AXIS CAPITAL

IPO NOTE

GLENMARK LIFE SCIENCES LIMITED

Issue highlights

- **Glenmark Life Sciences Limited ("GLS")** was incorporated on 23rd June, 2011. GLS is a wholly-owned subsidiary of the Promoter, Glenmark Pharmaceuticals 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.
- GLS operates two business lines – **Generic APIs** (generics and complex APIs) and **CDMO** (including specialty). Company's API business comprises of the development, manufacture and sale of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. The 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
- GLS has strong market share in select specialized APIs such as Telmisartan (anti-hypertensive), Atovaquone (anti-parasitic), Perindopril (anti-hypertensive), Teneligliptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology).
- They are also increasingly providing contract development and manufacturing operations ("**CDMO**") services to a range of multinational and specialty pharmaceutical companies.
- 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.
- They work towards developing 8 to 10 molecules each year, which include both high value and high volume APIs. 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. Out of 20 largest generic companies globally, 16 were their customers.

Brief Financial Details*

(₹ In Cr)

	As at Mar' 31,		
	2021	2020	2019
Equity Share Capital	1.96	1.96	1.96
Reserves as stated	750.79	399.73	86.17
Net worth as stated	752.75	401.69	88.13
Revenue from Operations	1,885.17	1,537.31	886.42
Revenue Growth (%)	22.63%	73.43%	-
EBITDA as stated	591.89	483.95	248.16
EBITDA (%) as stated	31.40%	31.48%	28.00%
Profit Before Tax	470.94	421.07	228.30
Net Profit for the period	351.58	313.10	195.59
Net Profit (%)as stated	18.65%	20.37%	22.07%
EPS (₹)~	32.16	29.04	24.64
RoNW (%)	46.71%	77.94%	99.25%
NAV(₹)~	69.82	37.26	11.10
ROCE (%)	32.69%	30.77%	18.21%

*Source: RHP *Restated Summary, ~EPS, NAV calculated on increased equity capital.*

Issue Details

Fresh Issue of Equity Shares aggregating upto ₹ 1,060 *Crore and Offer for sale of upto 6,300,000 Equity Shares*

Issue size: ₹ 1,498 – 1,514 Cr
No. of shares: 21,551,798 - 21,022,222
Face value: ₹ 2/-

Price band : ₹ 695 – 720
Bid Lot: 20 Shares and in multiple thereof

Post Issue Implied Market Cap:
₹ 8,552 – 8,822 Cr

GCBRLMs: Kotak Mahindra Capital, BofA Securities India, Goldman Sachs (India)
BRLMs: DAM Capital,, BOB Capital Markets, SBI Capital Markets
Registrar: KFin Technologies Pvt. Ltd.

Issue opens on: Tuesday, **27th July, 2021**
Issue closes on: Thursday, **29th July, 2021**

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	03-08-2021
Refunds/Unblocking ASBA Fund	04-08-2021
Credit of equity shares to DP A/c	05-08-2021
Trading commences	06-08-2021

Issue break-up

	No. of Shares (Approx)	₹ In Cr	% of Issue
QIB	10,775,898-10,511,110	748.92 -756.80	**50%**
NIB	3,232,770 -3,153,334	224.68 -227.04	**15%**
Ret	7,543,130 - 7,357,778	524.25 -529.76	**35%**
Total	**21,551,798-21,022,222**	**1,497.85-1,513.60**	**100%**

Listing: BSE & NSE

Shareholding (No. of Shares)

Pre issue	Post issue~	Post issue^
107,804,950	123,056,748	122,527,172

~@Lower price Band ^@ Upper Price Band

Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Gr	100.00%	82.84%
Public	-	17.16%
Total	**100.00%**	**100.00%**

For additional information & risk factors please refer to the Red Herring Prospectus.

BACKGROUND

Company and Directors

The company was incorporated as 'Zorg *Laboratories Private Limited*' on June 23, 2011 at Pune. The company was acquired by Glenmark Pharmaceuticals Ltd pursuant to the Share Purchase Agreement dated July 4, 2018. The Promoter - Glenmark Pharmaceuticals Ltd, along with its nominees, currently holds an aggregate of 107,804,950 Equity Shares, aggregating to 100% of the pre- Offer issued, subscribed and paid-up Equity Share capital.

Brief Biographies of Directors

Glenn Saldanha is the Chairman and non-executive director of the company. He is also the chairman and managing director of the Promoter, Glenmark Pharmaceuticals Ltd.

V.S Mani is the non-executive director of the company. He is also an executive director and global chief financial officer of the Promoter, Glenmark Pharmaceuticals Ltd.

Yasir Rawjee is the Managing Director and Chief Executive Officer of the company. He leads the overall operations of the company and is responsible for the overall business strategy of the company.

Sumantra Mitra is the executive director and vice president – human resources department of the company and has been associated with the company since October 11, 2018. He is responsible for talent acquisition, talent management, capability development, organizational development and industrial relations, besides other aspects of the human resources agendas for the company.

Sridhar Gorthi is the independent director of the company. He is a partner at Trilegal. His areas of expertise at Trilegal include mergers and acquisitions, joint ventures, private equity and venture capital.

Manju Agarwal is the independent director of the company. She has approximately 34 years of experience in State Bank of India.

Taruvai Laxminarayanan Easwar is the independent director of the company. He is currently engaged as an advisor to the Boston Consulting Group (BCG) and is also a consultant with pharmaceutical companies.

Gita Nayyar is the independent director of the company. She is also serving as an independent director on the board of Taj-SATS Air Catering Ltd, Transport Corporation of India and Oriental Hotels Ltd.

Key Managerial Personnel

Bhavesh Pujara is the Senior Vice President and Chief Financial Officer of the company and has been associated with the company since December 1, 2020. He is responsible for managing the overall finance function of the company.

Vinod Naik is the group vice president and head of the technical operation department of the company and has been associated with the company since March 12, 2020. He oversees the daily operations of the manufacturing plants such as production and manufacturing of APIs and intermediates. He is also responsible for the supply chain function of the company.

Palle V R Acharyulu is the group vice president of the research and development department and has been associated with the company since July 14, 2020. He leads the research and development team to plan and execute API research and development. He also leads the project management and intellectual property functions of the company.

Rudalf Corriea is the Company Secretary and Compliance Officer of the company since February 23, 2021.

OBJECTS OF THE ISSUE

(₹ In Cr)

Objects	Amount
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	800.00
Funding the capital expenditure requirements	152.76
General Corporate Purposes	[•]
Total	[•]

Proposed schedule of implementation and deployment of Net Proceeds

Particulars	Total Estimated Cost	Amount to be funded from Net Proceeds	Estimated Utilisation of Net Proceeds		
			Fiscal 2022	Fiscal 2023	Fiscal 2024
• 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	800.00	800.00	800.00	-	-
• Funding the capital expenditure requirements	152.76	152.76	66.31	40.35	46.11

OFFER DETAILS

The Offer	
Fresh Issue (₹ 1,060 Cr)	Upto 15,251,798~ - 14,722,222^ Equity Shares
	(~ at lower price band and ^upper price band)
Offer for sale by:	**Upto 6,300,000 Equity Shares**
Glenmark Pharmaceuticals Ltd – The Promoter Selling	Up to 6,300,000 Equity Shares

BUSINESS OVERVIEW

Glenmark Life Sciences Limited ("**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. They 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), Teneligliptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology). They 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.

GLS is a wholly-owned subsidiary of the Promoter, Glenmark Pharmaceuticals Ltd ("**Glenmark**"), a research-oriented, innovation led, global pharmaceutical company, which was established in 1977 and is listed on the BSE and NSE. In 2001-2002, Glenmark launched the API manufacturing business by setting up a manufacturing facility in Kurkumbh in the state of Maharashtra, India and focused on growing this business over the next 18 years. In 2019, the API manufacturing business of Glenmark was sold and spun off into GLS as part of a broader reorganization designed to place Glenmark on an accelerated trajectory to attain its objectives in three different verticals, with GLS focusing on the API business. Following the Spin-off, GLS operates as an independent, professionally-managed global API business.

Enabled by their high standards of quality and process innovation, their products are sold in both regulated markets and emerging markets. For the financial years 2021, 2020 and 2019, the revenue from regulated market products was ₹1,237.41 crore, ₹1,096.62 crore and ₹968.51 crore, or 65.64%, 71.33% and 68.93% of the total revenue from operations, respectively.

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 the state of Gujarat, and Mohol and Kurkumbh in the state of Maharashtra with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021. Since 2015, their 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. 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. They are focused on sustainability in their operations through meaningful interventions in environment management, safety initiatives in their operations and occupational health of their workforce, and have undertaken various initiatives relating to energy efficiency, recovery and reuse of solvents and water conservation to reduce their carbon footprint.

The company intends 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.
The company intends 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 also provide a platform for the growth of their CDMO business and also add capacity for their generic API business. This facility will be a green-field 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 3-4 years. This facility is intended to be funded from internal accruals and debt financing (if required).

Their R&D laboratories focus on new product development and complex molecules, cost improvement programs, process improvements and oncology product development. To assist them with their R&D initiatives, they have established dedicated teams for new product development, complex products, oncology product development, technology transfer, life cycle management and project management. The company regularly works on developing 8 to 10 molecules each year.

As of March 31, 2021, they employed 213 personnel at their R&D laboratories, which constituted 13.86% of their total permanent employee strength. For the financial years 2021, 2020 and 2019, the total expenditure for R&D activities was ₹40.52 crore, ₹40.03 crore and ₹37.58 crore, or 2.15%, 2.60% and 2.67% of the total revenue from operations, respectively. As of May 31, 2021, GLS owned or co-owned 39 granted patents and had 41 pending patent applications in several countries and 6 pending provisional applications in India.

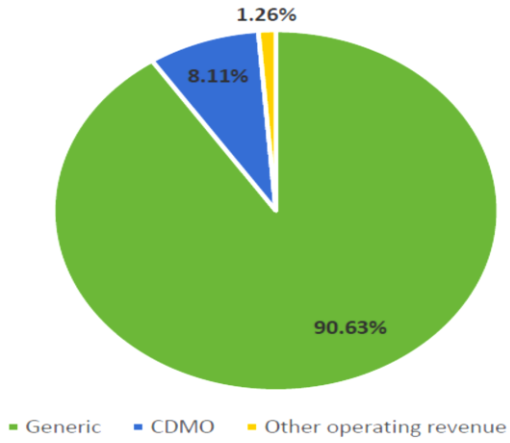
GLS has a professional and experienced management team. Their management team has demonstrated the ability to successfully build and integrate their businesses with various operating activities through their cumulative years of work experience. In particular, they have led the process through which they have created value through organic growth, built brand recognition and loyalty and identified new business opportunities. This has been achieved through a portfolio build-up which can be commercialized within the next 5 to 7 years, efficiency enhancement measures, effective capacity utilization and talent improvement. In addition, they have a strong corporate governance system to monitor, guide and support their operations, with oversight by an experienced Board.

GLS has an established track record of delivering strong financial performance. Their total revenue from operations for the financial years 2021, 2020 and 2019 was ₹1,885.17 crore, ₹1,537.31 crore and ₹1,405.03 crore, respectively. The profit before tax for the financial years 2021, 2020 and 2019 was ₹470.94 crore, ₹421.08 crore and ₹403.84 crore, respectively. The EBITDA and EBITDA Margin for the financial years 2021, 2020 and 2019 were ₹591.89 crore and 31.40%, ₹483.95 crore and 31.48%, and ₹429.82 crore and 30.59%, respectively.

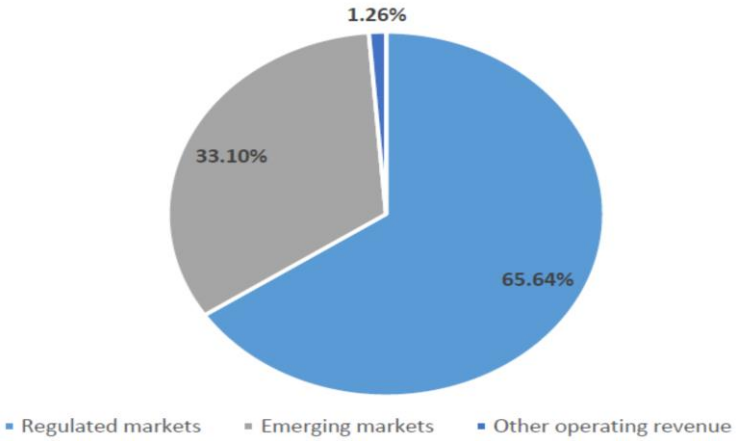
COMPANY BUSINESS

GLS operates two business lines – Generic APIs (generics and complex APIs) and CDMO (including specialty).

The split of the revenue from Generic APIs and CDMO for the financial year 2021 by business line:



The split of the revenue from operations for the financial year 2021 between regulated markets and emerging markets:



API Business

Company's API business comprises of the development, manufacture and sale of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. They also manufacture and sell APIs for gastro-intestinal disorders, anti-infective and other therapeutic areas. 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 global footprint of the API business:

For the financial years 2021, 2020 and 2019, revenue from the API business was ₹1,708.42 crore, ₹1,293.85 crore and ₹1,262.73 crore, or 90.63%, 84.16% and 89.87% of the total revenue from operations, respectively.

PRODUCT PORTFOLIO

API product portfolio

Company's API product portfolio spans across therapeutic areas including CVS, CNS, pain management, diabetes and others.

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, Teneligliptin, 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.

Details of Revenue from API Business

	For the Year Ended 31st March,					
	2021		2020		2019	
	Revenue (₹ Cr)	% to Total	Revenue (₹ Cr)	% to Total	Revenue (₹ Cr)	% to Total
CVS Therapeutic Area	776.32	45.44%	668.16	51.64%	543.85	43.07%
CNS Therapeutic Area	167.72	9.82%	127.98	9.89%	121.95	9.66%
Diabetes Therapeutic Area	61.87	3.62%	57.14	4.42%	79.50	6.30%
Pain Management Therapeutic Area	70.57	4.13%	72.70	5.62%	68.50	5.42%
APIs in Other Therapeutic Areas	631.94	36.99%	367.88	28.43%	448.93	35.55%
Total	**1,708.42**	**100.00%**	**1,293.86**	**100.00%**	**1,262.73**	**100.00%**

The volume of key APIs that GLS manufactured and sold and their global market share position in respect of each key product for the financial year 2021:

Market Share Range	Contribution to Sales from API Business in FY 2021		Key Products
	Quantity	Value	
<10%	27.26%	35.58%	Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole
10 – 20%	30.97%	17.82%	Telmisartan, Etoricoxib, Teneligliptin
20 – 30%	1.04%	2.99%	Desloratadine, Riluzole, Cilazapril
>30%	40.73%	43.61%	Atovaquone, Perindopril*, Adapalene, Zonisamide

CDMO Business

In last three years, GLS 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. 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 the current portfolio of 120 molecules globally, many molecules offer such opportunities to a new set of customers.

The innovators prefer to select vendors with a strong track record such as GLS and maintain a concentrated supplier base. Company's continuous focus on quality and on the sustainability of their operations makes them a serious contender to grow this business opportunity.
The growth drivers for the global CDMO market include:

- Aging global population, healthcare conditions in developing countries and costly breakthrough therapies,

- Increase in drug prices and prevalence of chronic diseases,
- To follow continuous manufacturing approaches,
- Disruption by COVID-19 pandemic.
- Realignment of business models
- Highly fragmented CDMO market

Specialty API

Specialty API is an important sub-segment of the CDMO business. Within their specialty API business, GLS offers customized support to pharmaceutical companies from making regulatory filings, providing research and technological support to manufacturing specialty APIs. As an API provider to such customers, they have helped create value through a blend of product customization and regulatory strategy to allow market access.

GLS views the specialty business as a key growth opportunity and an added lever for their API market expansion, with multiple companies in the United States and Europe currently focused on developing products under Section 505(b)(2) of the FD&C Act. In addition, the specialty business offers higher business stability with relatively higher margins due to the complex nature of the products which leads to high customer stickiness.

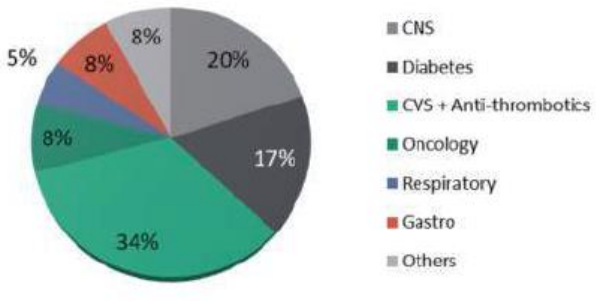
The growth drivers for the global specialty market include:

- Strong sales and low development costs lead to significant return on investment
- Convenience and lower product costs

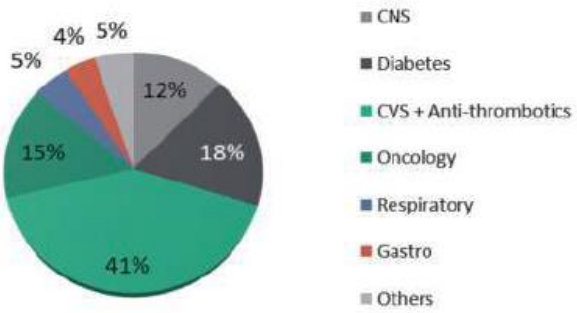
For the financial years 2021, 2020 and 2019, revenue from the CDMO business was ₹152.97 crore, ₹200.49 crore and ₹98.06 crore, or 8.11%, 13.04% and 6.98% of the total revenue from operations, respectively.

Market Segmentation by Therapy Areas

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



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



MANUFACTURING FACILITIES AND APPROVALS

The company currently operates 4 multi-purpose manufacturing facilities in India which are situated on leasehold land. GSK assigned the lease over the land and transferred ownership of the property and equipment in respect of the Ankleshwar facility to Glenmark in 2004 and Glenmark upgraded the facility to comply with USFDA certification requirements in the same year. All of their manufacturing facilities currently have ZLD capabilities for their aqueous streams and have additional facilities to recover solvents and effectively treat waste from both liquid and gaseous streams. All of their manufacturing facilities have received several major regulatory approvals and accreditations, which enables them to supply their products in regulated and other markets.

The key details of the 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	May 2021
			USFDA	July 2019
			MHRA (United Kingdom)	November 2006
			FIMEA (Finland)	July 2014
			Romania (Europe)	February 2014
			PMDA (Japan)	August 2019

Location	Description	Top Products (Therapeutic Area)	Approvals	Last Inspection
			COFEPRIS (Mexico)	February 2016
			Health Canada	July 2019
			KFDA (South Korea)	April 2011
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 (antiinfective), Cilostazol (CVS)	USFDA	October 2018
			EDQM (Europe)	March 2018
			PMDA (Japan)	December 2016
			KFDA (South Korea)	May 2017
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)	USFDA	March 2018
			Maharashtra FDA	January 2021
Kurkumbh, Maharashtra	API manufacturing facility with manpower of 70 personnel Annual total installed capacities as of March 31, 2021 – 24.6 KL	Glimepiride (diabetes), Sertaconazole (dermatology), Adapalene (dermatology)	Maharashtra FDA	January 2021

Production Capacity, Production Volumes and Capacity Utilization

Installed Production Capacity and Capacity Utilization:									
	Fiscal 2021			Fiscal 2020			Fiscal 2019		
Unit	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	301.2	259.0	86.0%	246.0	214.0	87.0%	251.2	206.0	82.0%
Dahej	151.1	133.0	88.0%	111.5	97.0	87.0%	121.7	101.0	83.0%
Mohol	54.8	47.0	85.8%	33.3	27.7	82.9%	27.3	21.2	77.6%
Kurkumbh	56.3	38.0	67.5%	43.2	32.4	75.0%	42.7	31.6	74.0%

RESEARCH AND DEVELOPMENT

GLS has focused on undertaking dedicated R&D in areas which have significant growth potential. Their R&D operations are focused on developing new products and complex molecules as well as improving the efficiency of their existing products.

The key details of the 3 dedicated R&D facilities as of March 31, 2021:

Location	Description
Mahape, Navi Mumbai	• R&D for new product development and complex molecules • High-end analytical equipment for characterization
Ankleshwar, Gujarat	• Cost improvement programs and process improvements
Dahej, Gujarat	• Oncology product development • Cost improvement programs and process improvements

MAJOR CLIENTELE

Over the years, GLS has established strong relationships with leading global generic pharmaceutical companies that have helped them expand their product offerings and geographic reach. As of March 31, 2021, 16 of the 20 largest generic companies globally were their customers. They are maintaining 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.

COMPETITIVE STRENGTHS

- ***Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas***

Company's 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, they sold their APIs in India and exported the APIs to multiple countries in Europe, North America, Latin America, Japan and ROW.

The total market size in terms of sales for company's 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 5 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 5 years to reach to about 12,079 tonnes by 2026. The chronic therapeutic areas covered by their portfolio of 120 molecules accounted for 84% of the US$142 billion end-market size and is expected to become 91% by 2026.

The company has gradually built scale and reach in their API offerings through economies of scale in their manufacturing operations and a portfolio build-up which has enabled them to service new markets and explore new product and service offerings to their customers. They work towards developing 8 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).

- ***Strong Relationships with Leading Global Generic Companies***

Over the years, GLS has established strong relationships with leading global generic pharmaceutical companies that have helped them expand their product offerings and geographic reach. As of March 31, 2021, 16 of the 20 largest generic companies globally were their customers and they enjoy a reputation of trust and reliability with such companies. They have been able to build and strengthen their relationships with them 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, GLS has 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. The term of their relationship with their 7 largest customers averages approximately 5 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.

- ***Quality-Focused Compliant Manufacturing and R&D Infrastructure***

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 the customers. GLS has 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. They focuses on building quality into their products through compliance with global regulatory standards as well as compliance with local and state laws that encompass manufacturing regulations, environmental clearance norms and other statutory norms.

Further, they are focused on undertaking dedicated R&D in their existing products and in areas where there is significant growth potential. The R&D laboratories focus on new product development and the development of complex molecules, cost improvement programs, process improvements and oncology product development.

- ***Strong Focus on Sustainability in Operations***

The company has focused on sustainability in their operations through meaningful interventions in environment management, safety initiatives in their operations and occupational health of their workforce. 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. Their manufacturing facilities at Ankleshwar and Dahej are certified ISO 14001:2015 and ISO 45001:2018 for environment management and occupational health and safety management systems, which reflects their commitment to enhancing the environmental performance.

- ***Cost Leadership across Products through Careful Monitoring and Continuous Effort***

Company's 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 on-going 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.

- ***Experienced Management Team with Proven Track Record***

GLS has a professional and experienced management team led by the Managing Director and Chief Executive Officer, Dr. Yasir Rawjee, who has over 25 years of experience in the global API industry. The operations team is headed by Vinod Naik who has over 2 decades of industry experience, the R&D team is headed by Dr. Palle V R Acharyulu with several years of industry experience and the Chief Financial Officer, Bhavesh Pujara has over 15 years of experience in finance. The management team has demonstrated the ability to successfully build a global API business across diverse markets supported by strong R&D, Operations, Quality & Regulatory functions and have integrated the businesses with various operating activities through their cumulative years of work experience.

KEY BUSINESS STRATEGIES

- ***Expand the Geographic Focus, API Portfolio and Scope of the Operations***

GLS intends to expand the size and scope of their business by diversifying their customer base in existing markets and increasing the 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 ROW markets by utilizing manufacturing in the least developed countries through local partnerships.

The company aims 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 the top-line and retention of the bottom-line, which will enable them to deepen their presence in their existing markets. They expect revenue contribution from their newly-commercialized products to increase over the next 5 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.

The growth drivers for the global complex API market include:

- Increase in demand for self-administered medications
- Cost rationalization giving impetus to generic injectables
- Growing sterile contract manufacturing organization ("CMO")/CDMO market
- Growing clinical supplies market for injectables
- Mergers and acquisitions ("M&A")
- Expansion of specialty API manufacturing facilities
- Investing heavily in developing new complex molecules to target niche ailments
- Competitive differentiation

- ***Grow the CDMO Business***

In the last 3 years, GLS has 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 will leverage their process research, analytical research and chemistry capabilities to provide CDMO services for a range of multinational corporations and specialty companies.

The growth drivers for the global CDMO market include:

- Costly breakthrough therapies which drive higher demand for pharmaceutical products
- Increasing pressure to lower drug prices
- Disruption by COVID-19 pandemic
- Realignment of business models
- Highly fragmented CDMO market

GLS views the specialty business as a key growth opportunity and an added lever for their API market expansion, with multiple companies in the United States and Europe currently focused on developing products under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act ("**FD&C Act**"). In addition, the specialty business offers higher business stability with relatively higher margins due to the complex nature of the products which leads to high customer stickiness.

The growth drivers for the global specialty market include:

- Strong sales and low development costs lead to significant return on investment
- Convenience and lower product costs

- ***Expand the Production Capacities***

GLS currently operates 4 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.

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. They also plan to expand their technology platform and manufacturing footprint at their Dahej facility to grow their oncology product portfolio, and implement the use of more automation in their processes to increase efficiency and improve compliance.

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

The company 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 on-going negotiations with vendors based on the prevailing market environment and alternate vendor qualification. The 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.

COMPETITION

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. **The key competitors in the API market include Laurus Labs, Divis Labs, Shilpa Medicare, Aarti Drugs and Solara Active Pharma Sciences**.

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2021)

Name of the Company	Consolidated/ Standalone	Face Value	Total Income for FY2021 (₹ Cr)	EPS (Basic)	NAV^	P/E~	RoNW (%)
Glenmark Life Sciences Ltd	**Restated**	**2**	**1,885.98**	**32.61**	**69.82**	**[●]**	**46.71%**
Peer Group							
Divis Laboratories Ltd	Consolidated	2	7,031.96	74.75	350.12	63.65	21.35%
Laurus Labs Ltd	Consolidated	2	4,835.86	18.36	48.41	36.59	37.87%
Shilpa Medicare Ltd	Consolidated	1	931.27	18.13	181.37	33.37	9.99%
Aarti Drugs Ltd	Consolidated	10	2,159.31	30.09	98.01	24.28	30.70%
Solara Active Pharma Sciences Ltd	Consolidated	10	1,645.65	69.00	442.12	25.83	13.93%

Source: RHP; P/E Ratio has been computed based on the closing market price of the equity shares (Source: BSE) on July 16, 2021

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