

**Details of the Issue**

Price Band	₹ 695 - ₹ 720
Issue Size	₹ 1,513 Cr
Opening Date	Jul 27, 2021
Closing Date	Jul 29, 2021
Face Value	₹2
Bid Lot	20
Listing on	BSE, NSE

**Objects of the Issue**

To make payment of outstanding purchase consideration to the promoter for the spin-off of the API business from the promoter into the company.  
To finance capital expenditure requirements.  
To meet general corporate purposes.

**Lead Managers**

BoA Merrill Lynch  
BOB Capital Markets Limited  
DAM Capital Advisors Ltd (Formerly IDFC Securities Ltd)  
Goldman Sachs (India) Securities Private Limited  
Kotak Mahindra Capital Company Limited  
SBI Capital Markets Limited

**Registrar**

KFintech Private Limited

**Investment Details**

No. of shares at cut-off	260
Max. Amount to be paid	₹ 1,87,200

**Offer Details**

Fresh Issue	₹ 1,060 cr
OFS	₹ 453.6 cr

Source: RHP, GEPL Capital Research

**Company Background**

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 a 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).

As of March 31, 2021, GLS had a portfolio of 120 molecules globally and sold APIs in India and exported 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.**

**Manufacturing capacity -**

- ✓ 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 726.6KL as of March 31, 2021.**
- ✓ GLS intends to increase the API manufacturing capabilities by enhancing the existing production capacities at the Ankleshwar facility during the financial year 2022 and the Dahej facility during the financial years 2022 and 2023 by an aggregate annual total installed capacity of 200 KL.

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. 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.

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.

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.

## Strengths & Strategies

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

### Strong Relationships with Leading Global Generic Companies

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.

### 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.

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 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.

## Valuation & Recommendation

GLS sees complex API business as a key growth opportunity and intends to leverage its proven expertise in the area of synthetic chemistry and analytical characterization to aggressively expand the existing technology platforms to manufacture and grow their complex API portfolio in oncology, peptides and iron compounds, thereby expanding our existing portfolio of API products.

The company's API portfolio comprises specialised products, including niche and technically complex molecules, which reflects GLS' ability to branch into other high value products

Although product concentration remains a key risk where top 10 products contribute 66.36%, GLS aims to reduce the dependence with planned capex in FY22.

The offer is priced at ~22x FY21 PE. We recommend a SUBSCRIBE rating to the issue, considering strong R&D capabilities, clean regulatory history, strong promoter backing with synergies and planned capex to drive medium term growth.

## Financial Snapshot

Particulars	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
EBITDA as stated	591.89	483.95	248.16
EBITDA (%) as stated	31.4%	31.5%	28.0%
Profit Before Tax	470.94	421.07	228.30
Net Profit for the period	351.58	313.10	195.59
Net Profit (%) as stated	18.7%	20.4%	22.1%
EPS (₹)	32.16	29.04	24.64
RoNW (%)	46.7%	77.9%	99.3%
NAV(₹)	69.82	37.26	11.10
ROCE (%)	32.7%	30.8%	18.2%

(in Rs cr except per share data)

## NOTES

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