

India

HOLD (no change)

Consensus ratings*: Buy 12 Hold 2 Sell 6

Current price:	Rs1,575
Target price: ▲	Rs1,675
Previous target:	Rs1,431
Up/downside:	6.3%
InCred Research / Consensus:	6.5%

Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$3,117m
	Rs259,381m
Average daily turnover:	US\$13.6m
	Rs1133.7m
Current shares o/s:	164.7m
Free float:	42.1%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.8)	17.9	(13.0)
Relative (%)	(4.3)	19.7	(18.1)

Major shareholders	% held
Promoters	57.9
Mirae MF	5.6
Nippon	5.3

Analyst(s)



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Gland Pharma Ltd

Recovery on track in 2Q; retain HOLD

- Broadly in-line 2Q results, led by a strong US performance. A benign pricing environment, new launches and volume pick-up in older products helped.
- Cenexi's gross margin rose further to 77%, although a planned shutdown led to EBITDA loss. Gland posted strong margin expansion on a standalone basis.
- We revise FY24F/25F EPS by -2%/6%, respectively. Retain our HOLD rating on the stock with a higher target price of Rs1,675.

Recovery on track

In line with its 1QFY24 commentary, Gland Pharma exhibited QoQ improvement in both revenue and margins in 2QFY24. Revenue rose by 6% vs. our estimate, largely on account of a strong US performance (+5% YoY ex-Cenexi, 14 launches including niche products like Calcitriol, Fluphenazine, and Desmopressin and volume pick-up in older products). New products/higher volume accounted for around 15% of the US market growth. ROW sales (-23%YoY ex-Cenexi) were impacted by an uneven procurement schedule. As guided earlier, Cenexi sales were impacted by the annual summer shutdown in France and are likely to pick up to EUR50-55m/quarter from 2HFY24F. Gland Pharma expects a modest growth in Cenexi sales, as the company plans to phase out low-margin products.

Strong margins at Gland Pharma; Cenexi's margins hit by shutdown

Gland Pharma's standalone margins stood at 34% - a 400bp QoQ improvement. While this is likely to taper off in 2HFY24F as Gland Pharma resumes selling some low-cost margin products, management expects the overall margins to be in the range of 30-32%. For Cenexi, the margins were impacted due to the planned shutdown, resulting in a loss of Rs268m. This should normalize from 2HFY24F and Gland Pharma expects FY24F margins to be in the 10-11% range. This implies consolidated FY24F margins should be in the 25-26% range. Notably, Cenexi has reported a 100bp QoQ improvement in gross margin at 77%. Milestone income/profit share stood at 5%/11%, respectively, (vs.11%/11% in 1QFY24).

Conference-call highlights

Gland Pharma has announced an investment of around EUR60m in Cenexi (EUR 35m for capex over the next 12-18 months and another EUR25m for meeting working capital needs). b) Capex to be around Rs2.5-3bn ex-Cenexi. c) Tax rate is higher due to the loss at Cenexi, which will get normalized in the coming quarters.

Revise earnings estimates and target price; retain HOLD rating

Gland Pharma's business has recovered well since 4QFY23, and most of the business-related uncertainties are now behind with the business back on track. Cenexi is performing as per expectations and the next two years' focus will now be on realizing synergies/improving efficiency in this asset. We build in a recovery in our numbers but believe the stock is priced fairly. We revise our FY24F/25F EPS by -2%/6% and the target price to Rs1,675 (from Rs1,431 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	56,182	62,474
Operating EBITDA (Rsm)	13,022	15,102	10,248	14,454	17,272
Net Profit (Rsm)	9,970	12,117	7,811	9,775	12,054
Core EPS (Rs)	60.5	73.6	50.0	59.3	73.2
Core EPS Growth	29.0%	21.5%	(32.1%)	18.8%	23.3%
FD Core P/E (x)	26.02	21.41	31.52	26.54	21.52
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)	17.61	15.03	21.64	16.93	13.79
P/FCFE (x)	26.43	24.47	51.15	(9.69)	19.58
Net Gearing	(50.9%)	(45.3%)	(47.3%)	(16.4%)	(20.9%)
P/BV (x)	4.39	3.62	3.26	2.90	2.56
ROE	20.9%	18.6%	10.9%	11.6%	12.6%
% Change In Core EPS Estimates				(1.49%)	6.57%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	10,444	9,383	7,850	12,087	13,734	32%	14%
Consumption of raw materials	4,529	5,216	5,738	5,800	21,282	370%	267%
<i>as % of sales</i>	<i>43.4%</i>	<i>55.6%</i>	<i>73.1%</i>	<i>48.0%</i>	<i>155.0%</i>		
Employee costs	1,013	1,011	1,028	2,550	3,050	201%	20%
<i>as % of sales</i>	<i>9.7%</i>	<i>10.8%</i>	<i>13.1%</i>	<i>21.1%</i>	<i>22.2%</i>		
R&D costs	414	512	678	457	351	-15%	-23%
<i>as % of sales</i>	<i>4.0%</i>	<i>5.5%</i>	<i>8.6%</i>	<i>3.8%</i>	<i>2.6%</i>		
Other expenditure	854	693	811	1,611	1,877	120%	17%
<i>as % of sales</i>	<i>8.2%</i>	<i>7.4%</i>	<i>10.3%</i>	<i>13.3%</i>	<i>13.7%</i>		
EBITDA	2,969	2,896	1,684	2,940	3,241	9%	10%
<i>Margins (%)</i>	<i>28.4%</i>	<i>30.9%</i>	<i>21.5%</i>	<i>24.3%</i>	<i>23.6%</i>		
Depreciation	367	376	376	653	813		
Other Income	656	615	389	375	532		
Interest	17	26	22	49	60		
PBT	3,241	3,109	1,676	2,613	2,899	-11%	11%
Total tax	828	789	325	672	958		
<i>Tax Rate (%)</i>	<i>25.6%</i>	<i>25.4%</i>	<i>19.4%</i>	<i>25.7%</i>	<i>33.0%</i>		
PAT before MI	2,412	2,319	1,351	1,941	1,941	-20%	0%
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary items	2,412	2,319	1,351	1,941	1,941	-20%	0%
Extraordinary expenses	0	0	-565	0	0		
Reported PAT	2,412	2,319	786	1,941	1,941	-20%	0%
No. of shares	165	165	165	165	165		
EPS	14.6	14.1	8.2	11.8	11.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Gross	50%	54%	54%	63%	62%	23%	-1%
EBITDA	28%	31%	21%	24%	24%	-17%	-3%
Adj. PAT	23%	25%	17%	16%	14%	-39%	-12%
Effective tax rate	26%	25%	19%	26%	33%	29%	29%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
US EU CA AU - INR	7,475	6,626	5,498	6,602	7,531	1%	14%
<i>% total revenue</i>	<i>71.6%</i>	<i>70.6%</i>	<i>70.0%</i>	<i>54.6%</i>	<i>54.8%</i>		
RoW	2,243	1,943	1,705	1,623	1,738	-23%	7%
<i>% total revenue</i>	<i>21.5%</i>	<i>20.7%</i>	<i>21.7%</i>	<i>13.4%</i>	<i>12.7%</i>		
India formulations	726	814	647	647	876	21%	35%
<i>% total revenue</i>	<i>7.0%</i>	<i>8.7%</i>	<i>8.2%</i>	<i>5.4%</i>	<i>6.4%</i>		
Others / Cenexi	0	0	0	3,214	3,588	ND	ND
<i>% total revenue</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>26.6%</i>	<i>26.1%</i>		
Total revenue	10,444	9,383	7,850	12,087	13,734	32%	14%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Incred and Bloomberg estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	13,734	12,998	6%	13,203	4%
EBITDA	3,241	3,384	-4%	3,061	6%
EBITDA margin (%)	24%	26%	-244bp	23%	42bp
PAT	1,941	2,289	-15%	2,114	-8%

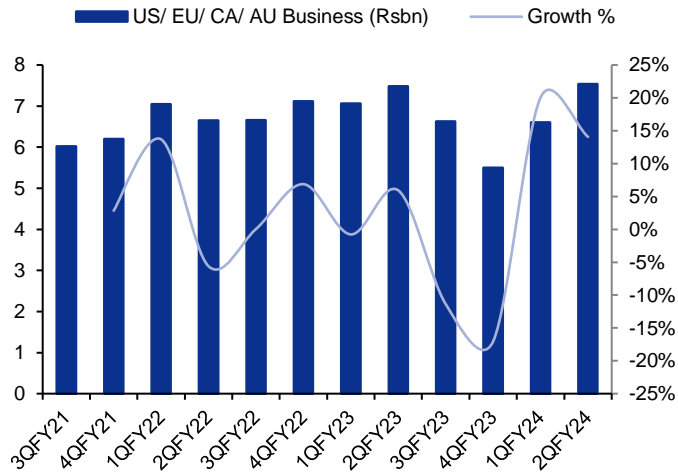
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	54,692	59,193	56,182	62,474	3%	6%
EBITDA	14,723	16,369	14,454	17,272	-2%	6%
EBITDA margin (%)	27%	28%	26%	28%	-119bp	-1bp
PAT	9,957	11,310	9,775	12,054	-2%	7%

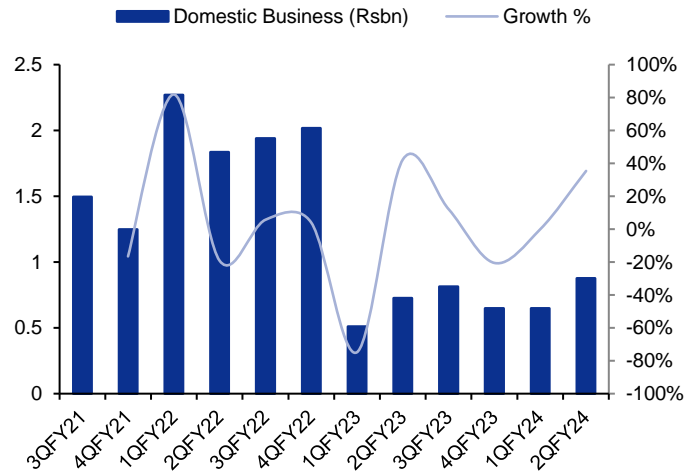
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



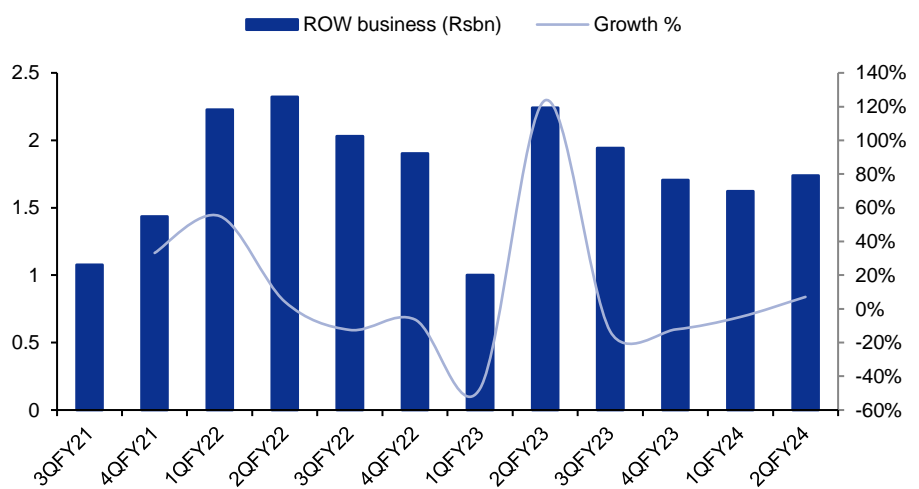
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



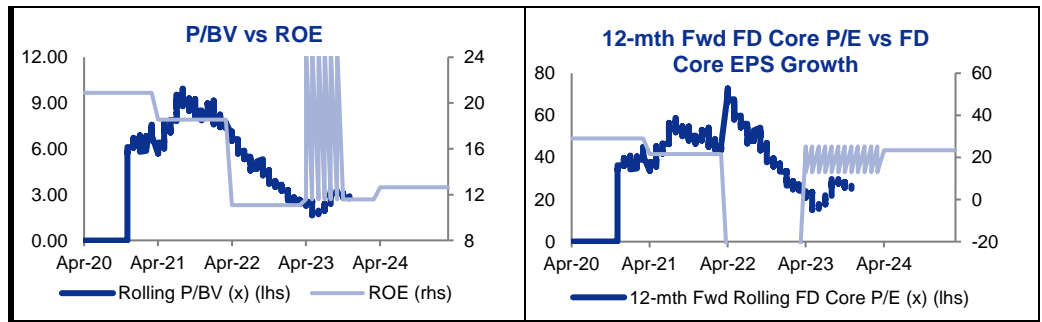
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	56,182	62,474
Gross Profit	19,710	22,915	19,392	34,900	39,359
Operating EBITDA	13,022	15,102	10,248	14,454	17,272
Depreciation And Amortisation	(988)	(1,103)	(1,467)	(3,066)	(3,450)
Operating EBIT	12,034	13,999	8,780	11,388	13,822
Financial Income/(Expense)	(34)	(52)	(74)	(180)	(150)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,348	2,239	2,405	1,907	2,400
Profit Before Tax (pre-EI)	13,348	16,186	11,111	13,115	16,072
Exceptional Items			(565)		
Pre-tax Profit	13,348	16,186	10,546	13,115	16,072
Taxation	(3,378)	(4,069)	(2,735)	(3,341)	(4,018)
Exceptional Income - post-tax					
Profit After Tax	9,970	12,117	7,811	9,775	12,054
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,970	12,117	7,811	9,775	12,054
Recurring Net Profit	9,970	12,117	8,229	9,775	12,054
Fully Diluted Recurring Net Profit	9,970	12,117	8,229	9,775	12,054

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	13,022	15,102	10,248	14,454	17,272
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,358)	(3,931)	(4,179)	(13,110)	(4,381)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,615)	(3,263)	(2,429)	(3,341)	(4,018)
Net Interest (Paid)/Received	(34)	(52)	(74)	(180)	(150)
Tax Paid	(3,929)	(5,450)	(4,194)	(5,068)	(6,268)
Cashflow From Operations	6,049	7,908	3,640	(1,997)	8,873
Capex	(2,283)	(5,217)	(2,208)	(3,000)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments				(19,780)	
Other Investing Cashflow					
Cash Flow From Investing	3,766	2,690	1,432	(24,777)	4,373
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	12,527	2,250
Cash Flow From Financing	13,040	(260)	3,787	12,527	2,250
Total Cash Generated	16,806	2,430	5,219	(12,249)	6,623
Free Cashflow To Equity	9,815	10,598	5,071	(26,773)	13,246
Free Cashflow To Firm	9,849	10,651	5,146	(26,594)	13,396

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	25,457	32,081
Total Debtors	6,710	11,988	8,714	13,484	14,994
Inventories	12,752	11,857	19,453	28,091	31,237
Total Other Current Assets	1,718	2,188	3,133	4,495	4,998
Total Current Assets	51,236	58,521	69,007	71,527	83,310
Fixed Assets	12,913	16,804	17,362	28,096	29,146
Total Investments					
Intangible Assets	10	125	117	10,017	10,017
Total Other Non-Current Assets	802	2,886	1,290	1,290	1,290
Total Non-current Assets	13,724	19,815	18,769	39,402	40,452
Short-term Debt		3	6	6	6
Current Portion of Long-Term Debt					
Total Creditors	4,007	4,629	5,873	6,988	7,597
Other Current Liabilities	1,118	1,189	1,412	1,957	2,127
Total Current Liabilities	5,125	5,820	7,291	8,950	9,729
Total Long-term Debt	39	45	33	10,833	10,833
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	764	895	864	864	864
Total Non-current Liabilities	803	940	897	11,697	11,697
Total Provisions					
Total Liabilities	5,928	6,760	8,188	20,647	21,426
Shareholders Equity	59,032	71,576	79,587	89,362	101,416
Minority Interests					
Total Equity	59,032	71,576	79,587	89,362	101,416

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	31.5%	27.1%	(17.6%)	55.0%	11.2%
Operating EBITDA Growth	36.3%	16.0%	(32.1%)	41.0%	19.5%
Operating EBITDA Margin	37.6%	34.3%	28.3%	25.7%	27.6%
Net Cash Per Share (Rs)	182.26	196.97	228.71	88.76	128.98
BVPS (Rs)	358.42	434.58	483.22	542.57	615.76
Gross Interest Cover	353.95	267.05	118.02	63.40	92.15
Effective Tax Rate	25.3%	25.1%	25.9%	25.5%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	67.08	77.54	104.23	72.11	83.19
Inventory Days	248.50	212.92	339.02	407.71	468.40
Accounts Payables Days	79.48	74.72	113.72	110.29	115.15
ROIC (%)	30.2%	26.2%	15.4%	11.1%	12.6%
ROCE (%)	25.2%	21.4%	11.6%	12.7%	13.0%
Return On Average Assets	18.9%	17.0%	10.2%	10.0%	10.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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