

India

HOLD (no change)

Consensus ratings*: Buy 8 Hold 3 Sell 9

Current price: Rs1,343
 Target price: ▲ Rs1,431
 Previous target: Rs1,056
 Up/downside: 6.6%
 InCred Research / Consensus: 11.2%

Reuters:
 Bloomberg: GLAND IN
 Market cap: US\$3,045m
 Rs221,119m
 Average daily turnover: US\$15.3m
 Rs1111.8m

Current shares o/s: 164.7m
 Free float: 42.1%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	28.3	(3.9)	(40.7)
Relative (%)	27.0	(10.0)	(47.1)

Major shareholders	% held
Promoters	57.9
Mirae MF	5.1
Nippon	4.4

Analyst(s)



Praful BOHRA

T (022) 46210000
 E praful.bohra@incredcapital.com

Kashish THAKUR

T (91) 22 4161 1549
 E kashish.thakur@incredcapital.com

Gland Pharma Ltd

Stabilizes in 1QFY24 after a weak FY23

- Compared to 4QFY23, Gland Pharma's commentary indicated a relatively better clarity on business trajectory and gave guidance of QoQ improvement.
- Gland Pharma has high operating leverage in its business, and margin recovery should follow revenue recovery.
- The near-term focus is now on Cenexi integration and driving synergies. Retain HOLD rating on the stock with a higher target price of Rs1,431.

Relatively better visibility on business trajectory versus 4QFY23

Compared to 4QFY23, when there was limited clarity on a number of things - price erosion in key products (Heparin/Enoxaparin), bankruptcy filing by a key client (~5% of revenue) and a customer shifting out of its products - Gland Pharma sounded relatively more positive on most of these issues in 1QFY24, with around 23 products relaunched (impacted by customer shift/bankruptcy), better pricing in the US market (price erosion of only 1%) and some benefit of product shortages. Including relaunched products, Gland Pharma expects to increase its launch pipeline to 60+ (vs. a normal run-rate of 40) in the US. Pricing remains an issue in the ROW market, especially in products like Heparin.

Cenexi's gross margin at 76% is a positive surprise

Gland Pharma's gross margins expanded by 900bp QoQ largely on account of Cenexi's integration (2M integration, 76% gross margin business). Ex-Cenexi, the base business gross margin expanded by 420bp, we believe, owing to a favourable geography/product mix. Gland Pharma also posted a higher profit share/milestone income at 11% vs. 7% in 4QFY23, which supported the gross margin. The EBITDA margin stood at 24.3% (29.2%, ex-Cenexi). Cenexi will likely see a planned plant shutdown of four weeks in 2QFY24F and hence, 2Q revenue may be similar to 1Q. As per management, Cenexi grew by around 10% YoY.

Focus is now on realizing synergies from Cenexi acquisition

Gland Pharma sees multiple synergies from Cenexi, including access to technologies (pre-filled oncology coloured products) that the company doesn't have, access to newer markets, common purchase-related synergies, shifting of manufacturing to India, etc. It expects Cenexi margins to start improving in a couple of quarters, although high-teen margins may still be some time away.

Retain HOLD rating with a higher target price of Rs1,431

Gland Pharma's business has high operating leverage, and margins usually follow revenue recovery. FY24F-25F margins will also be influenced by whether Gland Pharma decides to aggressively bid for Heparin tenders or not as well as on when its Enoxaparin channel inventory depletes. We bake in a recovery in 2HFY24F and retain HOLD rating on the stock with a higher target price of Rs1,431 (Rs1,056 earlier). Faster-than-expected recovery is a key upside risk while a delayed recovery is a key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	34,629	44,007	36,246	54,614	59,193
Operating EBITDA (Rsm)	13,022	15,102	10,248	14,676	16,369
Net Profit (Rsm)	9,970	12,117	7,811	9,922	11,310
Core EPS (Rs)	60.5	73.6	50.0	60.2	68.7
Core EPS Growth	29.0%	21.5%	(32.1%)	20.6%	14.0%
FD Core P/E (x)	22.18	18.25	26.87	22.28	19.55
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)	14.67	12.49	17.90	13.98	12.05
P/FCFE (x)	22.53	20.86	43.60	(9.43)	13.87
Net Gearing	(50.9%)	(45.3%)	(47.3%)	(17.9%)	(23.7%)
P/BV (x)	3.75	3.09	2.78	2.47	2.19
ROE	20.9%	18.6%	10.9%	11.7%	11.9%
% Change In Core EPS Estimates				(2.88%)	1.05%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 Results snapshot

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	8,569	10,444	9,383	7,850	12,087	41%	54%
Consumption of raw materials	4,529	5,039	5,723	5,824	4,529	0%	-22%
<i>as % of sales</i>	<i>52.9%</i>	<i>48.2%</i>	<i>61.0%</i>	<i>74.2%</i>	<i>37.5%</i>		
Employee cost	980	1,013	1,011	1,028	2,550	160%	148%
<i>as % of sales</i>	<i>11.4%</i>	<i>9.7%</i>	<i>10.8%</i>	<i>13.1%</i>	<i>21.1%</i>		
R&D cost	410	414	512	678	457	11%	-33%
<i>as % of sales</i>	<i>4.8%</i>	<i>4.0%</i>	<i>5.5%</i>	<i>8.6%</i>	<i>3.8%</i>		
Other expenditure	739	854	693	811	1611	118%	99%
<i>as % of sales</i>	<i>8.6%</i>	<i>8.2%</i>	<i>7.4%</i>	<i>10.3%</i>	<i>13.3%</i>		
EBITDA	2,699	2,969	2,896	1,684	2,940	9%	75%
<i>Margins (%)</i>	<i>31.5%</i>	<i>28.4%</i>	<i>30.9%</i>	<i>21.5%</i>	<i>24.3%</i>		
Depreciation	349	367	376	376	653		
Other Income	744	656	615	389	375		
Interest	9	17	26	22	49		
PBT	3,085	3,241	3,109	1,676	2,613	-15%	56%
Total tax	793	828	789	325	672		
<i>Tax rate (%)</i>	<i>25.7%</i>	<i>25.6%</i>	<i>25.4%</i>	<i>19.4%</i>	<i>25.7%</i>		
PAT before MI	2,292	2,412	2,319	1,351	1,941	-15%	44%
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary items	2,292	2,412	2,319	1,351	1,941	-15%	44%
Extraordinary expenses	0	0	0	-565	0		
Reported PAT	2,292	2,412	2,319	786	1,941	-15%	147%
No. of shares	165	165	165	165	165		
EPS	13.9	14.6	14.0	8.2	11.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross	56%	50%	54%	54%	63%
EBITDA	31%	28%	31%	21%	24%
Adj.PAT	27%	23%	25%	17%	16%
Effective tax rate	26%	26%	25%	19%	26%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
US, EU, CA, AU - INR	7,056	7,475	6,626	5,498	6,602	-6%	20%
<i>% total revenue</i>	<i>82.3%</i>	<i>71.6%</i>	<i>70.6%</i>	<i>70.0%</i>	<i>54.6%</i>		
RoW	1,002	2,243	1,943	1,705	1,623	62%	-5%
<i>% total revenue</i>	<i>11.7%</i>	<i>21.5%</i>	<i>20.7%</i>	<i>21.7%</i>	<i>13.4%</i>		
India formulations	510	726	814	647	647	27%	0%
<i>% total revenue</i>	<i>6.0%</i>	<i>7.0%</i>	<i>8.7%</i>	<i>8.2%</i>	<i>5.4%</i>		
Others / Cenexi	1	0	0	0	3,214	ND	ND
<i>% total revenue</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>26.6%</i>		
Total Revenue	8,569	10,444	9,383	7,850	12,087	41%	54%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs estimates

(Rs m)	1QFY24A	Incrid Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	12,087	11,140	9%	11,830	2%
EBITDA	2,940	2,247	31%	2,495	18%
EBITDA Margin (%)	24%	20%	414bp	21%	323bp
PAT	1,941	1,462	33%	1,640	18%

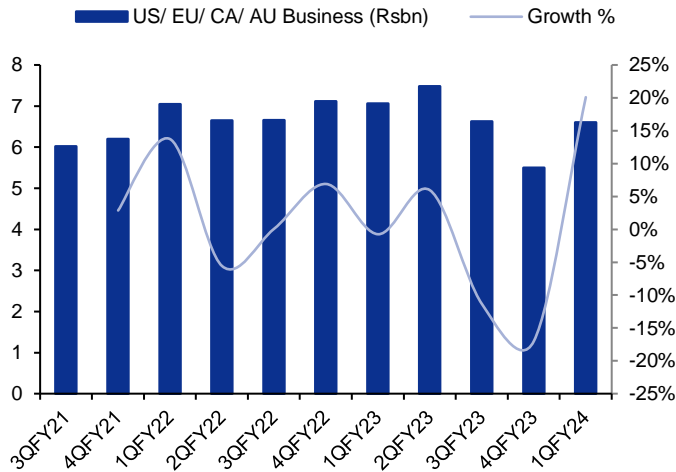
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	54,146	58,834	54,614	59,193	1%	1%
EBITDA	13,394	15,241	14,676	16,369	10%	7%
EBITDA Margin (%)	25%	26%	27%	28%	213bp	174bp
PAT	9,153	10,313	9,922	11,310	8%	10%

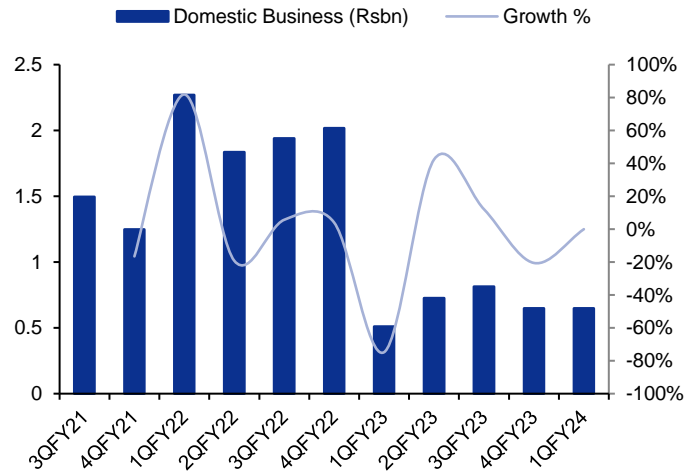
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Higher channel inventory impacted sales in US/EU/CA/AU markets



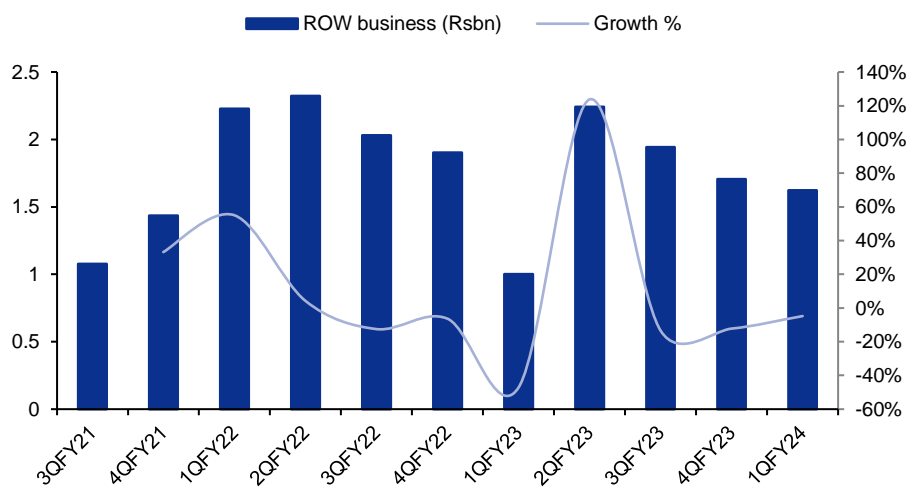
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Domestic performance was boosted by the sale of Covid-19 products in FY22, which came off in FY23



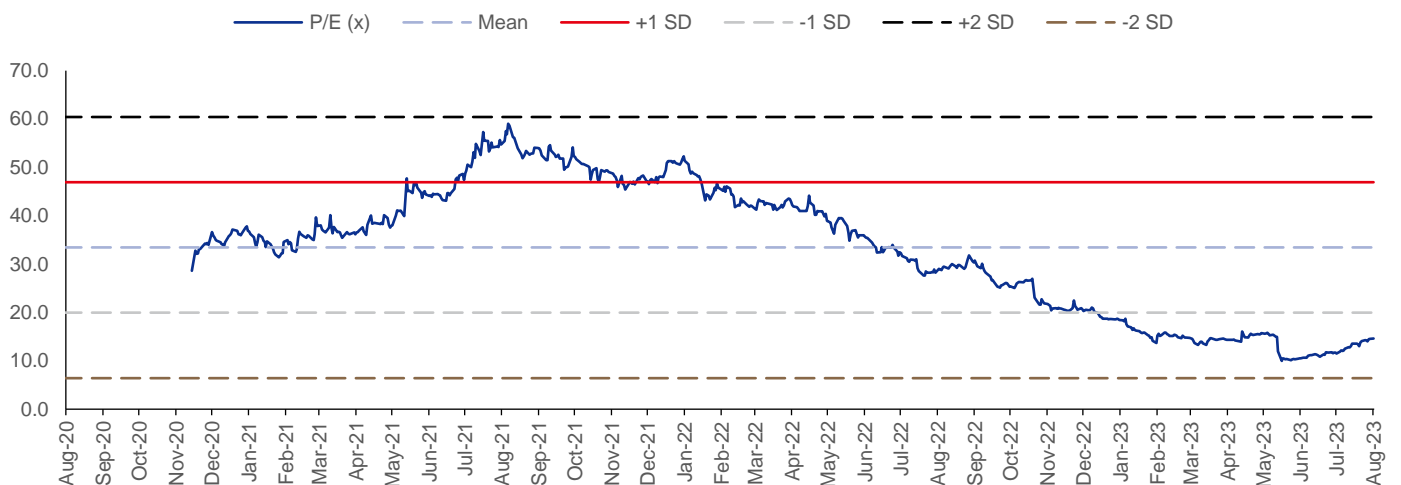
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Figure 155: RoW revenue impacted by lower antiretroviral or ARV sales in the last two quarters



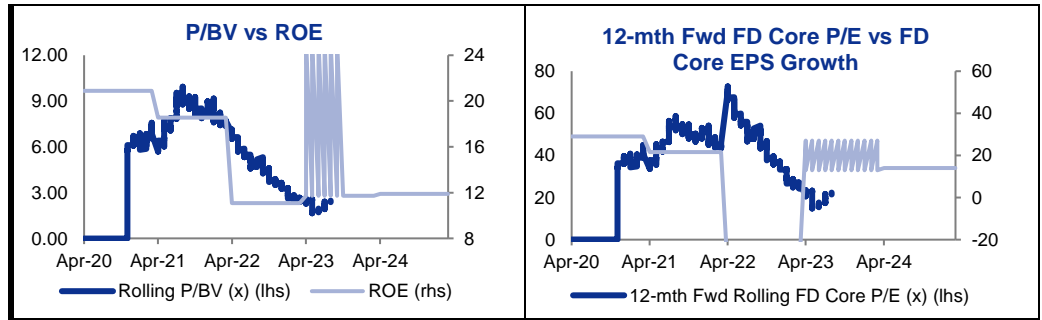
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	34,629	44,007	36,246	54,614	59,193
Gross Profit	19,710	22,915	19,392	33,500	36,700
Operating EBITDA	13,022	15,102	10,248	14,676	16,369
Depreciation And Amortisation	(988)	(1,103)	(1,467)	(2,603)	(2,700)
Operating EBIT	12,034	13,999	8,780	12,073	13,669
Financial Income/(Expense)	(34)	(52)	(74)	(169)	(90)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,348	2,239	2,405	1,350	1,500
Profit Before Tax (pre-EI)	13,348	16,186	11,111	13,254	15,079
Exceptional Items			(565)		
Pre-tax Profit	13,348	16,186	10,546	13,254	15,079
Taxation	(3,378)	(4,069)	(2,735)	(3,332)	(3,770)
Exceptional Income - post-tax					
Profit After Tax	9,970	12,117	7,811	9,922	11,310
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,970	12,117	7,811	9,922	11,310
Recurring Net Profit	9,970	12,117	8,229	9,922	11,310
Fully Diluted Recurring Net Profit	9,970	12,117	8,229	9,922	11,310

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	13,022	15,102	10,248	14,676	16,369
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,358)	(3,931)	(4,179)	(11,932)	(3,126)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,615)	(3,263)	(2,429)	(3,332)	(3,770)
Net Interest (Paid)/Received	(34)	(52)	(74)	(169)	(90)
Tax Paid	(3,929)	(5,450)	(4,194)	(4,513)	(5,180)
Cashflow From Operations	6,049	7,908	3,640	(588)	9,473
Capex	(2,283)	(5,217)	(2,208)	(2,500)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments				(19,780)	
Other Investing Cashflow					
Cash Flow From Investing	3,766	2,690	1,432	(22,868)	6,473
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	12,418	386	214		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	622	(646)	3,573	11,861	1,410
Cash Flow From Financing	13,040	(260)	3,787	11,861	1,410
Total Cash Generated	16,806	2,430	5,219	(11,007)	7,883
Free Cashflow To Equity	9,815	10,598	5,071	(23,456)	15,947
Free Cashflow To Firm	9,849	10,651	5,146	(23,287)	16,037

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	30,058	32,488	37,707	26,700	34,583
Total Debtors	6,710	11,988	8,714	13,107	14,206
Inventories	12,752	11,857	19,453	27,307	29,597
Total Other Current Assets	1,718	2,188	3,133	4,369	4,735
Total Current Assets	51,236	58,521	69,007	71,483	83,121
Fixed Assets	12,913	16,804	17,362	27,939	28,239
Total Investments					
Intangible Assets	10	125	117	9,907	9,907
Total Other Non-Current Assets	802	2,886	1,290	1,290	1,290
Total Non-current Assets	13,724	19,815	18,769	39,135	39,435
Short-term Debt		3	6	6	6
Current Portion of Long-Term Debt					
Total Creditors	4,007	4,629	5,873	6,904	7,395
Other Current Liabilities	1,118	1,189	1,412	1,933	2,071
Total Current Liabilities	5,125	5,820	7,291	8,843	9,471
Total Long-term Debt	39	45	33	10,713	10,713
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	764	895	864	864	864
Total Non-current Liabilities	803	940	897	11,577	11,577
Total Provisions					
Total Liabilities	5,928	6,760	8,188	20,419	21,048
Shareholders Equity	59,032	71,576	79,587	89,509	100,819
Minority Interests					
Total Equity	59,032	71,576	79,587	89,509	100,819

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	31.5%	27.1%	(17.6%)	50.7%	8.4%
Operating EBITDA Growth	36.3%	16.0%	(32.1%)	43.2%	11.5%
Operating EBITDA Margin	37.6%	34.3%	28.3%	26.9%	27.7%
Net Cash Per Share (Rs)	182.27	196.98	228.72	97.04	144.91
BVPS (Rs)	358.45	434.61	483.25	543.50	612.17
Gross Interest Cover	353.95	267.05	118.02	71.37	151.88
Effective Tax Rate	25.3%	25.1%	25.9%	25.1%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	67.08	77.54	104.23	72.92	84.21
Inventory Days	248.50	212.92	339.02	404.16	461.69
Accounts Payables Days	79.48	74.72	113.72	110.44	116.01
ROIC (%)	30.2%	26.2%	15.4%	12.0%	13.0%
ROCE (%)	25.2%	21.4%	11.6%	13.4%	12.9%
Return On Average Assets	18.9%	17.0%	10.2%	10.1%	9.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associates
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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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