

India

HOLD (no change)

Consensus ratings*: Buy 15 Hold 2 Sell 4

Current price:	Rs2,190
Target price:	Rs2,157
Previous target:	Rs2,289
Up/downside:	-1.5%
InCred Research / Consensus:	-21.6%

Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$4,362m Rs360,709m
Average daily turnover:	US\$11.7m Rs967.6m
Current shares o/s:	164.7m
Free float:	42.0%

*Source: Bloomberg

Key changes in this note

- Reduce FY23F-25F core earnings estimates by 21-23%.
- Cut target price to Rs2,157 (from Rs2,289).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	(4.0)	(40.7)
Relative (%)	0.1	(9.2)	(39.2)

Major shareholders	% held
Promoters	58.0
Axis MF	4.0
Mirae MF	3.9

Analyst(s)



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Gland Pharma Ltd

Cloud over growth expectation

- Gland Pharma's 2QFY23 revenue and EBITDA missed our estimates by 13% and 34%, respectively.
- Some improvement is visible over 1QFY23, but it's still a far cry from the growth recovery that is currently built into the stock price, in our view.
- We see more correction to its valuation as the lower sustainable medium-term growth rate gets priced in.

2QFY23 performance significantly misses our expectations

Gland Pharma's 2QFY23 revenue and EBITDA missed our estimates by 13% and 34%, respectively. Miss on consensus numbers was optically lower, which we believe was because of pre-quarter adjustments. Stability and growth yet to be back as revenue and EBITDA declined by 3% and 21% yoy, respectively.

Improvement over 1QFY23, but still a far cry from growth expectation

2QFY23 numbers show some improvement over 1QFY23, but they are still a far cry from the recovery in growth that is currently built into the stock price, in our view. While some of the continuing supply problems are likely to be resolved in 2HFY23F and some product launches in the US will contribute incrementally, we feel neither of them may get the company back on the growth path in FY23F.

No clear visibility of growth getting back to earlier level

Gland Pharma's revenue and EBITDA grew at a 28-29% CAGR over FY18-22. We do not see growth getting back to this level in the medium term. China foray, product launches in the US, geographical expansion in RoW and biosimilar CDMO foray – none of them give us the confidence that the growth rate can get back to 20%+ level in the near- to medium-term. Thus, we have lowered our sustainable medium-term growth expectation to low-mid-teen.

Reduce our estimates; remain cautious on financials

We reduce our FY23F-25F core earnings estimates by 21-23% to reflect lower growth rate and profitability. We would like to highlight that even after the cut, our 2HFY23F estimates still assume a 9-17% qoq growth and assume 32-35% EBITDA margin vs. 28.4% in 2QFY23. Hence, we remain cautious on the financials.

Reduce target price to Rs2,157; maintain HOLD rating

Gland Pharma trades at 31x our FY24F core earnings estimate. We see more correction to valuation as the lower sustainable medium-term growth rates get priced in. We cut our target price to Rs2,157 (Rs2,289 earlier), which is 26x our FY25F core earnings estimate plus cash per share. Continued supply disruption and competitive pressure in the US will be key downside risks. Large product upside in the US, and large contract win in the contract development and manufacturing or CDMO business will be key upside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	34,629	44,007	42,618	49,031	55,509
Operating EBITDA (Rsm)	13,022	15,102	13,575	15,711	17,809
Net Profit (Rsm)	9,970	12,117	10,582	11,739	13,161
Core EPS (Rs)	60.5	73.6	64.3	71.3	79.9
Core EPS Growth	29.0%	21.5%	(12.7%)	10.9%	12.1%
FD Core P/E (x)	36.17	29.76	34.08	30.72	27.40
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	25.39	21.73	23.42	19.84	17.09
P/FCFE (x)	36.74	34.03	17.66	26.47	22.06
Net Gearing	(50.9%)	(45.3%)	(52.0%)	(52.1%)	(52.5%)
P/BV (x)	6.11	5.04	4.39	3.84	3.37
ROE	20.9%	18.6%	13.8%	13.3%	13.1%
% Change In Core EPS Estimates			(17.17%)	(19.40%)	(21.05%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY23 results snapshot

(Rs m)	2QFY23	2QFY22	yoy(%)	1QFY23	qoq(%)
Revenue	10,444	10,805	-3%	8,569	22%
EBITDA	2,969	3,758	-21%	2,699	10%
EBITDA Margin (%)	28%	35%	-6%	31%	-3%
PAT	2,412	3,012	-20%	2,292	5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	10,444	11,971	-13%
EBITDA	2,969	4,488	-34%
EBITDA Margin (%)	28%	37%	-24%
PAT	2,412	3,355	-28%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	10,444	10,197	2%
EBITDA	2,969	3,341	-11%
EBITDA Margin (%)	28%	33%	-13%
PAT	2,412	2,588	-7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	42,618	49,031	46,230	54,020	-8%	-9%
EBITDA	13,575	15,711	16,714	19,578	-19%	-20%
EBITDA Margin (%)	32%	32%	36%	36%	-4%	-12%
PAT	10,582	11,739	12,776	14,563	-17%	-19%

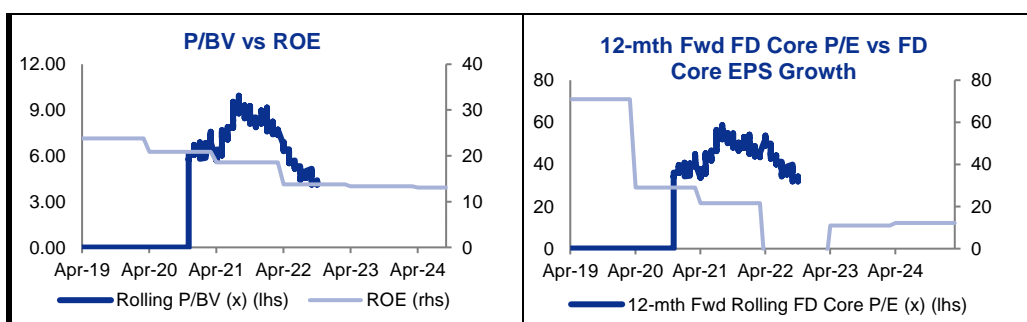
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	54.4	63.4	54.5	63.2	71.6
Core EPS growth	27.8%	16.4%	-13.9%	15.8%	13.3%
Cash per share (Rs)	182.5	197.2	258.9	295.7	339.2
Current core P/E (Rs)	36.0	30.9	35.9	31.0	27.4
Core ROIC	51.8%	48.2%	31.0%	35.5%	35.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	34,629	44,007	42,618	49,031	55,509
Gross Profit	19,710	22,915	22,589	25,987	29,420
Operating EBITDA	13,022	15,102	13,575	15,711	17,809
Depreciation And Amortisation	(988)	(1,103)	(1,456)	(1,700)	(1,900)
Operating EBIT	12,034	13,999	12,119	14,011	15,909
Financial Income/(Expense)	(34)	(52)	(56)	(60)	(60)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,348	2,239	2,100	1,700	1,700
Profit Before Tax (pre-EI)	13,348	16,186	14,163	15,651	17,549
Exceptional Items					
Pre-tax Profit	13,348	16,186	14,163	15,651	17,549
Taxation	(3,378)	(4,069)	(3,581)	(3,913)	(4,387)
Exceptional Income - post-tax					
Profit After Tax	9,970	12,117	10,582	11,739	13,161
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,970	12,117	10,582	11,739	13,161
Recurring Net Profit	9,970	12,117	10,582	11,739	13,161
Fully Diluted Recurring Net Profit	9,970	12,117	10,582	11,739	13,161

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	13,022	15,102	13,575	15,711	17,809
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,358)	(3,931)	2,214	(2,736)	(2,746)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,615)	(3,263)	(3,581)	(3,913)	(4,387)
Net Interest (Paid)/Received	(34)	(52)	(56)	(60)	(60)
Tax Paid	(3,929)	(5,450)	(2,044)	(1,640)	(1,640)
Cashflow From Operations	6,049	7,908	12,209	9,063	10,676
Capex	(2,283)	(5,217)	(4,000)	(4,500)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	3,766	2,690	8,209	4,563	5,676
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	12,418	386			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	622	(646)	2,079	1,652	1,653
Cash Flow From Financing	13,040	(260)	2,079	1,652	1,653
Total Cash Generated	16,806	2,430	10,287	6,214	7,329
Free Cashflow To Equity	9,815	10,598	20,417	13,626	16,351
Free Cashflow To Firm	9,849	10,651	20,474	13,686	16,411

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	30,058	32,488	42,775	48,990	56,318
Total Debtors	6,710	11,988	8,524	9,806	11,102
Inventories	12,752	11,857	10,228	11,768	13,322
Total Other Current Assets	1,718	2,188	7,671	8,826	9,992
Total Current Assets	51,236	58,521	69,198	79,389	90,734
Fixed Assets	12,913	16,804	19,348	22,148	25,248
Total Investments					
Intangible Assets	10	125	125	125	125
Total Other Non-Current Assets	802	2,886	2,886	2,886	2,886
Total Non-current Assets	13,724	19,815	22,360	25,160	28,260
Short-term Debt		3	3	3	3
Current Portion of Long-Term Debt					
Total Creditors	4,007	4,629	4,356	4,998	5,655
Other Current Liabilities	1,118	1,189	4,066	4,665	5,278
Total Current Liabilities	5,125	5,820	8,425	9,665	10,936
Total Long-term Debt	39	45	80	91	104
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	764	895	895	895	895
Total Non-current Liabilities	803	940	974	986	999
Total Provisions					
Total Liabilities	5,928	6,760	9,400	10,652	11,935
Shareholders Equity	59,032	71,576	82,158	93,897	107,059
Minority Interests					
Total Equity	59,032	71,576	82,158	93,897	107,059

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	31.5%	27.1%	(3.2%)	15.0%	13.2%
Operating EBITDA Growth	36.3%	16.0%	(10.1%)	15.7%	13.3%
Operating EBITDA Margin	37.6%	34.3%	31.9%	32.0%	32.1%
Net Cash Per Share (Rs)	182.31	197.02	259.29	296.96	341.39
BVPS (Rs)	358.52	434.70	498.97	570.26	650.20
Gross Interest Cover	353.95	267.05	215.50	233.52	265.14
Effective Tax Rate	25.3%	25.1%	25.3%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	67.08	77.54	87.83	68.23	68.74
Inventory Days	248.50	212.92	201.23	174.19	175.51
Accounts Payables Days	79.48	74.72	81.87	74.08	74.52
ROIC (%)	30.2%	26.2%	22.5%	22.8%	23.0%
ROCE (%)	25.2%	21.4%	15.8%	15.9%	15.8%
Return On Average Assets	18.9%	17.0%	12.5%	12.0%	11.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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