

Company Overview

Gland Pharma is one of the fastest growing generic injectables-focused companies by revenue in the United States from 2014 to 2019 (STheirce: IQVIA Report). They sell products primarily under a business to business ("B2B") model in over 60 countries as of June 30, 2020, including the United States, Europe, Canada, Australia, India and the Rest of the world. They have 7 manufacturing facilities in India, comprising 4 finished formulation facilities and 3 API facilities. The company has 267 ANDA filings comprising 191 ANDA filings for sterile injectables, 50 for oncology and 26 for ophthalmics related products, of which 215 have been approved. Around 62% of revenues are derived from USA.

Objects of the issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, Gland Pharma proposes to utilize the net proceeds from fresh issue for:

- A) Funding incremental working capital requirements of Their Company (7.6 bn)
- B) To meet working capital requirements (1.6 bn)
- C) General Corporate Purposes (3.3bn)

Investment Rationale**Extensive portfolio of complex products supported by internal R&D and regulatory capabilities.**

It is a vertically integrated company with demonstrated ability to advance a product from the R&D stage through commercialisation. Their capabilities include internal research and development expertise, robust manufacturing capabilities (including the ability to synthesise and manufacture critical APIs in-house), a strict quality assurance system, extensive regulatory experience and established marketing and distribution relationships. Its product development is underpinned by the internal R&D expertise. Their centralised R&D laboratory is located near manufacturing facility at Dundigal, Hyderabad with supporting personnel based at each of the manufacturing facilities. The centralised R&D laboratory has an in-house team of approximately 250 personnel including PhDs, pharmacy post graduates and chemists with expertise in synthesis of low molecular weight injectable drugs, steroids and oncology drugs and in developing complex injectables such as lyophilized products, high-potent drugs and long-acting suspensions. In addition, the R&D laboratories are engaged in the development of key processes such as formulation development, analytical method development, API process development and stability studies.

Diversified B2B-led model across markets, complemented by a targeted B2C model in India

Their primary business model is B2B, covering IP-led, technology transfer and contract manufacturing models, complemented by a B2C model in their home market of India. They consider that their various B2B business models enable them to (i) grow market share in key markets such as the United States, Europe, Canada and Australia, particularly the United States, while reducing the marketing investments they need to make, (ii) leverage the reputation of their marketing partners in their home markets to build their own presence in these markets, (iii) build their own reputation as a complex injectables manufacturer with a consistent compliance record attracting confidence from other potential marketing partners, and (iv) balance profitability and capacity utilisation while continuing to deliver high manufacturing and quality standards to a broad range of customers. In Fiscals 2018, 2019 and 2020, The revenue generated from the B2B model constituted 96.27%, 95.57% and 95.99%, respectively, of the total revenue from operations for the relevant year. In the three months ended June 30, 2020, there revenue generated from the B2B model constituted 96.94% of their total revenue from operations for the relevant period.

Valuation and Outlook

On the operational front, Gland Pharma has shown excellent growth in both revenues (27% CAGR) and PAT (55% CAGR) with 328bps expansion in EBITDA margin during FY18-20. To extend this growth momentum, the company aims to continue investing in manufacturing and technology capabilities to expand its product portfolio and increase market share through organic and inorganic routes. The company has also strengthened its balance sheet with a healthy operating cash flow generation over the last few years. At the upper end of the price band, Gland Pharma demands a P/E multiple of 31.7x based on fully diluted EPS of FY20, which appears attractive given the opportunity company possesses. Considering niche player in Pharma space, superior business performance, healthy balance sheet, and complex nature of the business with a strong product pipeline, we give a "SUBSCRIBE" rating on this issue for the medium to long-term.

Issue Details

Offer Period	Nov 09th - 11th Nov 2020
Price Band	INR.1490 to INR.1500
Bid Lot	10
Listing	BSE&NSE
Issue Size (no. of shares in mn)	43.2
Issue Size (Rs. in bn)	64
Face Value	1

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	Citigroup Global Markets India Private Ltd, Kotak Mahindra Capital, Nomura Financial, Haitong Securities
Registrar	Link Intime India Pvt. Ltd

Particulars	Pre Issue %	Post Issue %
Promoter	74	58.36
Public	26	41.64
Total	100%	100%

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Revenue				
Revenue from operations	16,229	20,442	26,333	8,842
Total revenue	16,229	20,442	26,333	8,842
Expenses				
Cost of materials consumed	7,183	9,549	10,903	3,056
Excise duty	30	-	-	-
Power and Fuel	604	740	785	168
Purchase of traded goods	91	163	187	46
Increase in inventories of finished goods, stock-in-trade and work-in-progress	(667)	(1,142)	(64)	98
Employee benefit expenses	1,791	2,229	2,777	723
Other expenses	1,845	1,837	2,196	625
Total Operating expenses	10,876	13,377	16,783	4,716
EBITDA	5,353	7,065	9,550	4,126
Depreciation and amortisation expense	784	821	946	242
Other income	488	856	1,392	321
EBIT	5,057	7,099	9,996	4,205
Finance costs	42	37	72	5
Exceptional Item	-	200	-	-
PBT	5,015	6,863	9,924	4,200
Current tax	1,695	2,212	2,514	1,069
Deferred Tax charge	106	120	(318)	(5)
Taxes for earlier year	4	12	4	-
Total tax	1,801	2,344	2,196	1,064
PAT	3,214	4,519	7,728	3,136
Diluted EPS	19.7	27.7	47.3	19.2

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Cash Flow from operating activities	2,021	1,852	7,009	2,931
Cash flow from investing activities	(3,589)	(3,141)	(7,661)	(805)
Cash flow from financing activities	(38)	(31)	(69)	(4)
Net increase/(decrease) in cash and cash equivalents	(1,605)	(1,320)	(720)	2,122
Cash and cash equivalents at the beginning of the period	5,331	3,728	2,364	1,695
Effect of exchange differences on cash and cash equivalents held in foreign currency	3	(44)	51	-
Cash and cash equivalents at the end of the period	3,728	2,364	1,695	3,818

Source: RHP, BP Equities Research

Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Liabilities				
Share Capital	155	155	155	155
Other Equity	23,949	28,465	36,307	39,480
Non-controlling interests	-	-	-	-
Net worth	24,104	28,620	36,462	39,635
Borrowings	55	50	41	41
Other financial liabilities	387	163	27	27
Deferred tax liability				
Total Non Current Liabilities	442	212	67	67
Trade payables	2,918	4,462	2,491	4,775
Other financial liabilities	149	220	304	282
Other current liabilities	575	507	513	453
Current tax liabilities (net)	129	110	107	758
Deferred Tax Liabilities	957	1,076	741	733
Provisions	21	29	175	210
Total Current Liabilities	4,749	6,403	4,331	7,211
Total liabilities	29,295	35,236	40,860	46,913
Assets				
Tangible Assets	8,426	9,287	9,671	9,502
Right of Use Assets	11	10	10	9
Capital Work in Progress	1,989	1,232	1,885	2,544
Other financial assets	61	64	69	574
Deferred tax Assets (net)	198	190	15	16
Other non-current assets	1,287	878	748	568
Total Non current assets	11,973	11,661	12,397	13,213
Inventories	5,128	9,119	7,563	10,089
Loans	3	3	5	10
Trade Receivables	4,752	5,061	6,018	6,740
Cash and Bank Balances	6,708	7,534	13,252	15,289
Other financial assets	34	71	151	156
Current Tax Assets (Net)	-	-	95	-
Other current assets	696	1,788	1,379	1,414
Total Current Asset	17,321	23,575	28,463	33,699
Net Current Assets	12,572	17,171	24,132	26,488
Total Assets	29,294	35,236	40,860	46,913

Source: RHP, BP Equities Research

Key Risks

- ⇒ *There are certain approvals and licenses in the ordinary course of business, and the failure to obtain or retain them in a timely manner may adversely affect the business, financial condition, cash flows and results of operations.*
- ⇒ *Certain of business transactions are entered into with government or government-funded entities in India and any change in the government policies, practices or focus may adversely affect their business and results of operations.*
- ⇒ *Their business subjects to risks in multiple countries that could materially adversely affect their business, and business prospects.*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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