



India

ADD (previously HOLD)

Consensus ratings*: Buy 12 Hold 2 Sell 5

Current price:	Rs1,376
Target price:	Rs1,564
Previous target:	Rs2,157
Up/downside:	13.7%
InCred Research / Consensus:	-28.9%
Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$2,784m Rs226,556m
Average daily turnover:	US\$12.2m Rs992.7m
Current shares o/s:	164.7m
Free float:	42.0%

*Source: Bloomberg

Key changes in this note

- Upgrade to ADD (from HOLD earlier).
- Reduce our FY23F-25F core earnings estimates by 12-18%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(13.0)	(37.2)	(61.4)
Relative (%)	(14.6)	(38.3)	(63.6)

Major shareholders	% held
Promoters	58.0
ICICI Pru MF	4.0
Mirae MF	3.9

Analyst(s)



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Gland Pharma Ltd

It's time for a reset

- 3QFY23 results of Gland Pharma were bad, as widely expected. Revenue and EBITDA were down 10% and 3.5% QoQ, respectively.
- We reduce our FY23F-25F core earnings estimates by 12-18%; view this as our last major cut to forward estimates.
- We upgrade the stock to ADD with a target price of Rs1,564 (Rs2,157 earlier).

Bad quarter, but earnings run-rate close to its bottom

Gland Pharma or GPL's 3QFY23 performance was bad, as widely expected. Revenue and EBITDA were 18-21% below our estimates, down 10% and 3.5% QoQ, respectively. However, we believe the earnings run-rate is close to its bottom and expect the business to stabilize at current level and grow from here on in low double digits.

We cut our estimates, but believe this is the last round of reduction

We have cut our FY23F-FY25F core earnings estimates by 12-18%; we were already below consensus estimates by 5% for FY23F and by 19% for FY24F. We believe that all the inflated expectations on a high base that included Covid-related upside and micafungin exclusivity in the US, are now out of forward estimates and the stock price. We view this as our last major cut to forward estimates and expect no major future disappointments.

Worst times in the US market may not last forever

Apart from erosion in the Covid upside and marketing exclusivity products, intense competition in the US generic injectables market contributed to GPL's downfall in FY23. We do not see this as a structural change; the scenario will change soon as players cannot operate at such a low profitability. GPL's management, like other players in the US generics market, has talked about multiple players exiting the market and the equilibrium, we feel, will settle with higher prices. These higher prices typically result from select opportunities that show up in specific products rather than across-the-board price hikes.

Other growth drivers to show up as well

We feel complex injectables in the US, China foray, other emerging markets and biosimilar CDMO will emerge and/or add to the growth over the next 2-3 years. Recovery in the US market via better opportunities in existing products and new launches, along with these new avenues, we believe, can help GPL deliver at least low double-digit earnings growth.

The worst is priced in; upgrade rating to ADD

GPL trades at 20x our FY25F core earnings. At this valuation, we see little downside to the share price. Even after the fall in profitability in FY23, GPL still makes 25% ROIC, generates decent free cash and has at least low double-digit growth potential. We upgrade the stock to ADD (from HOLD earlier) with a revised target price of Rs1,564 (Rs2,157 earlier), which is 22x FY25F core earnings plus cash per share. Further erosion in business profitability in the US market is the key downside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	34,629	44,007	37,941	58,060	63,790
Operating EBITDA (Rsm)	13,022	15,102	11,382	14,811	16,412
Net Profit (Rsm)	9,970	12,117	9,140	10,216	11,192
Core EPS (Rs)	60.5	73.6	55.5	62.0	68.0
Core EPS Growth	29.0%	21.5%	(24.6%)	11.8%	9.5%
FD Core P/E (x)	22.72	18.70	24.79	22.18	20.24
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)	15.09	12.85	16.04	12.94	11.17
P/FCFE (x)	23.08	21.38	11.09	(865.46)	13.18
Net Gearing	(50.9%)	(45.3%)	(54.4%)	(38.3%)	(42.3%)
P/BV (x)	3.84	3.17	2.81	2.49	2.22
ROE	20.9%	18.6%	12.0%	11.9%	11.6%
% Change In Core EPS Estimates			(13.64%)	(12.99%)	(14.98%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 3QFY23 results snapshot

(Rs m)	3QFY23	3QFY22	yoy(%)	2QFY23	qoq(%)
Revenue	9,383	10,633	-12%	10,444	-10%
EBITDA	2,896	3,489	-17%	2,969	-2%
EBITDA Margin (%)	31%	33%	-2%	28%	2%
PAT	2,319	2,730	-15%	2,412	-4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actual vs. estimates

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	9,383	11,420	-18%
EBITDA	2,896	3,689	-22%
EBITDA Margin (%)	31%	32%	-4%
PAT	2,319	2,741	-15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actual vs. Bloomberg consensus estimates

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	9,383	20,077	-53%
EBITDA	2,896	7,194	-60%
EBITDA Margin (%)	31%	36%	-14%
PAT	2,319	4,895	-53%

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	37,941	58,060	42,640	64,756	-11%	-10%
EBITDA	11,382	14,811	13,587	17,736	-16%	-16%
EBITDA Margin (%)	30%	26%	32%	27%	-2%	-7%
PAT	9,140	10,216	10,591	12,410	-14%	-18%

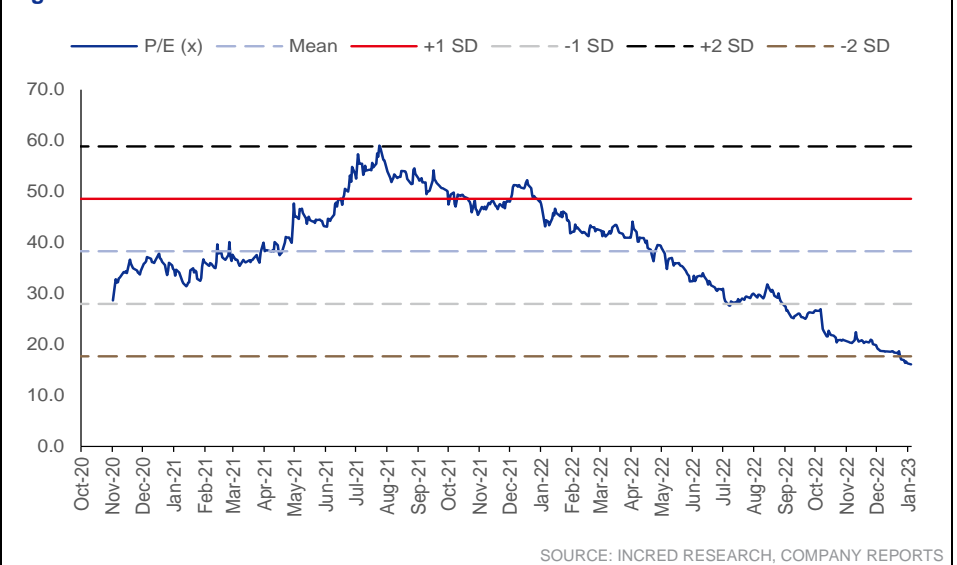
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	54.4	63.4	44.6	55.8	61.5
Core EPS growth	27.8%	16.4%	-29.7%	25.2%	10.3%
Cash per share (Rs)	182.5	197.2	266.4	210.9	260.5
Current Core P/E (Rs)	20.4	17.5	24.9	19.9	18.1
Core ROIC	51.8%	48.2%	25.3%	26.7%	24.4%

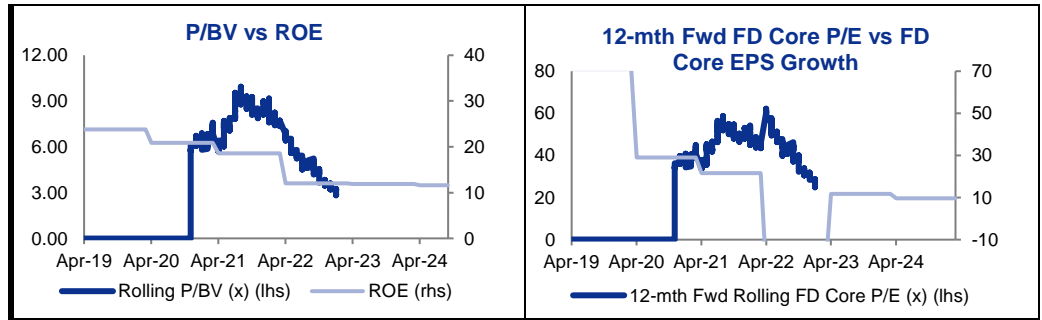
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: P/E band



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	37,941	58,060	63,790
Gross Profit	19,710	22,915	20,249	30,772	33,809
Operating EBITDA	13,022	15,102	11,382	14,811	16,412
Depreciation And Amortisation	(988)	(1,103)	(1,482)	(2,400)	(2,700)
Operating EBIT	12,034	13,999	9,900	12,411	13,712
Financial Income/(Expense)	(34)	(52)	(82)	(90)	(90)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,348	2,239	2,365	1,300	1,300
Profit Before Tax (pre-EI)	13,348	16,186	12,183	13,621	14,922
Exceptional Items					
Pre-tax Profit	13,348	16,186	12,183	13,621	14,922
Taxation	(3,378)	(4,069)	(3,043)	(3,405)	(3,731)
Exceptional Income - post-tax					
Profit After Tax	9,970	12,117	9,140	10,216	11,192
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,970	12,117	9,140	10,216	11,192
Recurring Net Profit	9,970	12,117	9,140	10,216	11,192
Fully Diluted Recurring Net Profit	9,970	12,117	9,140	10,216	11,192

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	13,022	15,102	11,382	14,811	16,412
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,358)	(3,931)	2,876	(1,362)	(2,584)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,615)	(3,263)	(3,043)	(3,405)	(3,731)
Net Interest (Paid)/Received	(34)	(52)	(82)	(90)	(90)
Tax Paid	(3,929)	(5,450)	(2,283)	(1,210)	(1,210)
Cashflow From Operations	6,049	7,908	11,216	10,044	10,097
Capex	(2,283)	(5,217)	(2,000)	(2,500)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments				(17,850)	
Other Investing Cashflow					
Cash Flow From Investing	3,766	2,690	9,216	(10,306)	7,097
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	12,418	386			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	622	(646)	2,316	1,220	1,221
Cash Flow From Financing	13,040	(260)	2,316	1,220	1,221
Total Cash Generated	16,806	2,430	11,532	(9,086)	8,318
Free Cashflow To Equity	9,815	10,598	20,431	(262)	17,194
Free Cashflow To Firm	9,849	10,651	20,514	(172)	17,284

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	44,019	34,934	43,252
Total Debtors	6,710	11,988	9,106	13,934	15,310
Inventories	12,752	11,857	9,106	13,934	15,310
Total Other Current Assets	1,718	2,188	6,829	10,451	11,482
Total Current Assets	51,236	58,521	69,061	73,253	85,354
Fixed Assets	12,913	16,804	17,322	23,372	23,672
Total Investments					
Intangible Assets	10	125	125	4,949	4,949
Total Other Non-Current Assets	802	2,886	2,886	2,886	2,886
Total Non-current Assets	13,724	19,815	20,333	31,207	31,507
Short-term Debt		3	3	3	3
Current Portion of Long-Term Debt					
Total Creditors	4,007	4,629	3,984	6,487	7,107
Other Current Liabilities	1,118	1,189	3,718	6,055	6,633
Total Current Liabilities	5,125	5,820	7,705	12,545	13,742
Total Long-term Debt	39	45	78	88	100
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	764	895	895	895	895
Total Non-current Liabilities	803	940	973	983	994
Total Provisions					
Total Liabilities	5,928	6,760	8,678	13,528	14,737
Shareholders Equity	59,032	71,576	80,716	90,933	102,124
Minority Interests					
Total Equity	59,032	71,576	80,716	90,933	102,124

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	31.5%	27.1%	(13.8%)	53.0%	9.9%
Operating EBITDA Growth	36.3%	16.0%	(24.6%)	30.1%	10.8%
Operating EBITDA Margin	37.6%	34.3%	30.0%	25.5%	25.7%
Net Cash Per Share (Rs)	182.27	196.98	266.80	211.57	262.01
BVPS (Rs)	358.45	434.61	490.11	552.14	620.10
Gross Interest Cover	353.95	267.05	120.09	137.91	152.36
Effective Tax Rate	25.3%	25.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	67.08	77.54	101.46	72.42	83.67
Inventory Days	248.50	212.92	216.23	154.09	178.01
Accounts Payables Days	79.48	74.72	88.84	70.03	82.75
ROIC (%)	30.2%	26.2%	19.7%	16.3%	17.1%
ROCE (%)	25.2%	21.4%	13.0%	14.4%	14.2%
Return On Average Assets	18.9%	17.0%	11.0%	10.6%	10.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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