



India

HOLD (previously **REDUCE**)

Consensus ratings*: Buy 7 Hold 1 Sell 9

Current price:	Rs1,611
Target price:	Rs1,768
Previous target:	Rs1,768
Up/downside:	9.7%
InCred Research / Consensus:	-0.8%
Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$3,655m Rs265,399m
Average daily turnover:	US\$11.0m Rs796.9m
Current shares o/s:	164.7m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

- Upgrade the stock's rating to HOLD (from REDUCE earlier).
- FY25F EPS estimate reduced by 10%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.9)	(23.8)	6.6
Relative (%)	(4.5)	(23.9)	(12.9)

Major shareholders	% held
Promoters	57.9
Mirae MF	5.6
Nippon	5.3

Research Analyst(s)**Praful BOHRA**

T (91) 22 4161 1552
E praful.bohra@incredresearch.com

Yogesh SONI

T (91) 22 4161 1566
E yogesh.soni@incredresearch.com

Gland Pharma Ltd

Cenexi drug remains; better risk-reward ratio

- 2QFY25 revenue was in line with expectations, but EBITDA was 22% above our estimate, led by a sharp 500bp QoQ growth in base business margin.
- Cenexi should see positive EBITDA in 4QFY25F and FY26F. Management expects Cenexi to deliver EUR200m+ revenue in FY26F.
- Upgrade the stock's rating to HOLD (from REDUCE earlier) with an unchanged target price of Rs1,768.

Healthy base biz, weak Cenexi performance drags overall 2Q results

Gland Pharma's (GPL) 2QFY25 base business (ex-Cenexi) revenue/EBITDA saw healthy QoQ growth (5%/24%), which was 22% above our estimate/in line with the Bloomberg consensus estimate, respectively. Cenexi's revenue was in line with our expectation, with revenue at Rs3.4bn and EBITDA loss at Rs685m. Excluding Cenexi, GPL witnessed a strong sequential growth in India, RoW and other core markets. The US business declined by 2% QoQ, despite a healthy volume growth of 5% YoY/QoQ from new product launches. Cenexi is expected to close FY25F with an EUR160-165m topline and EBITDA break-even by 4QFY25F.

Ex-Cenexi EBITDA margin healthy at 34%

The ex-Cenexi EBITDA margin stood at 34% (vs. 29% in 1QFY25) while Cenexi reported an EBITDA loss of Rs685m (Rs286m loss in 1QFY25) due to plant shutdown. Cenexi's gross margin declined to 69% from 78% in 1QFY25 (and 77% in 2QFY24) due to low uptick at the Belgium plant and an adverse product mix. The base business gross margin improved to 56% from 53% in 1QFY25. The milestone income reduced to 7% (from 10%/16% in 1QFY25/4QFY24, respectively); on the other hand, the profit share proportion declined slightly to 8%. Gland Pharma expects its FY25F base business to grow in low double digits (vs. earlier guidance of mid-teen growth).

Cenexi ramp-up to largely reflect from FY26F

Gland Pharma expects a gradual ramp-up in Cenexi revenue in FY25F, although FY26F should see normalization of revenue back to the EUR50m/quarter run-rate. This should drive better operating leverage and thus, support margin expansion; management gave guidance of a positive EBITDA in 4QFY25F and neutral or low single-digit EBITDA in FY26F. On a medium-term basis, post completion of capex cycle at Cenexi, the asset turn ratio should reach 1-1.25x from 0.8x.

Upgrade to HOLD rating on the stock

Gland Pharma has underperformed the BSE Healthcare Index by almost 28% in the last six months on concerns relating to Cenexi. We now upgrade the stock's rating to HOLD (from REDUCE earlier) due to the favourable risk-reward ratio scenario. Our FY25F EPS stands reduced by 10% while FY26F EPS and the target price of Rs1,768 remain unchanged. The faster-than-expected ramp-up at Cenexi is a key upside risk & vice versa.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	44,007	36,246	56,648	62,299	72,507
Operating EBITDA (Rsm)	15,102	10,248	13,331	14,395	19,265
Net Profit (Rsm)	12,117	7,811	7,725	8,700	13,041
Core EPS (Rs)	73.6	50.0	46.9	52.8	79.2
Core EPS Growth	21.5%	(32.1%)	(6.1%)	12.6%	49.9%
FD Core P/E (x)	21.90	32.24	34.34	30.49	20.34
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)	15.42	22.21	18.76	17.08	12.37
P/FCFE (x)	25.03	52.32	45.53	29.26	18.66
Net Gearing	(45.3%)	(47.3%)	(17.4%)	(20.3%)	(24.8%)
P/BV (x)	3.71	3.33	3.04	2.77	2.43
ROE	18.6%	10.9%	9.3%	9.5%	12.7%
% Change In Core EPS Estimates				(10.43%)	(0.28%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Gland Pharma's biologics facility at Genome Valley has entered into a partnership with Dr. Reddy's Laboratories for the biologics CDMO business. The facility has 8,000L of mammalian capacity and the current utilization rate is 30%.
- The company has inked CDMO contracts for GLP products with three customers.

Figure 1: Financial results summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	10,444	9,383	7,850	12,087	13,734	15,452	15,375	14,017	14,058	2%	0%
Consumption of raw materials	5,195	4,271	3,648	4,529	5,216	5,992	5,994	5,643	5,755	10%	2%
as % of sales	49.7%	45.5%	46.5%	37.5%	38.0%	38.8%	39.0%	40.3%	40.9%		
Employee costs	1,013	1,011	1,028	2,550	3,050	3,453	3,516	3,555	3,298	8%	-7%
as % of sales	9.7%	10.8%	13.1%	21.1%	22.2%	22.3%	22.9%	25.4%	23.5%		
R&D costs	414	512	678	457	351	530	436	489	493	40%	1%
as % of sales	4.0%	5.5%	8.6%	3.8%	2.6%	3.4%	2.8%	3.5%	3.5%		
Other expenditure	854	693	811	1611	1877	1912	1842	1686	1542	-18%	-9%
as % of sales	8.2%	7.4%	10.3%	13.3%	13.7%	12.4%	12.0%	12.0%	11.0%		
EBITDA	2,969	2,896	1,684	2,940	3,241	3,564	3,587	2,644	2,971	-8%	12%
Margin (%)	28.4%	30.9%	21.5%	24.3%	23.6%	23.1%	23.3%	18.9%	21.1%		
Depreciation	367	376	376	653	813	1,053	926	920	938		
Other income	656	615	389	375	532	374	421	514	597		
Interest	17	26	22	49	60	53	100	56	61		
PBT	3,241	3,109	1,676	2,613	2,899	2,832	2,982	2,182	2,568	-11%	18%
Total tax	828	789	325	672	958	913	1,058	745	932		
Tax rate (%)	25.6%	25.4%	19.4%	25.7%	33.0%	32.2%	35.5%	34.1%	36.3%		
PAT before MI	2,412	2,319	1,351	1,941	1,941	1,919	1,924	1,438	1,635	-16%	14%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	2,412	2,319	1,351	1,941	1,941	1,919	1,924	1,438	1,635	-16%	14%
Extraordinary expenses	0	0	-565	0	0	0	0	0	0		
Reported PAT	2,412	2,319	786	1,941	1,941	1,919	1,924	1,438	1,635	-16%	14%
No. of shares	165	165	165	165	165	165	165	165	165		
EPS	14.6	14.1	8.2	11.8	11.8	11.6	11.7	8.7	9.9		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	50%	54%	54%	63%	62%	61%	61%	60%	59%	-296	-68
EBITDA	28%	31%	21%	24%	24%	23%	23%	19%	21%	-247	227
Adj. PAT	23%	25%	17%	16%	14%	12%	13%	10%	12%	-250	138
Effective tax rate	26%	25%	19%	26%	33%	32%	35%	34%	36%	326	219

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
US EU CA AU - INR	7,475	6,626	5,498	6,602	7,531	8,680	9,621	8,125	8,127	8%	0%
% total revenue	71.6%	70.6%	70.0%	54.6%	54.8%	56.2%	62.6%	58.0%	57.8%		
RoW	2,243	1,943	1,705	1,623	1,738	1,573	1,590	1,481	1,658	-5%	12%
% total revenue	21.5%	20.7%	21.7%	13.4%	12.7%	10.2%	10.3%	10.6%	11.8%		
India formulations	726	814	647	647	876	761	526	527	874	0%	66%
% total revenue	7.0%	8.7%	8.2%	5.4%	6.4%	4.9%	3.4%	3.8%	6.2%		
Others / Cenexi	0	0	0	3,214	3,588	4,438	3,637	3,883	3,399	-5%	-12%
% total revenue	0.0%	0.0%	0.0%	26.6%	26.1%	28.7%	23.7%	27.7%	24.2%		
Total revenue	10,444	9,383	7,850	12,087	13,734	15,452	15,374	14,016	14,058	2%	0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	14,058	13,939	1%	14,216	-1%
EBITDA (Rsm)	2,971	2,444	22%	2,847	4%
Margin (%)	21.1	17.5		20.0	
PAT (Rsm)	1,635	1,406	16%	1,629	0%

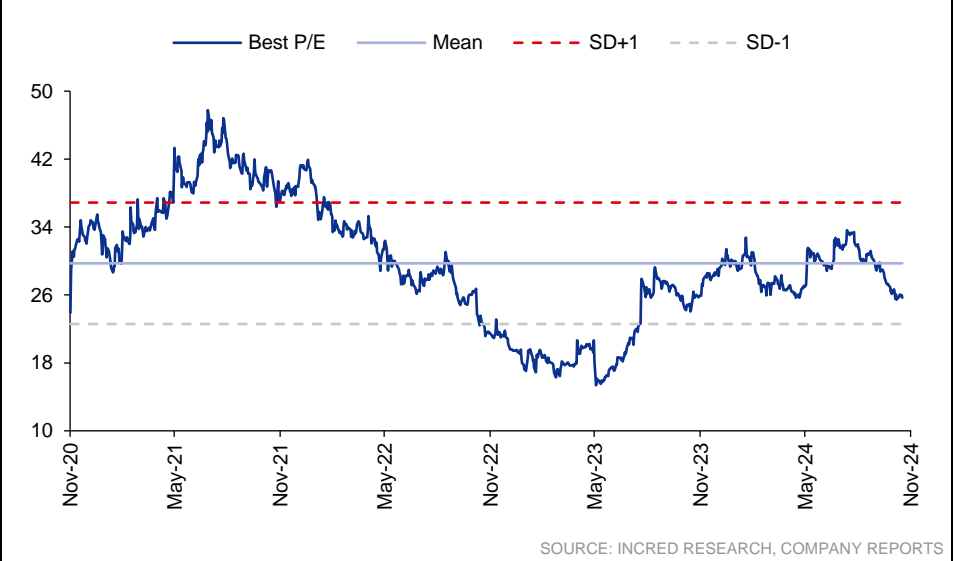
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

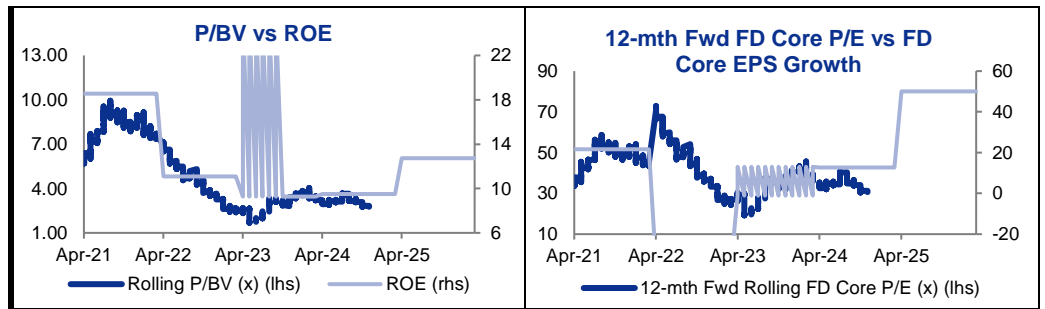
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	63,649	62,299	-2%	72,507	72,507	0%
EBITDA (Rsm)	15,232	14,395	-5%	19,265	19,265	0%
Margin (%)	23.9	23.1		26.6	26.6	
PAT (Rsm)	9,714	8,700	-10%	13,078	13,041	0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: GPL's valuation at below the mean level makes its risk-reward ratio favourable



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	44,007	36,246	56,648	62,299	72,507
Gross Profit	22,915	19,392	34,917	38,625	46,042
Operating EBITDA	15,102	10,248	13,331	14,395	19,265
Depreciation And Amortisation	(1,103)	(1,467)	(3,446)	(3,600)	(3,800)
Operating EBIT	13,999	8,780	9,886	10,795	15,465
Financial Income/(Expense)	(52)	(74)	(262)	(200)	(200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,239	2,405	1,702	2,200	2,600
Profit Before Tax (pre-EI)	16,186	11,111	11,326	12,795	17,865
Exceptional Items		(565)			
Pre-tax Profit	16,186	10,546	11,326	12,795	17,865
Taxation	(4,069)	(2,735)	(3,601)	(4,094)	(4,823)
Exceptional Income - post-tax					
Profit After Tax	12,117	7,811	7,725	8,700	13,041
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,117	7,811	7,725	8,700	13,041
Recurring Net Profit	12,117	8,229	7,725	8,700	13,041
Fully Diluted Recurring Net Profit	12,117	8,229	7,725	8,700	13,041

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	15,102	10,248	13,331	14,395	19,265
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,931)	(4,179)	(532)	(3,517)	(5,331)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,263)	(2,429)	(2,832)	(4,094)	(4,823)
Net Interest (Paid)/Received	(52)	(74)	(262)	(200)	(200)
Tax Paid	(5,450)	(4,194)	(4,272)	(6,094)	(7,223)
Cashflow From Operations	7,908	3,640	9,968	6,783	9,110
Capex	(5,217)	(2,208)	(3,892)	(4,500)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(10,218)		
Other Investing Cashflow					
Cash Flow From Investing	2,690	1,432	(4,141)	2,283	5,110
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	386	214	5		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(646)	3,573	(15,176)	2,000	2,400
Cash Flow From Financing	(260)	3,787	(15,171)	2,000	2,400
Total Cash Generated	2,430	5,219	(19,312)	4,283	7,510
Free Cashflow To Equity	10,598	5,071	5,827	9,066	14,220
Free Cashflow To Firm	10,651	5,146	6,089	9,266	14,420

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	32,488	37,707	18,394	22,678	30,188
Total Debtors	11,988	8,714	15,587	12,460	14,501
Inventories	11,857	19,453	16,552	22,428	26,103
Total Other Current Assets	2,188	3,133	5,918	4,984	5,801
Total Current Assets	58,521	69,007	56,452	62,549	76,592
Fixed Assets	16,804	17,362	38,302	39,202	39,402
Total Investments					
Intangible Assets	125	117	3,545	3,545	3,545
Total Other Non-Current Assets	2,886	1,290	8,315	8,315	8,315
Total Non-current Assets	19,815	18,769	50,161	51,061	51,261
Short-term Debt	3	6	2,132	2,132	2,132
Current Portion of Long-Term Debt					
Total Creditors	4,629	5,873	8,627	7,928	8,867
Other Current Liabilities	1,189	1,412	3,224	2,220	2,483
Total Current Liabilities	5,820	7,291	13,984	12,281	13,483
Total Long-term Debt	45	33	1,065	1,065	1,065
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	895	864	4,325	4,325	4,325
Total Non-current Liabilities	940	897	5,390	5,390	5,390
Total Provisions					
Total Liabilities	6,760	8,188	19,374	17,671	18,873
Shareholders Equity	71,576	79,587	87,238	95,939	108,980
Minority Interests					
Total Equity	71,576	79,587	87,238	95,939	108,980

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	27.1%	(17.6%)	56.3%	10.0%	16.4%
Operating EBITDA Growth	16.0%	(32.1%)	30.1%	8.0%	33.8%
Operating EBITDA Margin	34.3%	28.3%	23.5%	23.1%	26.6%
Net Cash Per Share (Rs)	196.97	228.71	92.27	118.27	163.87
BVPS (Rs)	434.58	483.22	529.68	582.50	661.69
Gross Interest Cover	267.05	118.02	37.73	53.97	77.32
Effective Tax Rate	25.1%	25.9%	31.8%	32.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.54	104.23	78.29	82.16	67.86
Inventory Days	212.92	339.02	302.38	300.50	334.66
Accounts Payables Days	74.72	113.72	121.78	127.62	115.82
ROIC (%)	26.2%	15.4%	9.7%	10.0%	13.4%
ROCE (%)	21.4%	11.6%	11.6%	11.4%	14.6%
Return On Average Assets	17.0%	10.2%	8.1%	8.0%	10.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.