

GLENMARK LIFE SCIENCES LIMITED

SMC Ranking

★★★★☆ (3/5)

Issue Highlights

Industry	Active Pharmaceutical Ingredients
Total Issue (Shares) - Offer for sale	6,300,000
Total Issue (Shares) - Fresh Issue	14,722,222
Net Offer to the Public	21,022,222
Issue Size (Rs. Cr.)	1461-1514
Price Band (Rs.)	695-720
Offer Date	27-Jul-21
Close Date	29-Jul-21
Face Value	2
Lot Size	20

Issue Composition

	In shares
Total Issue for Sale	21,022,222
QIB	10,511,111
NIB	3,153,333
Retail	7,357,778

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.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- BofA Securities India Limited
- Goldman Sachs (India) Securities Private Limited
- DAM Capital Advisors Limited
- BOB Capital Markets Limited
- SBI Capital Markets Limited

Name of the registrar

- KFin Technologies Private Limited

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.720, the stock is priced at pre issue P/E of 22.08x on FY21 EPS of Rs. 32.61. Post issue, the stock is priced at a P/E of 21.31x on its EPS of Rs. 28.69. Looking at the P/B ratio at Rs. 720 the stock is priced at P/B ratio of 10.31x on the pre issue book value of Rs.69.82 and on the post issue book value of Rs. 147.95 the P/B comes out to 4.87x.

On the lower end of the price band of Rs.695 the stock is priced at pre issue P/E of 21.31x on FY21 EPS of Rs. 32.61. Post issue, the stock is priced at a P/E of 24.22x on its EPS of Rs. 28.69. Looking at the P/B ratio at Rs.695, the stock is priced at P/B ratio of 9.95x on the pre issue book value of Rs. 69.82 and on the post issue book value of Rs. 147.95, the P/B comes out to 4.70x.

About the Company

Incorporated in 2011, Glenmark Life Sciences is a leading developer and manufacturer of select high value, non-commoditized APIs in chronic therapeutic areas, including cardiovascular disease (CVS), central nervous system disease (CNS), pain management and diabetes.. Its products are being sold in India and also exported to multiple countries i.e. Europe, North America, Latin America, Japan, etc. Currently, it has 4 manufacturing facilities at Ankleshwar and Dahej in Gujarat and Mohol and Kurkumbh in Maharashtra State with an aggregate annual installed capacity of 725.8 KL as of December 31, 2020.

Strength

Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas: As of March 31, 2021, it has sold its 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 market size in terms of volume for its 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 its 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 is working towards developing 8 to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, the company 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: As of March 31, 2021, 16 of the 20 largest generic companies globally were its customers and the company enjoys a reputation of trust and reliability with such companies. For the financial years 2021, 2020 and 2019, approximately 69% of its customers were period-on-period repeat customers. For the financial year 2021, Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals and Aurobindo Pharma were among its largest customers by revenue contribution.

Strategies

Expand the Geographic Focus, API Portfolio and Scope of the Operations: The company intends to expand the size and scope of its business by diversifying its customer base in existing markets and increasing the geographic market coverage. The company aims to continue growing its base generic business by focusing on (i) continued growth in its 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 it to deepen its presence in its existing markets.

Grow the CDMO Business: In the last 3 years, GLS has started working with innovator pharmaceutical companies in the area of CDMO. The growth drivers for the global CDMO market include: (1) Costly breakthrough therapies which drive higher demand for pharmaceutical products (2) Increasing pressure to lower drug prices (3) Disruption by COVID-19 pandemic (4) Realignment of business models (5) Highly fragmented CDMO market.

Expand the Production Capacities: The company currently operates 4 multi-purpose manufacturing facilities with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021. It intends to increase its API manufacturing capabilities by enhancing the existing production capacities at its Ankleshwar facility during the financial year 2022 and its Dahej facility during the financial years 2022 and 2023 by an aggregate annual total installed capacity of 200 KL.

Risk Factor

- The company manufacturing or quality control problems may subject to regulatory action.
- Its business is dependent on sale of its products to its key customers.
- The company derives significant revenue from API business which has limited number of therapeutic categories.

Outlook

Glenmark Life Sciences Limited is the leading manufacturer of Active Pharmaceutical Ingredients (APIs). It has generated strong revenue and margin growth in the last 3 years. The company has planned to use the proceeds towards funding the capital expenditure requirements and general corporate purposes. Moreover, the company intends to increase its API manufacturing capabilities at Ankleshwar facility during FY22, and Dahej facility during FY22 and FY23 by an aggregate annual total installed capacity of 200 KL. This additional production capacity is expected to help the company further expand generic API production and also grow oncology product pipeline. A long term investor may opt the issue.