



SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Pharma
Total Issue (Shares) - Offer for sale	34,863,635
Total Issue (Shares) - Fresh Issue	8,333,333
Net Offer to the Public	43,196,968
Issue Size (Rs. Cr.)	6436-6480
Price Band (Rs.)	1490-1500
Offer Date	9-Nov-20
Close Date	11-Nov-20
Face Value	1
Lot Size	10

Issue Composition

	In shares
Total Issue for Sale	43,196,968
QIB	21,598,484
NIB	6,479,545
Retail	15,118,939

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	74.00%	50.02%
QIB	23.58%	35.60%
NIB	2.42%	5.12%
Retail	0.00%	9.26%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds towards funding the following objects:

1. To finance the incremental working capital requirements of the company
2. To meet funding requirements for capital expenditure requirements
3. To meet the general corporate purposes

Book Running Lead Manager

- Kotak Mahindra Capital Company
- Citigroup Global Markets India Private
- Haitong Securities India Private
- Nomura Financial Advisory and Securities Pvt Ltd.

Name of the registrar

- Link Intime India Private Limited

About the Company

Gland Pharma Ltd is one of the fastest-growing generic injectable companies. It manufactures a diversified range of high-quality complex injectables. The company offers products like sterile injectables, oncology, and ophthalmics, complex injectables (peptides, suspensions, hormonal products, long-acting injectables), NCE-1s, First-to-File products, etc. The company follows a B2B model to sell its products in more than 60 countries including the US, Canada, Australia, India, Europe, etc. Leading pharma companies i.e. Sagent Pharmaceuticals, Apotex Inc. Athnex Pharmaceutical Division, LLC, Fresenius Kabi USA, LLC, etc. are some of the key customers. It has 7 robust manufacturing units in India comprising 4 finished formulations facilities, 22 production lines, and 3 APIs.

Strength

Extensive and vertically integrated injectables manufacturing capabilities with a consistent regulatory compliance track record: Seven manufacturing facilities are situated in southern India including two sterile injectables facilities, one dedicated Penems facility, one oncology facility and three API facilities. The finished formulation manufacturing facilities with a total of 22 production lines possess the flexibility to accommodate different product requirements without the need to install new production lines. This allows the company to adapt quickly to changes in product specifications, market demand and production requirements. It has a total of three API facilities that provide the company with in-house manufacturing capabilities for critical APIs. 24 of its ANDAs covering its key products are supported by in-house APIs. Its vertical integration allows it to achieve greater control over its manufacturing processes to meet required standards, increase operating efficiencies, accelerate product development, strengthen product quality control and improve supply chain efficiencies.

Diversified B2B-led model across markets, complemented by a targeted B2C model in India: B2B business models enable Gland to (i) grow market share in key markets such as the United States, Europe, Canada and Australia, particularly the United States, while reducing the marketing investments it needs to make, (ii) leverage the reputation of its marketing partners in their home markets to build their own presence in these markets, (iii) build its own reputation as a complex injectables manufacturer with a consistent compliance record attracting confidence from other potential marketing partners. In the June Qtr, revenue generated from B2C model was around 3% in India.

Extensive portfolio of complex products supported by internal R&D and regulatory capabilities: As of June 30, 2020, it had a total workforce of 3,766 excluding contract labourers across these business divisions, including an in-house R&D team for product development, regulatory affairs for obtaining product registrations, manufacturing, supply chain management, and sales and marketing. The company at present in sterile injectables, oncology and ophthalmics, and focus on complex injectables, NCE-1s, First-to-File products and 505(b)(2) filings. It has established a portfolio of injectable products across various therapeutic areas and delivery systems. As of June 30, 2020, along with its partners, it had 267 ANDA filings in the United States, of which 215 were approved and 52 were pending approval. The 267 ANDA filings comprise 191 ANDA filings for sterile injectables, 50 for oncology and 26 for ophthalmics related products. Out of these 267 ANDA filings, 101 represent ANDAs owned by the company, of which 71 ANDA filings are approved and 30 are pending approval. As of the same date, it along with its partners had a total of 1,427 product registrations, comprising 371 product registrations in the United

States, Europe, Canada and Australia, 54 in India and 1,002 in the Rest of the world.

Track record of growth and profitability from a diversified revenue base with healthy cash flows: It has a track record of revenue delivery and profitability across various markets with healthy cash flows. Its total revenue from operations has grown at a CAGR of 27.38% from Fiscals 2018 to 2020. Its EBITDA has grown at a CAGR of 36.90% from Fiscals 2018 to 2020. Its restated profit for the year has grown at a CAGR of 55.15% from Fiscals 2018 to 2020. Its top five customers in Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020 accounted for 49.92%, 47.86%, 48.86%, and 44.45% respectively, of its total revenue from operations for the relevant period. In Fiscals 2018, 2019 and 2020 and the three months ended June 30, 2020, its revenue from operations in the United States, Europe, Canada and Australia accounted for 76.41%, 69.44%, 73.46%, and 68.78% respectively, of its total revenue from operations, as per Ind AS 108 – Operating Segments. In the same periods, its revenue from operations in India accounted for 18.49%, 18.97%, 17.74%, and 14.52% respectively, of its total revenue from operations as per Ind AS 108 – Operating Segments. In the same periods, its revenue from operations in the Rest of the world accounted for 5.10%, 11.59%, 8.80%, and 16.70% respectively, of its total revenue from operations as per Ind AS 108 – Operating Segments.

Strategy

Expand product portfolio and delivery systems to drive revenue growth: The company has maintained a focus on achieving a diverse product mix offering products at various stages of their lifecycle as well as a robust product pipeline. As of June 30, 2020, it along with its partners had 267 ANDA filings in the United States, of which 215 were approved and 52 pending approval. The company intends to continue enhancing its product portfolio to offer a diverse suite of products to cater to the growing demand for injectables. The company has said that it will continue to focus on developing products primarily for the U.S. market and leverage this product portfolio to extend across other markets. It also intends to increase its product offerings by continuing to invest in new technologies to maintain its competitive strengths in both product development and product manufacturing capabilities for complex injectables.

Continue to invest in manufacturing and related technological capabilities to meet future demand: The company aims to continue investing in manufacturing technologies to build new capabilities to support the production of its future portfolio of complex injectables, primarily for the U.S. market. To maintain its competitive position, it intends to expand its current manufacturing capacity for key products and continue to invest in new technologies and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges.

Increase current market presence and enter new markets: The company intends to maintain its strategic emphasis on the United States, Europe, Canada and Australia, while continuing to pursue growth opportunities in China, India, Brazil and the Rest of the world. It plans to grow its business in the United States, Europe, Canada and Australia by maintaining an appropriate product mix in its portfolio with products which it consider will improve its profitability as well as utilise its capacities more efficiently. It will also focus its efforts on establishing effective relationships with existing and new marketing partners to commercialise its portfolio of products. It plans to expand its presence in these markets by increasing its portfolio of product registrations and by increasing its customer and distributor base through marketing arrangements with local distributors and pharmaceutical companies.

Align with Shanghai Fosun Pharma to increase market share: Gland can benefit from Shanghai Fosun Pharma's (i) market experience and know-how in navigating through the rapidly evolving Chinese healthcare landscape, (ii) ability to access key markets to provide coverage for a portfolio of products, (iii) scale and bargaining power to procure raw materials and equipment from China, and (iv) extensive sales, logistics and distribution network to enable market penetration across China.

Pursue strategic acquisitions and partnerships: To complement its organic growth and internal expertise, it may also pursue strategic acquisitions of companies, products and technologies to add to its capabilities and technical expertise or enter into partnerships to strengthen its product and technology infrastructure in areas including steroidal hormonal products, suspensions, anti-neoplastics and nasal and inhalation products.

Continued focus on cost management: The company aims to continue to maintain its cost management focus, including in-house integrated manufacturing capabilities, across its business to deliver growth as well as to achieve economies of scale. In addition, it aims to continue to achieve supply chain efficiencies through lifecycle management of products, including in the R&D and manufacture processes. As of June 30, 2020, it had a total workforce of 3,766 excluding contract employees across its business divisions that complement its business with niche capabilities including an in-house R&D team for product development, regulatory affairs for obtaining product registrations, manufacturing, supply chain management, and sales and marketing and its understanding of the injectables business has allowed it to better control variables in its operating processes.

Risk factor

- Pharma industry is heavily regulated and company business requires several approvals, licenses, registration and permissions. Any change in such regulations can delay the approvals and can impact the cash flows and results of the company.
- A company's success depends majorly on the business arrangements with its marketing partners and customers for the sale of its products. If such arrangements are terminated for various reasons, it would impact the company business.
- Company business is dependent on the sale of products in 60+ countries through its key customers and key markets. Any loss of such customers can result in a reduction in sales and further impact company margins.
- Manufacturing or quality control problems may disrupt pharma business, damage company reputation and expose for potential litigation or liabilities which would impact company performance.

Peer comparison

As per the RHP, there are no listed companies in India which are engaged in the same line of business as the Company and comparable to its scale of operations, hence comparison with industry peers are not applicable.

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 1500, the stock is priced at pre issue P/E of 30.07x on its FY20 EPS of Rs. 49.88. Post issue, the stock is priced at a P/E of 31.69x on its EPS of Rs. 47.33. Looking at the P/B ratio at Rs. 1500 the stock is priced at P/B ratio of 6.37x on the pre issue book value of Rs.235.32 and on the post issue book value of Rs. 299.86 the P/B comes out to 5.00x.

On the lower end of the price band of Rs.1490 the stock is priced at pre issue P/E of 29.87x on its FY20 EPS of Rs. 49.88. Post issue, the stock is priced at a P/E of 31.48x on its EPS of Rs. 47.33. Looking at the P/B ratio at Rs.1490, the stock is priced at P/B ratio of 6.33x on the pre issue book value of Rs. 235.32 and on the post issue book value of Rs. 299.86, the P/B comes out to 4.97x.

Industry overview

The global formulation market grew at a CAGR of approximately 5.4% from 2014 to reach approximately US\$1,111 billion in 2020. The market is estimated to grow at a CAGR of approximately 4.4% to reach approximately US\$1,376 billion by 2025. The Indian pharmaceutical market was estimated to be US\$18 billion in 2019, growing approximately 11.6% CAGR from US\$11 billion in 2014. The industry has been able to offer a wide variety of high quality and affordable generics across the world. Increasing incidence of chronic diseases due to changing lifestyle, improving affordability, growing penetration of medical insurance, government policies such as Ayushman Bharat are expected to improve the diagnosis and treatment rates in India, driving the growth of the pharmaceutical industry despite population growth slowdown in 2020 to 2024.

Outlook

Gland Pharma is one of the fastest growing generic injectable companies in India. With a strong product pipeline and more complex products under development, focus on B2B expansion and licensing and opportunities to enter more therapy areas, the company looks promising. Gland Pharma's promoter Fosun Pharma is a China-based entity. The company will become the first large Indian firm with a Chinese parent to go for public listing. However, only a small amount of the money raised through the issue will go to the company.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	November 09, 2020
Bid/Offer Closing Date	November 11, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	November 17, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	November 18, 2020
Credit of Equity Shares to depository accounts of Allottees	November 19, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	November 20, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Total Operating Income	884.21	2,633.24	2,044.20
Total expenditure	471.59	1,677.77	1,337.70
Operating Profit	412.62	955.47	706.50
OPM%	46.67	36.28	34.56
Other Income	32.08	139.17	85.56
PBDIT	444.70	1,094.64	792.07
Depreciation	24.23	94.59	82.12
PBIT	420.47	1,000.05	709.95
Interest	0.47	7.18	3.67
PBT before exceptional item	420.00	992.87	706.28
Exceptional item	0.00	0.00	20.00
PBT	420.00	992.87	686.28
Tax	106.41	220.01	234.42
Profit After Tax	313.59	772.86	451.86

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	950.24	967.15	928.74
Capital work-in-progress	254.41	188.47	123.16
Right of Use Assets	0.90	0.95	0.97
Financial assets	0.00	0.00	0.00
Other financial assets	57.43	6.92	6.43
Tax assets (net)	1.60	1.45	18.96
Other non-current assets	56.76	74.82	87.84
Total Non- Current Assets	1321.35	1239.75	1166.09
Current assets			
Inventories	1008.94	756.28	911.88
Financial assets			
Loans	1.03	0.50	0.28
Trade Receivables	674.02	601.79	506.10
Cash and Bank balances	381.78	169.50	236.40
Bank Balances other than cash and cash equivalents	1147.11	1155.70	516.95
Other financial assets	15.60	15.10	7.10
Tax assets (net)	0.00	9.54	0.00
Other current assets	141.43	137.90	178.76
Total current assets	3369.92	2846.29	2357.46
Total Assets	4691.27	4086.04	3523.55
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	4.07	4.07	4.96
Other financial liabilities	2.658	2.658	16.252
Deferred tax liabilities (net)	73.26	74.05	107.57
Total non-current liabilities	79.98	80.78	128.78
Current liabilities			
Financial liabilities			
Trade payables			
-Total outstanding dues of micro enterprises and small enterprises	4.74	3.32	1.43
-Total outstanding dues of creditors other than micro enterprises and small enterprises	472.76	245.78	444.77
Other financial liabilities	28.21	30.38	21.98
Provisions	20.99	17.48	2.88
Current tax liabilities (net)	75.85	10.72	11.00
Other current liabilities	45.28	51.35	50.70
Total current liabilities	647.82	359.02	532.77
Total liabilities	727.80	439.80	661.55
Net worth represented by:			
Equity share capital	15.50	15.50	15.50
Other equity	3947.97	3630.74	2846.50
Total Equity	3963.47	3646.24	2862.00

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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