

Gland Pharma

BUY

CMP Rs2,793

Target Rs3,050

Upside 9%

Result Highlights

- ✓ Revenues jumped ~40% YoY on the back of strong growth in core markets (US & Europe +29% YoY), India (+15% YoY) and ROW (+196% YoY).
- ✓ In domestic market, Gland ramped up Remdesivir supply and maintained supplies of Enoxaparin
- ✓ Gross margin declined by 388bps YoY to 55.9% while EBITDA margin contraction restrained at 85bps YoY to 36.9%. Higher R&D too dampened margin
- ✓ R&D expenses at Rs304mn (vs. Rs173mn in Q4 FY20).
- ✓ FY21 capex at Rs2.2bn as company expanding its sterile injectable facility in Hyderabad. Additionally, it will be investing in the drug substance and biologics facility initially for vaccines and later on for biosimilars

Our view: Gland Pharma ended FY21 on strong note with robust growth in US, Europe and ROW markets (on low base) coupled with solid margin delivery. We expect healthy growth to persist across most of the core markets along with India and ROW. Moreover, vaccine triggers to materialize as supplies start from Q4 CY21. Assuming Gland makes 30% of the final selling price and 20% margin (vs company average of 36%), Sputnik V deal can boost earnings by 8-10% on conservative basis in FY23 (not factored in our estimate). With ongoing capex in FY22 on API and sterile injectable facility, growth rates can sustain beyond FY23, backed by complex filings (notably peptides). Outer year triggers like biosimilar supplies to promoter Fosun, CMO capabilities in biosimilars would help move up the value chain along with complex generics. Reset FY23 EPS estimates marginally based on FY21 actuals and retain BUY for TP Rs3,050. Notwithstanding near term upside, our thesis of solid earnings compounding, outlined in our initiating coverage report in Mar'21, remains intact and expect stock to give outsized (~70-75%) returns over a 3 year period.

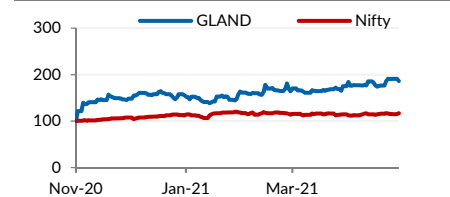
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	8,877	8,594	3.3	6,352	39.8
RM + inventory changes	(3,874)	(4,040)	(4.1)	(2,534)	52.9
Purchase of goods	(41)	(29)	44.7	(22)	90.5
Staff	(783)	(822)	(4.7)	(672)	16.5
Other expenses	(902)	(1,062)	(15.0)	(726)	24.2
OPM (%)	36.9	30.7	617 bps	37.8	-85 bps
Depreciation	(249)	(250)	(0.2)	(241)	3.5
Interest	(10)	(12)	(11.9)	(5)	115.4
Other income	472	351	34.4	462	2.2
PBT	3,489	2,732	27.7	2,615	33.4
Tax	(885)	(691)	28.1	(667)	32.7
Effective tax rate (%)	25.4	25.3	7 bps	25.5	-14 bps
PAT	2,604	2,041	27.6	1,948	33.7

Stock data (as on May 17, 2021)

Nifty:	14,923
52 Week h/l (Rs)	2983 /1700
Market cap (Rs/USD mn)	456948/6241
Outstanding Shares	164
6m Avg t/o (Rs mn):	-
Div yield (%):	N/A
Bloomberg code:	GLAND IN
NSE code:	GLAND

Stock performance



	1M	3M	1Y
Absolute return	6.3%	18.4%	-

Shareholding pattern (As of Mar'21 end)

Promoter	58.3%
FII+DII	23.1%
Others	18.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,050	3,050

Δ in earnings estimates

	FY22E	FY23E
EPS (New)	76.6	96.5
EPS (Old)	78.1	98.3
% change	-1.9%	-1.8%

Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Net Revenue	34,629	43,141	53,448
YoY Growth	31.5	24.6	23.9
EBIDTA	13,022	16,412	20,647
YoY Growth	36.3	26.0	25.8
PAT	9,970	12,528	15,784
YoY Growth	29.0	25.7	26.0
ROE	20.9	19.2	19.9
EPS	60.9	76.6	96.5
P/E	45.8	36.5	28.9
BV	360.9	437.4	533.9
P/BV	7.7	6.4	5.2

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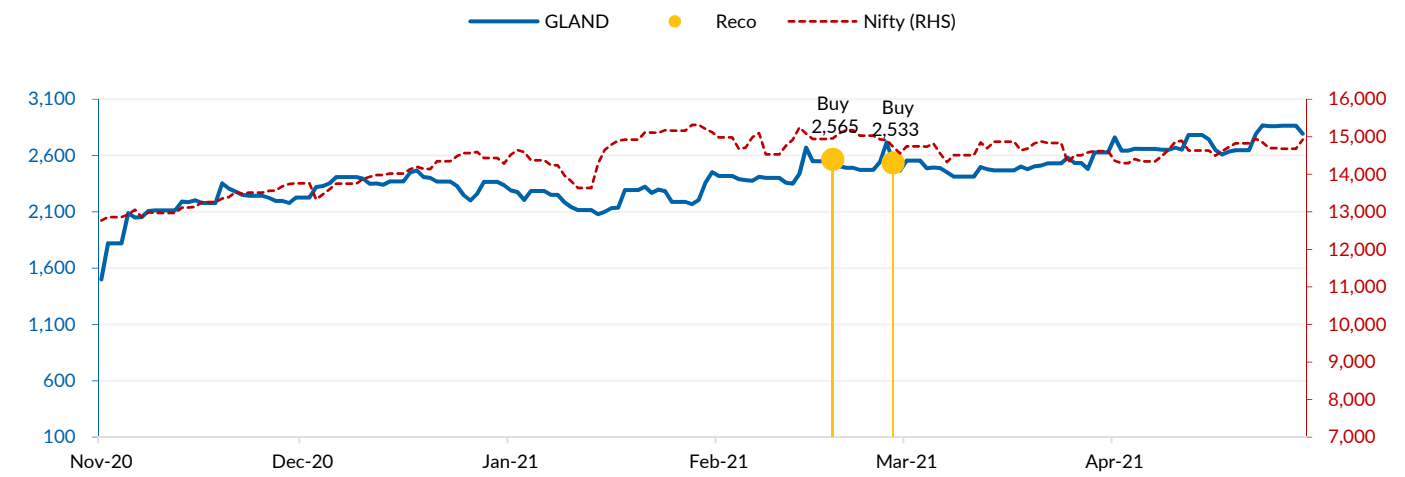
CON-CALL HIGHLIGHTS

- ✓ Year-end inventory has gone up to prepare for launches; going ahead, it would stabilize
- ✓ COVID led product benefit had normalized in US from Q2 FY21
- ✓ In biosimilar, not just looking at fill finish but also drug substance manufacturing
- ✓ Export incentives worth Rs500mn not accounted since Sep'20 due to stoppage of MEIS scheme
- ✓ Have 5-6 APIs for some of the key products which has helped margins despite faster ROW sales
- ✓ To invest additional Rs2.8bn on vaccine facility
- ✓ Supply of Sputnik V to RDIF is for a fixed price irrespective of where the vaccine is sold
- ✓ About 15% of the installed vaccine capacity is meant for COVID only, but rest can be used for other vaccine and biosimilar products
- ✓ Working on peptides, hormones products – to file 1 peptide this year followed by 2 more next year
- ✓ In biologics, idea is to enter into CMO or CDMO type operations
- ✓ 14% - vol growth, 9% price hike and 3-4% from new launches drove revenues in FY21
- ✓ To launch 36 molecules in FY22; 10 in Q1 and 9 in Q2
- ✓ Yet to fully monetize products like Micafungin and can see meaningful revenues from such opportunities
- ✓ Rs3bn capex in FY22 to be spent on expanding - sterile injectable facility in Hyderabad, API plant in Vizag and onco facility
- ✓ Post Mar'21, acquired a facility for Rs900mn and will be used to scale up for vaccine production.
- ✓ Emerging markets has been growing rapidly through entering new markets like Singapore, Israel, Saudi Arabia, and CIS Countries.
- ✓ ~20 ANDA filings target including some complex injectables in FY22. ANDA filing has moderated in Q4 FY21 due to COVID impact and product mix (the company is working towards complex generics injectables which takes longer time to complete and expect the ANDA filings in FY22E).
- ✓ R&D at 3-4% of sales to continue
- ✓ Company expect some product launches in China and expect its contribution to the revenue from FY23E.

Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	20,442	26,332	34,629	43,141	53,448
yoy growth (%)	26.2	28.8	31.5	24.6	23.9
Operating profit	7,063	9,555	13,022	16,412	20,647
OPM (%)	34.6	36.3	37.6	38.0	38.6
Reported PAT	4,519	7,729	9,970	12,528	15,784
yoy growth (%)	40.7	71.0	29.0	25.7	26.0
EPS (Rs)	29.2	49.9	60.9	76.6	96.5
P/E (x)	95.8	56.0	45.8	36.5	28.9
P/BV (x)	15.1	11.9	7.7	6.4	5.2
EV/EBITDA (x)	60.2	43.9	32.8	25.6	19.8
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
ROE (%)	17.9	23.7	20.9	19.2	19.9
ROCE (%)	24.6	27.4	22.6	23.5	24.2

Recommendation Tracker



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