

India

**REDUCE** (no change)

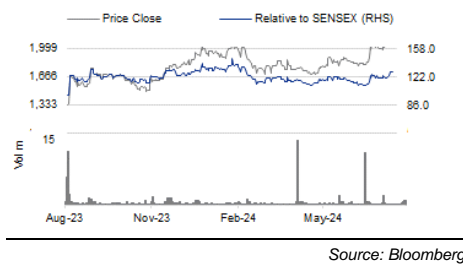
Consensus ratings\*: Buy 11 Hold 2 Sell 6

Current price:	Rs2,107
Target price:	Rs1,768
Previous target:	Rs1,768
Up/downside:	-16.1%
InCred Research / Consensus:	-9.2%
Reuters:	
Bloomberg:	GLAND IN
Market cap:	US\$4,780m
	Rs347,124m
Average daily turnover:	US\$13.1m
	Rs950.1m
Current shares o/s:	164.7m
Free float:	42.1%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY26F EPS estimate by 7%.



Price performance	1M	3M	12M
Absolute (%)	14.5	23.7	57.8
Relative (%)	16.6	15.7	32.4

Major shareholders	% held
Promoters	57.9
Mirae MF	5.6
Nippon	5.3

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# Gland Pharma Ltd

## Margin impacted by lower milestone income

- 1QFY25 EBITDA was 30-35% below our/consensus estimates, led by a sharp 800bp QoQ decline in the base business margin to 29%.
- Cenexi should see positive EBITDA in 4QFY25F and FY26F. Management expects Cenexi to deliver EUR200m+ revenue in FY26F.
- Retain REDUCE rating with an unchanged target price of Rs1,768. The faster-than-expected ramp-up at Cenexi is a key upside risk.

### Weak 1QFY25 performance

Gland Pharma's 1QFY25 base business (ex-Cenexi) revenue/EBITDA saw a sharp QoQ decline (14%/32%) which were 10%/30% below our/consensus estimates, respectively. Cenexi numbers were in line with our expectations, with revenue at Rs3.9bn and EBITDA loss at Rs286m. Excluding Cenexi, Gland Pharma or GPL witnessed pressure across geographies, except the US. The US saw a healthy volume share across products as well as a good contribution from new product launches. The decline in the ROW market continued for the fourth straight quarter. 2Q for Cenexi is likely to be impacted by lower activity level due to the European Union holiday and a three-week plant shutdown.

### Milestone income dips sharply QoQ, drives EBITDA lower

The ex-Cenexi EBITDA margin stood at 29% (vs. 37% in 4QFY24) while Cenexi reported an EBITDA loss of Rs286m (Rs719m loss in 4QFY24). Cenexi's gross margin inched up slightly to 78% from 77% in 4QFY24 (and 75% in 3QFY24). The sharp decline in the base business margin can be largely attributed to lower margins in the new GPOs that GPL has won. While the volume was up 2x in these contracts QoQ, they came at a significantly lower gross margin. Further, the milestone income was significantly higher in 4QFY24 at 16%, which came off to 10% in 1Q; on the other hand, the profit share proportion remained broadly stable at 9%. GPL expects FY25F base business (ex-Cenexi) to grow in mid-teens and margins to stabilize at 32-33%. GPL's biologics CDMO facility at Genome Valley is witnessing good traction in terms of customer interest, and the company is engaged with a leading biologics company (early stages though) for potential contract manufacturing of key biosimilars as well as potential in-licensing opportunities for specific markets.

### 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 (Cenexi breaks even at EUR200m) and thus, support margin expansion; management gave guidance of a positive EBITDA in 4QFY25F as well as in FY26F. A new ampoule line will be commissioned at the Fontenay site (in Paris) in Aug 2024, which should add EUR10m in 2025F.

### Retain REDUCE rating on the stock

Our FY26F EPS stands increased by 7%. Retain REDUCE rating on the stock with an unchanged target price of Rs1,768. The faster-than-expected ramp-up at Cenexi is a key upside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	44,007	36,246	56,648	63,649	72,507
Operating EBITDA (Rsm)	15,102	10,248	13,331	15,232	19,265
Net Profit (Rsm)	12,117	7,811	7,725	9,714	13,078
Core EPS (Rs)	73.6	50.0	46.9	59.0	79.4
Core EPS Growth	21.5%	(32.1%)	(6.1%)	25.7%	34.6%
FD Core P/E (x)	28.64	42.17	44.92	35.72	26.53
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)	20.83	30.19	24.89	21.48	16.56
P/FCFE (x)	32.74	68.43	59.56	36.17	22.25
Net Gearing	(45.3%)	(47.3%)	(17.4%)	(20.4%)	(25.5%)
P/BV (x)	4.85	4.36	3.98	3.58	3.15
ROE	18.6%	10.9%	9.3%	10.5%	12.6%
% Change In Core EPS Estimates				5.15%	12.32%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	8,569	10,444	9,383	7,850	12,087	13,734	15,452	15,375	14,017	16%	-9%
Consumption of raw materials	3,741	5,195	4,271	3,648	4,529	5,216	5,992	5,994	5,643	25%	-6%
as % of sales	43.7%	49.7%	45.5%	46.5%	37.5%	38.0%	38.8%	39.0%	40.3%		
Employee costs	980	1,013	1,011	1,028	2,550	3,050	3,453	3,516	3,555	39%	1%
as % of sales	11.4%	9.7%	10.8%	13.1%	21.1%	22.2%	22.3%	22.9%	25.4%		
R&D costs	410	414	512	678	457	351	530	436	489	7%	12%
as % of sales	4.8%	4.0%	5.5%	8.6%	3.8%	2.6%	3.4%	2.8%	3.5%		
Other expenditure	739	854	693	811	1,611	1,877	1,912	1,842	1,686	5%	-8%
as % of sales	8.6%	8.2%	7.4%	10.3%	13.3%	13.7%	12.4%	12.0%	12.0%		
EBITDA	2,699	2,969	2,896	1,684	2,940	3,241	3,564	3,587	2,644	-10%	-26%
Margins (%)	31.5%	28.4%	30.9%	21.5%	24.3%	23.6%	23.1%	23.3%	18.9%		
Depreciation	349	367	376	376	653	813	1,053	926	920		
Other income	744	656	615	389	375	532	374	421	514		
Interest	9	17	26	22	49	60	53	100	56		
PBT	3,085	3,241	3,109	1,676	2,613	2,899	2,832	2,982	2,182	-16%	-27%
Total tax	793	828	789	325	672	958	913	1,058	745		
Tax rate (%)	25.7%	25.6%	25.4%	19.4%	25.7%	33.0%	32.2%	35.5%	34.1%		
PAT before MI	2,292	2,412	2,319	1,351	1,941	1,941	1,919	1,924	1,438	-26%	-25%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	2,292	2,412	2,319	1,351	1,941	1,941	1,919	1,924	1,438	-26%	-25%
Extraordinary expenses	0	0	0	-565	0	0	0	0	0		
Reported PAT	2,292	2,412	2,319	786	1,941	1,941	1,919	1,924	1,438	-26%	-25%
No. of shares	165	165	165	165	165	165	165	165	166		
EPS	13.9	14.6	14.1	8.2	11.8	11.8	11.6	11.7	8.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margin (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	56%	50%	54%	54%	63%	62%	61%	61%	60%	-278	-127
EBITDA	31%	28%	31%	21%	24%	24%	23%	23%	19%	-546	-447
Adj. PAT	27%	23%	25%	17%	16%	14%	12%	13%	10%	-580	-226
Effective tax rate	26%	26%	25%	19%	26%	33%	32%	35%	34%	842	-135

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
US EU CA AU - INR	7,056	7,475	6,626	5,498	6,602	7,531	8,680	9,621	8,125	23%	-16%
% total revenue	82.3%	71.6%	70.6%	70.0%	54.6%	54.8%	56.2%	62.6%	58.0%		
RoW	1,002	2,243	1,943	1,705	1,623	1,738	1,573	1,590	1,481	-9%	-7%
% total revenue	11.7%	21.5%	20.7%	21.7%	13.4%	12.7%	10.2%	10.3%	10.6%		
India formulations	510	726	814	647	647	876	761	526	527	-19%	0%
% total revenue	6.0%	7.0%	8.7%	8.2%	5.4%	6.4%	4.9%	3.4%	3.8%		
Others / Cenexi	1	0	0	0	3,214	3,588	4,438	3,637	3,883	21%	7%
% total revenue	0.0%	0.0%	0.0%	0.0%	26.6%	26.1%	28.7%	23.7%	27.7%		
Total revenue	8,569	10,444	9,383	7,850	12,087	13,734	15,452	15,374	14,016	16%	-9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	14,017	15,945	-12%	15,195	-8%
EBITDA (Rsm)	2,644	3,948	-33%	3,588	-26%
Margin (%)	18.9	24.8		23.6	
PAT (Rsm)	1,438	2,459	-42%	2,141	-33%

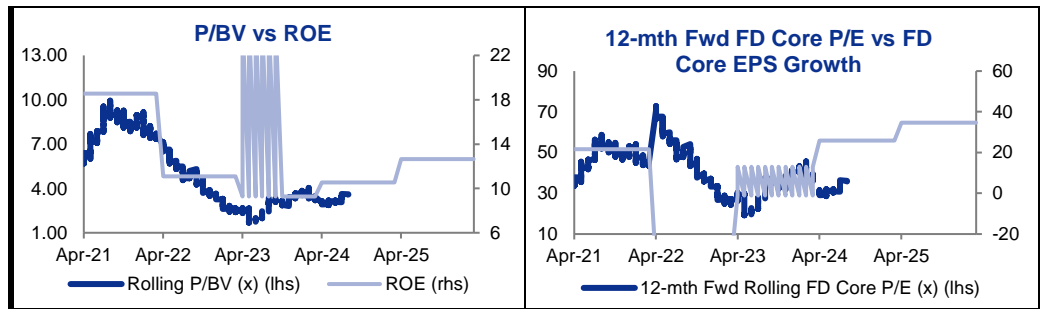
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	63,649	63,649	0%	70,293	72,507	3%
EBITDA (Rsm)	15,232	15,232	0%	18,076	19,265	7%
Margin (%)	23.9	23.9		25.7	26.6	
PAT (Rsm)	9,714	9,714	0%	12,210	13,078	7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	44,007	36,246	56,648	63,649	72,507
<b>Gross Profit</b>	22,915	19,392	34,917	39,462	46,042
<b>Operating EBITDA</b>	15,102	10,248	13,331	15,232	19,265
Depreciation And Amortisation	(1,103)	(1,467)	(3,446)	(3,600)	(3,800)
<b>Operating EBIT</b>	13,999	8,780	9,886	11,632	15,465
Financial Income/(Expense)	(52)	(74)	(262)	(150)	(150)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,239	2,405	1,702	2,200	2,600
<b>Profit Before Tax (pre-EI)</b>	16,186	11,111	11,326	13,682	17,915
Exceptional Items		(565)			
<b>Pre-tax Profit</b>	16,186	10,546	11,326	13,682	17,915
Taxation	(4,069)	(2,735)	(3,601)	(3,968)	(4,837)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	12,117	7,811	7,725	9,714	13,078
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	12,117	7,811	7,725	9,714	13,078
Recurring Net Profit	12,117	8,229	7,725	9,714	13,078
<b>Fully Diluted Recurring Net Profit</b>	12,117	8,229	7,725	9,714	13,078

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	15,102	10,248	13,331	15,232	19,265
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,931)	(4,179)	(532)	(4,217)	(4,631)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,263)	(2,429)	(2,832)	(3,968)	(4,837)
Net Interest (Paid)/Received	(52)	(74)	(262)	(150)	(150)
Tax Paid	(5,450)	(4,194)	(4,272)	(6,018)	(7,287)
<b>Cashflow From Operations</b>	7,908	3,640	9,968	7,047	9,796
Capex	(5,217)	(2,208)	(3,892)	(4,500)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(10,218)		
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	2,690	1,432	(4,141)	2,547	5,796
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)	2,050	2,450
<b>Cash Flow From Financing</b>	(260)	3,787	(15,171)	2,050	2,450
Total Cash Generated	2,430	5,219	(19,312)	4,597	8,246
<b>Free Cashflow To Equity</b>	10,598	5,071	5,827	9,594	15,593
<b>Free Cashflow To Firm</b>	10,651	5,146	6,089	9,744	15,743

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	32,488	37,707	18,394	22,991	31,238
Total Debtors	11,988	8,714	15,587	12,730	14,501
Inventories	11,857	19,453	16,552	22,914	26,103
Total Other Current Assets	2,188	3,133	5,918	5,092	5,801
<b>Total Current Assets</b>	<b>58,521</b>	<b>69,007</b>	<b>56,452</b>	<b>63,727</b>	<b>77,642</b>
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
<b>Total Non-current Assets</b>	<b>19,815</b>	<b>18,769</b>	<b>50,161</b>	<b>51,061</b>	<b>51,261</b>
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	8,057	8,867
Other Current Liabilities	1,189	1,412	3,224	2,256	2,483
<b>Total Current Liabilities</b>	<b>5,820</b>	<b>7,291</b>	<b>13,984</b>	<b>12,445</b>	<b>13,483</b>
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
<b>Total Non-current Liabilities</b>	<b>940</b>	<b>897</b>	<b>5,390</b>	<b>5,390</b>	<b>5,390</b>
Total Provisions					
<b>Total Liabilities</b>	<b>6,760</b>	<b>8,188</b>	<b>19,374</b>	<b>17,835</b>	<b>18,873</b>
Shareholders Equity	71,576	79,587	87,238	96,953	110,030
Minority Interests					
<b>Total Equity</b>	<b>71,576</b>	<b>79,587</b>	<b>87,238</b>	<b>96,953</b>	<b>110,030</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	27.1%	(17.6%)	56.3%	12.4%	13.9%
Operating EBITDA Growth	16.0%	(32.1%)	30.1%	14.3%	26.5%
Operating EBITDA Margin	34.3%	28.3%	23.5%	23.9%	26.6%
Net Cash Per Share (Rs)	196.97	228.71	92.27	120.18	170.25
BVPS (Rs)	434.58	483.22	529.68	588.66	668.06
Gross Interest Cover	267.05	118.02	37.73	77.55	103.10
Effective Tax Rate	25.1%	25.9%	31.8%	29.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.54	104.23	78.29	81.19	68.54
Inventory Days	212.92	339.02	302.38	297.79	338.01
Accounts Payables Days	74.72	113.72	121.78	125.88	116.70
ROIC (%)	26.2%	15.4%	9.7%	10.7%	13.4%
ROCE (%)	21.4%	11.6%	11.6%	12.2%	14.5%
Return On Average Assets	17.0%	10.2%	8.1%	8.9%	10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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