

India

REDUCE (previously HOLD)

Consensus ratings*: Buy 12 Hold 3 Sell 5

Current price:	Rs1,950
Target price: ▲	Rs1,768
Previous target:	Rs1,675
Up/downside:	-9.3%
InCred Research / Consensus:	-3.3%
Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$3,868m Rs321,177m
Average daily turnover:	US\$7.8m Rs645.8m
Current shares o/s:	164.7m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

- Rating downgrade to REDUCE from HOLD.
- EPS cut by 18% for FY24F/25F.
- Target price raised to Rs1,768 on rollover to FY26F EPS.



Price performance	1M	3M	12M
Absolute (%)	(0.8)	19.9	43.2
Relative (%)	1.3	9.7	22.2

Major shareholders	% held
Promoters	57.9
Mirae MF	5.6
Nippon	5.3

Research Analyst(s)

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Gland Pharma Ltd

Strong base business; Cenexi disappoints

- 3QFY24 EBITDA missed our estimate by 15%, largely on account of the miss at Cenexi. Base business fared better than our expectations.
- Cenexi's operational issues may persist in the near term. Beyond FY25F, the company expects to have additional revenue of EUR30-40m from Cenexi.
- Downgrade the stock's rating to REDUCE (from HOLD) after the recent run-up. We raise target price to Rs1,768, rolling over our valuation to FY26F EPS.

Mixed revenue growth in 3QFY24

Gland Pharma's 3QFY24 base business (ex-Cenexi) revenue/EBITDA was strong, although Cenexi fell short of expectation (EUR49m vs. expectation of EUR55m). On a low base, revenue was up 65%YoY (in line), led by strong growth in the US market (+31% YoY) and Cenexi integration (not there in the base). RoW business disappointed for the second straight quarter but is likely to recover from FY25F with the recent tender win in Saudi Arabia. The US market witnessed a recovery in Enoxaparin sales (19mn volume forecast vs. 16-17m earlier), stable pricing and new product launches.

Margin miss largely on account of Cenexi

The ex-Cenexi EBITDA margin stood at 34% (flat QoQ) while Cenexi reported an EBITDA loss of Rs170m. Adjusted for one-offs (pension-related provision and restructuring costs totaling EUR2m), Cenexi achieved breakeven at the EBITDA level. Cenexi's gross margin was down by 200bp QoQ (from 77% to 75%). On the positive side, Gland Pharma's base business margin held up at 34% (management gave 2H margin guidance in the range of 30-32% on resumption of some low-margin products). Management expects operational issues at Cenexi to persist in the near term, leading it to rebalance the capacity and shift certain products to different lines, which will take time because of regulatory processes. Thus, Cenexi acquisition-related synergies will take 12-15 months to realize. Beyond FY25F, Gland Pharma expects to add EUR30-40m to Cenexi revenue, which will drive better operating leverage (Cenexi breaks even at EUR200m) and thus, support margin expansion.

Other highlights

a) US growth was driven by an 8% volume growth, 3% from new product launches and the rest from milestone income/profit share. b) One of the lyophilization lines at Gland Pharma's Dundigal flagship plant will be shut in Mar 2024F for two weeks for upgradation, leading to a temporary disruption from this line.

Downgrade stock's rating to REDUCE with a higher TP of Rs1,768

We have cut our FY24F/25F EPS by 18% each, building in the delay in Cenexi ramp-up. We downgraded the stock's rating to REDUCE (from HOLD) and raised our target price to Rs1,768 (Rs1,675 earlier) on rollover of our valuation to FY26F EPS. Faster-than-expected ramp-up at Cenexi is a key upside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	44,007	36,246	56,774	64,556	70,653
Operating EBITDA (Rsm)	15,102	10,248	13,349	15,616	18,116
Net Profit (Rsm)	12,117	7,811	8,019	9,846	11,736
Core EPS (Rs)	73.6	50.0	48.7	59.8	71.3
Core EPS Growth	21.5%	(32.1%)	(2.5%)	22.8%	19.2%
FD Core P/E (x)	26.51	39.03	40.05	32.62	27.37
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)	19.12	27.67	20.75	17.48	14.61
P/FCFE (x)	30.30	63.33	(52.63)	38.26	20.48
Net Gearing	(45.3%)	(47.3%)	(28.8%)	(30.0%)	(34.4%)
P/BV (x)	4.49	4.04	3.67	3.30	2.94
ROE	18.6%	10.9%	9.6%	10.6%	11.4%
% Change In Core EPS Estimates			(17.96%)	(18.31%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial Summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	10,444	9,383	7,850	12,087	13,734	15,452	65%	13%
Consumption of RM	4,529	5,216	5,992	5,800	21,537	22,994	341%	7%
<i>as % of sales</i>	<i>43.4%</i>	<i>55.6%</i>	<i>76.3%</i>	<i>48.0%</i>	<i>156.8%</i>	<i>148.8%</i>		
Employee costs	1,013	1,011	1,028	2,550	3,050	3,453	241%	13%
<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>	<i>22.3%</i>		
R&D costs	414	512	678	457	351	530	4%	51%
<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>	<i>3.4%</i>		
Other expenditure	854	693	811	1,611	1,877	1,912	176%	2%
<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>	<i>12.4%</i>		
EBITDA	2,969	2,896	1,684	2,940	3,241	3,564	23%	10%
<i>Margins (%)</i>	<i>28.4%</i>	<i>30.9%</i>	<i>21.5%</i>	<i>24.3%</i>	<i>23.6%</i>	<i>23.1%</i>		
Depreciation	367	376	376	653	813	1,053		
Other income	656	615	389	375	532	374		
Interest	17	26	22	49	60	53		
PBT	3,241	3,109	1,676	2,613	2,899	2,832	-9%	-2%
Total tax	828	789	325	672	958	913		
<i>Tax rate (%)</i>	<i>25.6%</i>	<i>25.4%</i>	<i>19.4%</i>	<i>25.7%</i>	<i>33.0%</i>	<i>32.2%</i>		
PAT before MI	2,412	2,319	1,351	1,941	1,941	1,919	-17%	-1%
Minority interest (MI)	0	0	0	0	0	0		
Adj. PAT before extraordinary items	2,412	2,319	1,351	1,941	1,941	1,919	-17%	-1%
Extraordinary expenses	0	0	-565	0	0	0		
Reported PAT	2,412	2,319	786	1,941	1,941	1,919	-17%	-1%
No. of shares	165	165	165	165	165	165		
EPS	14.6	14.1	8.2	11.8	11.8	11.6		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Gross	50%	54%	54%	63%	62%	61%	12%	-1%
EBITDA	28%	31%	21%	24%	24%	23%	-25%	-2%
Adj. PAT	23%	25%	17%	16%	14%	12%	-50%	-12%
Effective tax rate	26%	25%	19%	26%	33%	32%	27%	-2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
US EU CA AU - INR	7,475	6,626	5,498	6,602	7,531	8,680	31%	15%
<i>% total revenue</i>	<i>71.6%</i>	<i>70.6%</i>	<i>70.0%</i>	<i>54.6%</i>	<i>54.8%</i>	<i>56.2%</i>		
RoW	2,243	1,943	1,705	1,623	1,738	1,573	-19%	-9%
<i>% total revenue</i>	<i>21.5%</i>	<i>20.7%</i>	<i>21.7%</i>	<i>13.4%</i>	<i>12.7%</i>	<i>10.2%</i>		
India formulations	726	814	647	647	876	761	-7%	-13%
<i>% total revenue</i>	<i>7.0%</i>	<i>8.7%</i>	<i>8.2%</i>	<i>5.4%</i>	<i>6.4%</i>	<i>4.9%</i>		
Others / Cenexi	0	0	0	3,214	3,588	4,438	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>	<i>28.7%</i>		
Total revenue	10,444	9,383	7,850	12,087	13,734	15,452	65%	13%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Ests	Variance (%)
Revenue (Rsm)	15,452	15,434	0%
EBITDA (Rsm)	3,564	4,170	-15%
Margin (%)	23.1	27.0	
PAT (Rsm)	1,919	2,952	-35%

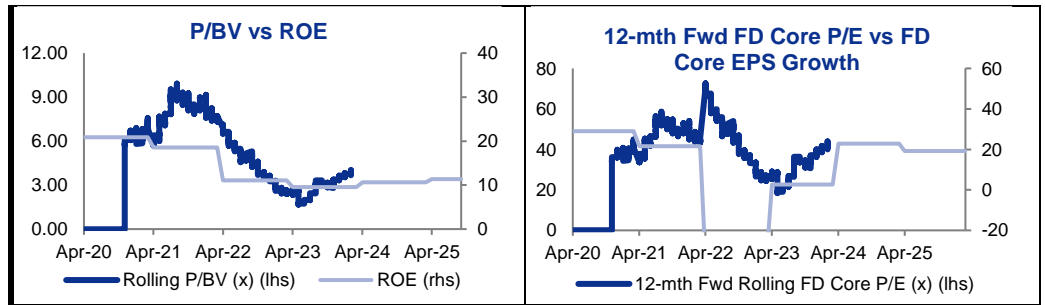
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY24F			FY25F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	56,182	56,774	1%	62,474	64,556	3%
EBITDA (Rsm)	14,454	13,349	-8%	17,272	15,616	-10%
Margin (%)	25.7	23.5		27.6	24.2	
PAT (Rsm)	9,775	8,019	-18%	12,054	9,846	-18%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	44,007	36,246	56,774	64,556	70,653
Gross Profit	22,915	19,392	35,100	40,024	44,865
Operating EBITDA	15,102	10,248	13,349	15,616	18,116
Depreciation And Amortisation	(1,103)	(1,467)	(3,420)	(3,600)	(3,800)
Operating EBIT	13,999	8,780	9,929	12,016	14,316
Financial Income/(Expense)	(52)	(74)	(197)	(150)	(150)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,239	2,405	1,781	2,200	2,600
Profit Before Tax (pre-EI)	16,186	11,111	11,513	14,066	16,766
Exceptional Items		(565)			
Pre-tax Profit	16,186	10,546	11,513	14,066	16,766
Taxation	(4,069)	(2,735)	(3,493)	(4,220)	(5,030)
Exceptional Income - post-tax					
Profit After Tax	12,117	7,811	8,019	9,846	11,736
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,117	7,811	8,019	9,846	11,736
Recurring Net Profit	12,117	8,229	8,019	9,846	11,736
Fully Diluted Recurring Net Profit	12,117	8,229	8,019	9,846	11,736

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	15,102	10,248	13,349	15,616	18,116
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,931)	(4,179)	(1,950)	(4,949)	(3,245)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,263)	(2,429)	(3,493)	(4,220)	(5,030)
Net Interest (Paid)/Received	(52)	(74)	(197)	(150)	(150)
Tax Paid	(5,450)	(4,194)	(5,077)	(6,270)	(7,480)
Cashflow From Operations	7,908	3,640	7,905	6,448	9,841
Capex	(5,217)	(2,208)	(3,000)	(4,500)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(18,913)		
Other Investing Cashflow					
Cash Flow From Investing	2,690	1,432	(14,008)	1,948	5,841
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	386	214			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(646)	3,573	1,583	2,050	2,521
Cash Flow From Financing	(260)	3,787	1,583	2,050	2,521
Total Cash Generated	2,430	5,219	(12,424)	3,998	8,362
Free Cashflow To Equity	10,598	5,071	(6,103)	8,395	15,683
Free Cashflow To Firm	10,651	5,146	(5,905)	8,545	15,833

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	32,488	37,707	25,282	29,280	37,642
Total Debtors	11,988	8,714	11,355	12,911	14,131
Inventories	11,857	19,453	19,303	23,240	25,435
Total Other Current Assets	2,188	3,133	4,542	5,164	5,652
Total Current Assets	58,521	69,007	60,482	70,596	82,861
Fixed Assets	16,804	17,362	16,942	17,842	18,042
Total Investments			18,913	18,913	18,913
Intangible Assets	125	117	117	117	117
Total Other Non-Current Assets	2,886	1,290	1,290	1,290	1,290
Total Non-current Assets	19,815	18,769	37,262	38,162	38,362
Short-term Debt	3	6	6	6	6
Current Portion of Long-Term Debt					
Total Creditors	4,629	5,873	7,215	8,127	8,640
Other Current Liabilities	1,189	1,412	2,020	2,275	2,419
Total Current Liabilities	5,820	7,291	9,240	10,408	11,065
Total Long-term Debt	45	33	33	33	104
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	895	864	864	864	864
Total Non-current Liabilities	940	897	897	897	968
Total Provisions					
Total Liabilities	6,760	8,188	10,137	11,304	12,033
Shareholders Equity	71,576	79,587	87,606	97,453	109,189
Minority Interests					
Total Equity	71,576	79,587	87,606	97,453	109,189

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	27.1%	(17.6%)	56.6%	13.7%	9.4%
Operating EBITDA Growth	16.0%	(32.1%)	30.3%	17.0%	16.0%
Operating EBITDA Margin	34.3%	28.3%	23.5%	24.2%	25.6%
Net Cash Per Share (Rs)	196.97	228.71	153.27	177.55	227.89
BVPS (Rs)	434.58	483.22	531.91	591.70	662.95
Gross Interest Cover	267.05	118.02	50.30	80.11	95.44
Effective Tax Rate	25.1%	25.9%	30.3%	30.0%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.54	104.23	64.51	68.60	69.85
Inventory Days	212.92	339.02	326.34	316.50	344.46
Accounts Payables Days	74.72	113.72	110.21	114.13	118.66
ROIC (%)	26.2%	15.4%	16.8%	17.9%	20.0%
ROCE (%)	21.4%	11.6%	11.9%	13.0%	13.8%
Return On Average Assets	17.0%	10.2%	8.8%	9.6%	10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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