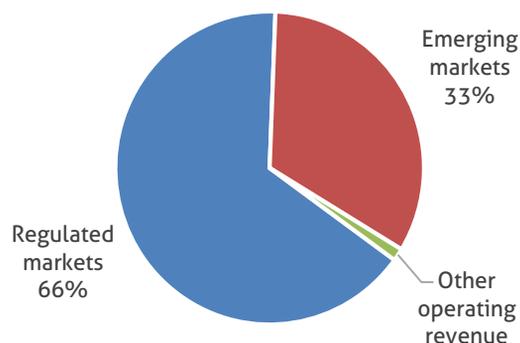
Manufacturing Facilities

Location	Description	Top Products (Therapeutic Area)	Approvals	Last Inspection
Ankleshwar, Gujarat	API manufacturing facility with manpower of 900 personnel Annual total installed capacities as of March 31, 2021 – 511.0 KL	Amiodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	Food and Drugs Control Administration, Gujarat USFDA MHRA (United Kingdom) FIMEA (Finland) Romania (Europe) PMDA (Japan) COFEPRIS (Mexico) Health Canada KFDA (South Korea)	May-21 Jul-19 Nov-06 Jul-14 Feb-14 Aug-19 Feb-16 Jul-19 Apr-11
Dahej, Gujarat	API manufacturing facility with manpower of 259 personnel Annual total installed capacities as of March 31, 2021 – 141.9 KL	Amiodarone (CVS), Etoricoxib (Pain management), Omeprazole (Gastro-intestinal), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA EDQM (Europe) PMDA (Japan) KFDA (South Korea)	Oct-18 Mar-18 Dec-16 May-17
Mohol, Maharashtra	API manufacturing facility with manpower of 78 personnel Annual total installed capacities as of March 31, 2021 – 49.1 KL	Telmisartan (CVS), Rosuvastatin (CVS), Vildagliptin (diabetes), Glimepiride (diabetes),	USFDA Maharashtra FDA	Mar-18 Jan-21
Kurkumbh, Maharashtra	API manufacturing facility with manpower of 70 personnel Annual total installed capacities as of March 31, 2021 – 24.6 KL	Sertaconazole (dermatology), Adapalene (dermatology)	Maharashtra FDA	Jan-21

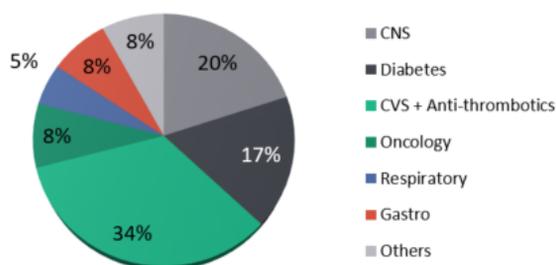
Business Segment wise Revenue



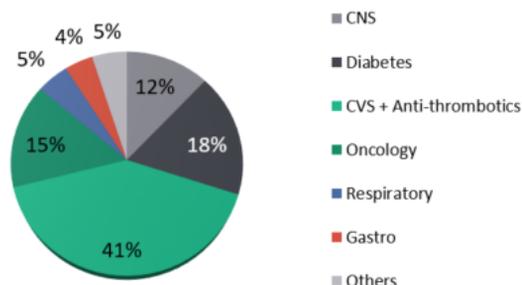
Market wise Revenue



120 Molecules Market, TA (%), 2020 (Global Market: USD 142 Bn)



120 Molecules Market, TA (%), 2026 (Global Market: USD 211 Bn)



Source: IQVIA, MIDAS Database, MAT Mar 2021 [IQVIA. Copyright 2021. All rights reserved], Frost & Sullivan Analysis

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	2.0	2.0	2.0
Net Worth	88.1	401.7	752.7
Long Term Borrowings	0.0	0.0	0.0
Other Long Term Liabilities	6.9	16.4	22.9
Short-term borrowings	0.0	0.0	0.0
Other Current Liabilities	1380.4	1307.5	1221.4
Fixed Assets	536.7	557.0	586.9
Non Current Assets	8.0	8.5	11.1
Current Assets	930.7	1160.1	1399.0
Total Assets	1475.4	1725.6	1997.1
Revenue from Operations	1405.0	1537.3	1885.2
Revenue Growth (%)		9.4	22.6
EBITDA	429.3	472.0	591.1
EBITDA Margin (%)	30.6	30.7	31.4
Net Profit	292.7	313.1	351.6
Net Profit Margin (%)	20.8	20.4	18.6
Earnings Per Share (Rs.)	27.2	29.0	32.6
Return on Networth (%)	18.2	30.8	32.7
Net Asset Value per Share (Rs.)	11.1	37.3	69.8

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	10.4	195.0	388.1
Cash flow from Investing Activities	(8.9)	(50.5)	(68.7)
Cash flow from Financing Activities	0.5	(136.6)	(213.8)
Net increase/(decrease) in cash and cash equivalents	2.0	7.9	105.6
Cash and cash equivalents at the beginning of the year	0.0	2.1	10.0
Cash and cash equivalents at the end of the year	2.1	10.0	115.6

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Glenmark Life Sciences Ltd.	1885.2	21.4	0.0	32.2	19.4	25.1	4.9	14.7	4.7	8822.0
Divi's Laboratories Ltd.	5394.4	37.3	0.0	25.4	19.3	64.8	13.8	44.0	18.4	128573.1
Laurus Labs Ltd.	4813.5	32.7	0.6	39.8	45.2	35.7	13.5	23.2	7.3	35093.8
Aarti Drugs Ltd.	1806.1	14.8	0.6	21.4	23.6	23.9	7.8	16.0	3.1	6693.6
Solara Active Pharma Sciences Ltd.	1321.8	21.7	0.7	11.7	12.5	26.9	3.8	15.9	3.7	5958.8
Shilpa Medicare Ltd.	907.9	26.1	0.3	12.4	12.3	35.4	3.5	26.3	5.8	5235.2

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