

November 07, 2023

**RESULT REPORT Q2 FY24** | Sector: Pharmaceuticals & Healthcare

# Gland Pharma

## Outlook hinges on strength of US rebound; ADD stays

### Result Synopsis

Gland continues to report sequential improvement in US business with rather sharp 20% jump QoQ though YoY improvement was restricted to 5%. Management did not spell out any revenue guidance but expects standalone ex-Cenexi margin to be in the range of 30-32% (vs 34% in Q2). As indicated in Q1, Cenexi saw 1-month shutdown translating into EBIDTA loss Rs268mn though it should clock 10-11% margin on an annual basis. Standalone US business is showing encouraging signs of return to normalcy with base business volume growth and benign pricing environment. Key issue remains pertaining to how much US recovery is sustainable over next 2-3 quarters. We raise FY25 estimates by ~6% as FY24 US growth ex-Cenexi is upped to 8% vs 5% earlier; With no near term margin levers in Cenexi, underlying improvement in US would drive better margin in FY25. Rest of the markets were steady though Heparin pricing issue still remains an overhang along with Enoxaparin in US. We raise target multiple to 28x (from 25x) earlier to factor in better operating environment and some premium to generics whom we value at 20-25x on FY25 basis. Any reversal/volatility in US business is a key risk which is also the reason for not upgrading the stock. Retain ADD with revised TP Rs1,780 (earlier Rs1,500) based on 28x FY25 EPS.

### Result Highlights

US continues with strong performance for second successive quarter as double digit contribution from vol growth and new launches each led to 20% QoQ rise in US sales

Cenexi underwent 1 month shutdown as alluded in Q1 call resulting in ~Rs270mn EBIDTA loss as company lost 1 month of sales that come with ~10-11% margin

Management guides to 30-32% range ex-Cenexi which implies some moderation from Q2 figure of ~34%; profit share of ~10% for Q2

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	13,734	12,464	12,569	10.2	9.3	Another Q of healthy US performance; Cenexi posts EBIDTA loss on planned shutdown
EBITDA	3,241	2,871	2,790	12.9	16.2	
EBITDA Margin (%)	23.6	23.0	22.2	56 bps	140 bps	
Adjusted PAT	1,941	1,868	1,702	3.9	14.0	

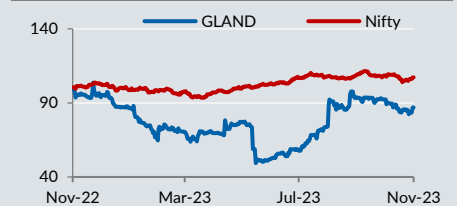
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,575
Target Price	: Rs 1,780
Potential Return	: 13%

### Stock data (as on November 07, 2023)

Nifty	19,412
52 Week h/l (Rs)	1909 / 861
Market cap (Rs/USD mn)	248782 / 2989
Outstanding Shares (mn)	165
6m Avg t/o (Rs mn):	1,042
Div yield (%):	-
Bloomberg code:	GLAND IN
NSE code:	GLAND

### Stock performance



	1M	3M	1Y
Absolute return	-5.8%	17.3%	-12.8%

### Shareholding pattern (As of Sep '23 end)

Promoter	57.9%
FII+DII	27.4%
Others	14.8%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,780	1,500

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	53.4	63.7
EPS (Old)	53.9	59.9
% change	-0.9%	6.3%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	36,246	55,690	61,649
YoY Growth	-17.6	53.6	10.7
EBIDTA	10,248	13,361	15,665
YoY Growth	-32.1	30.4	17.2
PAT	7,811	8,797	10,485
YoY Growth	(35.5)	12.6	19.2
ROE	11.1	10.5	11.2
EPS	47.4	53.4	63.7
P/E	33.2	29.5	24.7
BV	483.2	536.6	600.3
EV/EBITDA	21.6	17.9	14.8

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	y/y (%)	q/q (%)
Revenue	10,444	9,383	7,850	12,087	13,734	31.5	13.6
Expenditure	7,476	6,487	6,166	9,148	10,493	40.4	14.7
- RM	5,195	4,271	3,648	4,529	5,216	0.4	15.2
- Staff Cost	1,013	1,011	1,028	2,550	3,050	201.1	19.6
- Other exp	1,268	1,205	1,489	2,068	2,228	75.7	7.7
Operating Profit	2,969	2,896	1,684	2,939	3,241	9.2	10.3
OPM(%)	28.4	30.9	21.5	24.3	23.6	-483 bps	-72 bps
Other Income	656	615	389	375	532	(19.0)	41.6
Depreciation	367	376	375	653	813	121.7	24.5
Interest	17	26	22	49	60	251.3	23.0
PBT	3,241	3,109	1,676	2,612	2,899	(10.6)	11.0
Tax	828	789	325	672	958	15.7	42.6
PAT	2,412	2,320	1,351	1,941	1,941	(19.5)	0.0
Exceptional Loss/(Profit)	-	-	-	-	-		
Reported PAT	2,412	2,320	1,351	1,941	1,941	(19.5)	0.0

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Quarterly highlights

- Q2 saw higher volumes in established molecules in US; price stable QoQ; some of the new products are doing well
- Not giving a revenue guidance but it would be a steady growth
- New launches have contributed 10% to US growth and 11% from base business volumes; focus on older products like Ketorolac and Rocuronium where Gland has been aggressive on pricing
- Enoxaparin has not come back and margin might sag a little once it comes back; 30-32% could be the margin range ex-Cenexi.
- In next 6 months, 3 complex products would be ready to file
- Base business saw gross margin improvement due to better profitability in US
- Milestone receipt is 5% of sales ex-Cenexi; between 5-10% is the expectation of profit share
- Most of ROW markets has large component of Enoxaparin which has declined in price and also impacted by timing issues
- Capex of Rs2.5bn in FY24 and Rs3bn in FY25

### Cenexi

- Partial revenue booking but full costs resulting in negative EBIDTA of Rs268mn; revenue trends are consistent with post shutdown trajectory
- US\$50-55mn sales per quarter and margin of 10-11% for next few quarters
- Would invest Euro35mn in capex and Euro25mn in working capital over next 12 months
- Operational costs are pretty high though gross margins are also good; need to upgrade manufacturing lines to eke out efficiency
- Inventory of Rs3bn
- Peak revenue can go up to US\$240mn from US\$200mn on back of US\$35mn capex
- Tech transfer would be completed by up to end of next year

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	164	164	165	165	165
Reserves	58,869	71,412	79,423	88,220	98,704
Net worth	59,032	71,576	79,587	88,384	98,869
Debt	64	62	55	55	55
Deferred tax liab (net)	739	878	842	842	842
<b>Total liabilities</b>	<b>59,836</b>	<b>72,515</b>	<b>80,484</b>	<b>89,281</b>	<b>99,766</b>
Fixed Asset	12,920	16,929	17,481	36,802	36,720
Investments	783	2,836	1,064	1,064	1,064
Net Working Capital	46,111	52,700	61,713	51,189	61,756
Inventories	12,752	11,857	19,453	21,361	23,646
Sundry debtors	6,710	10,748	8,714	15,258	16,890
Cash	30,058	32,482	37,703	20,156	27,401
Other current assets	1,718	3,433	3,134	5,012	5,548
Sundry creditors	(4,007)	(4,629)	(5,874)	(9,024)	(9,990)
Other CL	(1,118)	(1,192)	(1,418)	(1,572)	(1,740)
Def tax assets	21	50	225	225	225
<b>Total Assets</b>	<b>59,836</b>	<b>72,515</b>	<b>80,484</b>	<b>89,281</b>	<b>99,766</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	34,629	44,007	36,246	55,690	61,649
Operating profit	13,022	15,102	10,248	13,361	15,665
Depreciation	(988)	(1,103)	(1,467)	(2,890)	(3,082)
Interest expense	(34)	(52)	(74)	(220)	(220)
Other income	1,348	2,239	2,405	1,800	2,000
Profit before tax	13,348	16,186	11,111	12,051	14,363
Taxes	(3,378)	(4,069)	(2,735)	(3,254)	(3,878)
Adj. profit	9,970	12,117	8,375	8,797	10,485
MI	-	-	(565)	-	-
Net profit	9,970	12,117	7,811	8,797	10,485

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	13,348	16,186	11,111	12,051	14,363
Depreciation	988	1,103	1,467	2,890	3,082
Def tax assets (net)	87	110	(211)	-	-
Tax paid	(3,378)	(4,069)	(2,735)	(3,254)	(3,878)
Working capital Δ	(4,528)	(4,164)	(3,793)	(7,024)	(3,322)
Other operating items	-	-	(565)	-	-
Operating cashflow	6,517	9,165	5,275	4,664	10,245
Capital expenditure	(2,343)	(5,112)	(2,019)	(22,211)	(3,000)
Free cash flow	4,174	4,053	3,255	(17,547)	7,245
Equity raised	12,600	426	201	0	0
Investments	34	(2,053)	1,772	-	-
Debt financing/disposal	(3)	(2)	(7)	-	-
Dividends paid	-	-	-	-	-
Net Δ in cash	16,806	2,425	5,221	(17,547)	7,245

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

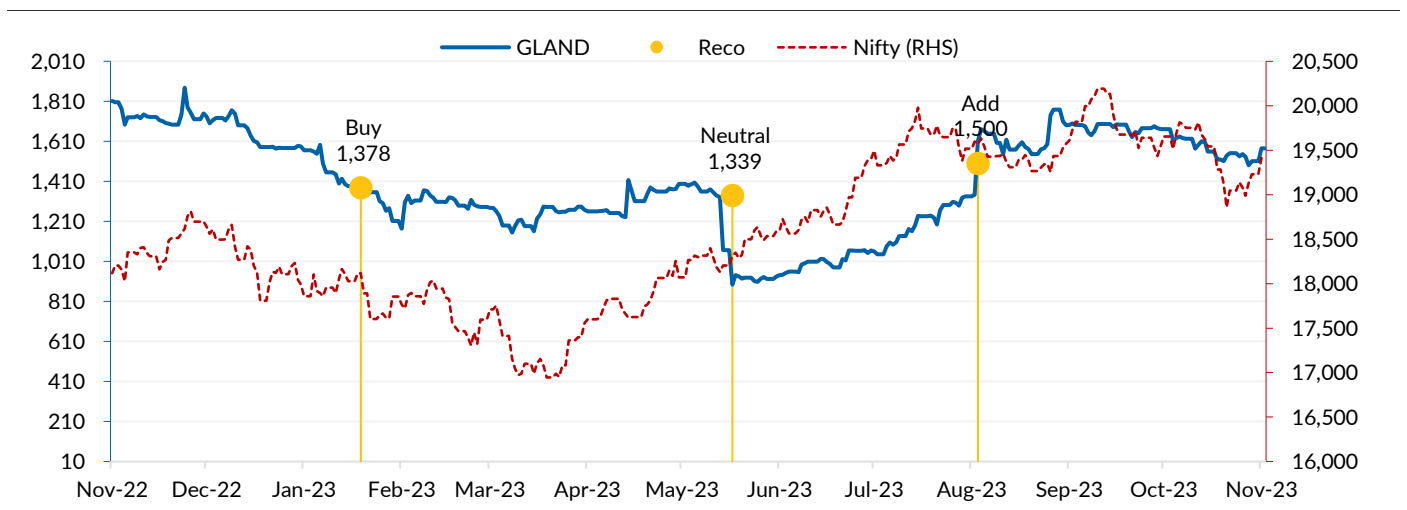
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.75	0.75	0.75	0.73	0.73
Interest burden (x)	1.00	1.00	0.99	0.98	0.98
EBIT margin (x)	0.39	0.37	0.31	0.22	0.24
Asset turnover (x)	0.66	0.61	0.44	0.59	0.58
Financial leverage (x)	1.11	1.10	1.10	1.11	1.13
RoE (%)	20.9	18.6	11.1	10.5	11.2

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Growth matrix (%)</b>					
Revenue growth	31.5	27.1	(17.6)	53.6	10.7
Op profit growth	36.3	16.0	(32.1)	30.4	17.2
EBIT growth	33.8	21.3	(31.1)	9.7	18.8
Net profit growth	29.0	21.5	(35.5)	12.6	19.2
<b>Profitability ratios (%)</b>					
OPM	37.6	34.3	28.3	24.0	25.4
EBIT margin	38.6	36.9	30.9	22.0	23.7
Net profit margin	28.8	27.5	23.1	15.8	17.0
RoCE	27.6	24.5	14.6	14.5	15.4

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoNW	20.9	18.6	11.1	10.5	11.2
RoA	18.9	16.9	10.1	9.4	9.9
<b>Per share ratios</b>					
EPS	60.9	74.1	50.9	53.4	63.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Cash EPS	67.0	80.8	59.8	71.0	82.4
Book value per share	360.9	437.5	483.2	536.6	600.3
<b>Valuation ratios</b>					
P/E	26.0	21.4	33.2	29.5	24.7
P/CEPS	4.4	3.6	3.3	2.9	2.6
P/B	7.4	5.9	7.2	4.7	4.2
EV/EBIDTA	17.5	14.9	21.6	17.9	14.8
<b>Payout (%)</b>					
Dividend payout	25.3	25.1	24.6	27.0	27.0
Tax payout	0.0	0.0	0.0	0.0	0.0
<b>Liquidity ratios</b>					
Debtor days	71	89	88	100	100
Inventory days	134	98	196	140	140
Creditor days	42	38	59	59	59

## Recommendation Tracker



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