

GLAND PHARMA LIMITED

Gland Pharma is one of the fastest growing generic injectable-focused companies by revenue in the United States from 2014 to 2019 as per IQVIA report. Company sells its products primarily under a B2B model which accounted for 97% of FY2020 revenues. Company exports to over 60 countries as of June 30, 2020, including the United States, Europe, Canada, Australia and the Rest of the world. The company has an extensive track record in complex injectable development, manufacturing and marketing.

Key Positives: (1) Gland Pharma is one of the fastest growing generic injectable companies in this USA, which accounted for 67% of the company's revenues in FY2020. (2) The company has a differentiated business model and focuses on high margin injectable business. (3) The company exports its products to over 60 countries with export revenues accounting for 82% of its revenue from exports. (4) The company has registered very strong revenue growth of 27% CAGR over the last three years while profits have registered a growth of 55% CAGR during the same period.

Investment concerns: (1) One of the key concerns is that the company will need to incur large Capex in near future given that its last capex cycle was completed in 2016. (2) Moreover the company has a very high working capital cycle of over 200 days, which is significantly higher as compared to peers. (3) The company could also face regulatory issues from the USFDA.

Outlook & Valuation: based on FY2020 the IPO is priced at PE of 30.1x at the upper end of the price band and is at a slight premium as compared to mid-cap pharma peers. Similarly the company is also trading at EV/Sales of 8.1x and EV/EBITDA of 20.1, which is also at a premium as compared to peers. Given that we have certain concerns regarding premium valuations and elongated working capital cycle **we are assigning a "NEUTRAL" recommendation to the issue.**

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
Net Sales	1,623	2,044	2,633
% chg	-	26.0	28.8
Net Profit	321	452	773
% chg	-	40.7	71.0
EBITDA (%)	36.0	38.8	41.6
EPS (as stated)	20.7	29.2	49.9
P/E (x)	72.4	51.4	30.1
P/BV (x)	9.6	8.1	6.4
Ronw (%)	13.3	15.8	21.2
RoCE (%)	12.6	15.1	20.7
EV/EBITDA	38.9	28.5	20.1
EV/Sales	14.0	11.1	8.3

Source: DHRP, Angel Research

NEUTRAL

Issue Open: November 09, 2020

Issue Close: November 11, 2020

Issue Details

Face Value: ₹1

Fresh issue: ₹1,250cr

Offer for sale: ₹5,230cr**

Issue size (amount): ₹6480cr**

Price Band: ₹1490-1500

Lot Size: 10 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹24,329cr - **₹24,492cr

Promoters holding Pre-Issue: 74%

Promoters holding Post-Issue: 58.4%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	58.4%
Others	41.6%

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Company Background

Mr. PVN Raju formed company in 1978 in Hyderabad. The visionary technocrat pioneered Heparin technology in India in 1960, and set up the country's first state-of-the-art Pre-Filled Syringe (PFS) facility for LMWHs in 1998. It was under his guidance that the facility received USFDA acceptance in 2003, another first in India. Company is one of the fastest growing generic injectables-focused companies by revenue in the United States from 2014 to 2019 (Source: IQVIA Report). Company sell its 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.

Company has a consistent compliance track record with a range of regulatory regimes across these markets. We also have an extensive track record in complex injectable development, manufacturing and marketing and a close understanding of the related sophisticated scientific, technical and regulatory processes. Fosun Singapore and Shanghai Fosun Pharma are the current promoter of the company.

Key Highlights of Gland Pharma Limited

- Gland Pharma has grown over the years from a contract manufacturer of small volume liquid parenteral products, to become one of the largest and fastest growing injectable-focused companies.
- A holistic objective of dispensing health through a portfolio of injectable products across various therapeutic segments and delivery systems.
- Company having seven manufacturing facilities in India, with a capacity of approximately 750 million units. These include four facilities with 22 production lines for finished formulations and three Active Pharmaceutical Ingredient (API) facilities.
- Company present in sterile injectables, oncology and ophthalmic segments, and focus on complex injectables including NCE-1s, First-to-File products and 505(b)(2) filings.
- with a global footprint across 60 countries, including the United States, Europe, Canada, Australia, India and other markets. We operate primarily under a business to business (B2B) model.
- In financial year 2020, 82% of company's revenues came from Export.

Geographical distribution of revenues

The company has a track record of delivering revenue growth and profitability across geographies like United States, Europe, Canada, Australia, India and the Rest of the world. The following table sets forth the revenue from operations based on the customer location as a percentage of total revenue from operations for the years.

Exhibit 1 Geography wise revenue

Country	FY 2018	FY 2019	FY 2020
USA	71.3%	62.5%	66.7%
India	18.5%	19.0%	17.7%
Europe	3.4%	5.4%	4.4%
Canada	1.1%	1.1%	1.8%
Australia	0.7%	0.4%	0.5%
Rest of the world	5.1%	11.6%	8.8%
Total	100.0%	100.0%	100.0%

Source: DHRP, Angel Research

Issue Details

Gland Pharma is raising ₹1250 Cr through fresh issue & Offer For Sale of ₹5,230 Cr (3,48,63,635 shares), price band of ₹1,490-1,500.

Exhibit 2 Pre & Post issue Shareholding

Particular	Pre issue	%	Post issue	%
Promoter	11,46,62,620	74.00%	9,52,93,934	58.4%
Public	3,17,10,870	20.47%	1,62,15,921	9.9%
Other	85,76,000	5.53%	5,17,72,968	31.7%
Total	15,49,49,490	100.00%	16,32,82,823	100.00%

Source: DRHP, Angel Research

Objects of the offer

- Fresh Issue of ₹1,250 Cr for capex of ₹168 Cr and to meet working capital requirement of the company and general corporate purpose.
- Offer for sale from promoter and other shareholders of ₹5,230cr.

Key Management Personnel

Srinivas Sadu is the MD and CEO of our Company. He holds a bachelor's degree in pharmacy from Gulbarga University, a master's degree in science from Long Island University, New York and a master's degree in business administration from University of Baltimore. He has previously worked at Natco Pharma Limited at Hyderabad, India, and is presently a director on the board of Sadu Advisory Services Private Limited. He has over 21 years of experience in business operations and management. He joined our Company as the general manager – exports in 2000, and was elevated to position of senior general manager in 2002, vice president in 2003, director in 2005, and chief operating officer in 2011. He was appointed as the MD and CEO with effect from April 25, 2019.

Yiu Kwan Stanley Lau is the Chairman and Independent Director of our Company. He holds a bachelor's degree in pharmacy from the The School of Pharmacy, University of London. He is a director on the board of directors Solasia Pharma K. K. and TaiLai Bioscience Ltd. He was previously the chief executive officer of Amsino Medical Group, the chief operating officer of Eddingpharm Investment Co. Ltd, and the president of China Biologic Products, Inc. He has also worked with Merck Sharp & Dohme (Asia) Ltd and Baxter (China) Investment Co., Ltd.

Qiyu Chen is a Non-Executive Nominee Director of our Company. He holds a bachelor's degree in genetics from Fudan University and a master of business administration from China Europe International Business School. He is the global partner of the Fosun group. He is also a non-executive director on the board of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. He was appointed as an executive director of the Fosun group in May 2005.

Dongming Li is a Non-Executive Nominee Director of our Company. He holds a bachelor's degree in science from Fudan University. He has served as the vice president of Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd since September 2020. He is also the co-president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. He previously worked at Shanghai Pharmaceuticals (Group) Co., Limited, and at Shanghai Roche Pharmaceutical Co., Ltd. from May 2008 to November 2013.

Xiaohui Guan is a Non-Executive Nominee Director of our Company. She holds a master's degree in professional accountancy from the Chinese University of Hong Kong. She is also a member of the ACCA (Association of Chartered Certified Accountants) and a non-practising member of the Chinese Institute of Certified Public Accountants. She joined the Fosun group in May 2000. She is the executive president and chief financial officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and non-executive director of Sinopharm Group Co., Ltd, a company listed on the Hong Kong Stock Exchange. Previously, she was the supervisor at the China National Accord Medicines Corporation Ltd.

Consolidated Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20
Total operating income	1,623	2,044	2,633
<i>% chg</i>	-	26.0	28.8
Total Expenditure	1,087	1,337	1,678
Raw Material cost	664	857	1,102
Employee Benefit Expense	179	223	278
Other Expenses	245	258	298
EBITDA	536	707	956
<i>% chg</i>	-	32.0	35.2
<i>(% of Net Sales)</i>	33.0	34.6	36.3
Depreciation & Amortisation	78	82	95
EBIT	457	625	861
<i>% chg</i>	-	36.6	37.9
<i>(% of Net Sales)</i>	28.2	30.6	32.7
Interest & other Charges	4	4	7
Other Income	49	86	139
<i>(% of Sales)</i>	3.0	4.2	5.3
<i>Exceptional items</i>	0	20	0
Recurring PBT	502	687	993
<i>(% of Net Sales)</i>	30.9	33.6	37.7
Tax	180	234	220
PAT (reported)	321.4	452.3	773.3
<i>% chg</i>	-	40.7	71.0
<i>(% of Net Sales)</i>	19.8	22.1	29.4
EPS (as stated)	20.7	29.2	49.9
<i>% chg</i>	-	40.7	71.1

Source: DRHP, Angel Research

Consolidates Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20
SOURCES OF FUNDS			
Equity Share Capital	15	15	15
Other equity	2,395	2,847	3,631
Shareholders Funds	2,410	2,862	3,646
Total Loans	140	129	81
Total Liabilities	2,550	2,991	3,727
APPLICATION OF FUNDS			
Net Block	1,043	1,053	1,156
Current Assets	1,732	2,356	2,846
Sundry Debtors	475	506	602
Cash & Bank Balance	674	760	1,340
Other Assets	70	179	148
Current liabilities	379	533	359
Net Current Assets	1,353	1,824	2,487
Other Non Current Asset	156	114	84
Total Assets	2551.2	2990.7	3727.7

Source: DHRP, Angel Research

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY18	FY19	FY20
Restated Profit before tax	501	686	993
Depreciation	78	82	95
Change in Working Capital	(76)	(332)	(140)
Interest Expense	3	3	6
Direct Tax Paid	(157)	(223)	(244)
Others	(0)	37	6
Cash Flow from Operations	202	185	701
(Inc.)/ Dec. in Fixed Assets	(85)	(135)	(171)
Investment in bank deposits (net)	(298)	(219)	(639)
Interest received	24	40	43
Cash Flow from Investing	(359)	(314)	(766)
Repayment of Long Term Borrowing	(0.4)	(0.4)	(0.5)
Dividend paid on equity shares	(3)	(3)	(6)
Others	(0.2)	(0.2)	(0.2)
Cash Flow from Financing	(4)	(3)	(7)
Inc./(Dec.) in Cash	(160)	(132)	(72)
Opening Cash balances	533	373	236
Closing Cash balances	373	236	169

Source: DRHP, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20
Valuation Ratio (x)			
P/E	72.4	51.4	30.1
P/CEPS	56.6	42.5	27.8
P/BV	9.6	8.1	6.4
EV/Sales	14.0	11.1	8.3
EV/EBITDA	38.9	28.5	20.1
Per Share Data (₹)			
EPS (fully diluted)	20.72	29.16	49.88
Cash EPS	26.5	35.3	54.0
Book Value	155.6	184.7	235.3
DPS	-	-	-
Number of share	15.49	15.49	15.49
Returns (%)			
RONW	13.3	15.8	21.2
ROCE	12.6	15.1	20.7
ROE	13.3	15.8	21.2
Turnover ratios (x)			
Asset Turnover (net)	1.9	2.2	2.7
Receivables (days)	107	92	83
Inventory Days	186	267	174
Payables (days)	106	131	57
Working capital cycle (days)	187	228	200

Source: DRHP, Angel Research

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