Gland Pharma

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Strong CDMO demand exceeds capacity; Fosun binds Gland closer

1. Revenue of Rs18.34bn (+23% YoY) and EBITDA of Rs4.80bn (26.2% margin) beat consensus by ~5% and ~10%, led by US CDMO launches. PAT of Rs2.91bn beat by only ~4% as Cenexi losses lifted the tax rate to ~33%, and ~5% of revenue was milestone income.
2. Demand is no longer the constraint, capacity is. Liquid vials run at ~92% utilisation, maintenance shutdowns are being deferred and ~Rs30bn of capex adds only ~300-400mn units on 1.7bn by FY30, so FY28-29 volume growth rests on debottlenecking and the bag line approval.
3. Fosun sold 6% in Sep 2026 to fund its own buyback and debt, its second 6% sale in ~27 months, while adding a board seat and co-investing in Novelstar. We see group capital recycling rather than a verdict on Gland, but the China link helps product sourcing more than CDMO wins.

CDMO demand is now running ahead of capacity

a) CDMO revenue grew 31% YoY to Rs8.23bn (45% of revenue), with US CDMO up 81% to Rs3.21bn on Dalbavancin and multivitamin infusion. With Cenexi flat at EUR41mn, we estimate ex-Cenexi CDMO at ~Rs4bn, up ~75-85% YoY.

b) Contract flow supports durability. The global pharma partner added more tech transfer dossiers to the 55-SKU deal, and Gland signed three royalty-based microsphere projects, respiratory contracts and another GLP-1 project, all monetising from FY29-30.

c) Capacity is now the binding constraint. Liquid vials run at ~92% utilisation, bags and ophthalmics are tight, a new bag line awaits USFDA inspection and planned line shutdowns are being deferred, a compliance risk after four procedural observations at Dundigal in Oct 2026.

d) Capex has stepped up to ~Rs30bn (Rs20bn of new lines plus a Rs10bn three-line brownfield at Pashamylaram from FY30) and an unsized Vizag greenfield. Management says the Rs30bn is backed by signed contracts or forecasts, but it adds only ~300-400mn units on 1.7bn.

e) We think the CDMO thesis has moved from proving demand to executing tech transfers and capacity on time. Net cash of ~Rs32bn funds the build without leverage, so the risk is timing rather than balance sheet.

Figure 1: Business segment revenue

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
CDMO	8.23	6.29	31%	8.92	-8%
Critical injectables	10.11	8.58	18%	9.09	11%
Total	**18.34**	**14.87**	**23%**	**18.00**	**2%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly results snapshot

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
Revenue from operations	**18.34**	**14.87**	**23%**	**18.00**	**2%**
Gross profit	11.64	9.33	25%	11.76	-1%
Gross margin (%)	63.5%	62.8%	+70bps	65.3%	-185bps
EBITDA	4.80	3.14	53%	4.93	-3%
EBITDA margin (%)	26.2%	21.1%	+510bps	27.4%	-120bps
Adj. EBITDA	5.03	3.36	50%	5.10	-1%
Adj. EBITDA margin (%)	27.4%	22.6%	+490bps	28.3%	-90bps
PBT	4.31	2.84	52%	4.35	-1%
PAT	**2.91**	**1.84**	**58%**	**3.17**	**-8%**
PAT margin (%)	15.9%	12.4%	+350bps	17.6%	-175bps

SOURCES: INCRED RESEARCH, COMPANY REPORTS

US growth is launch-led but not extrapolated to full year

a) US revenue grew 42% YoY to Rs11.80bn (64% of revenue), with critical injectables up 32% on Sugammadex and higher Ketorolac, Chlorothiazide and Heparin volumes. Four launches, 11 ANDA filings and 10 approvals keep the cadence intact.

b) The 1H run-rate of 37% is not the base case. Management sizes new launches at ~6-7% of annual growth, multivitamin infusion's exclusivity window will lapse, and an unchanged 15% constant currency FY27 guide after 21% 1H growth implies a 2H slowdown.

c) Next legs are methylprednisolone acetate suspension (a large Pfizer reference product), annualisation of recent launches and first GLP-1 CDMO launches guided for 1H of next year. We read the guide as conservative, but would not extrapolate 37-42% US growth.

d) Outside the US, RoW fell 21% YoY as the Saudi NUPCO tender was delayed for a second quarter, India fell 42% and other core markets fell 18%. Together these are ~15% of revenue, so they dilute rather than drive the story.

Figure 3: US revenue by business

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
US CDMO	3.21	1.78	81%	2.65	21%
US critical injectables	8.58	6.51	32%	7.16	20%
Total US	**11.80**	**8.28**	**42%**	**9.81**	**20%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Market-wise revenue

(Rs bn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
USA	11.80	8.28	42%	9.81	20%
Europe	3.71	2.85	30%	3.95	-6%
Other core markets	0.40	0.49	-18%	0.53	-25%
India	0.39	0.67	-42%	0.67	-42%
Rest of the world	2.04	2.59	-21%	3.04	-33%
Total	**18.34**	**14.87**	**23%**	**18.00**	**2%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

The operating beat is cleaner than the PAT suggests

a) Revenue of Rs18.34bn grew 23% YoY and 2% QoQ, ~5% ahead of consensus. EBITDA of Rs4.80bn grew 53% with margin at 26.2% (+~510bps YoY), ~10% ahead of consensus, and adj. EBITDA (ex ESOP of Rs226mn) was Rs5.03bn at 27.4%.

b) Two items flatter the operating line. Milestone income of ~Rs0.95bn (~5% of revenue) is lumpy and high margin, and profit share of ~Rs2.02bn (~11%) moves with partner pricing, so we would not extrapolate the 26% margin linearly.

c) R&D rose to Rs1.08bn (5.9% of revenue) from 4.3% in 1QFY27, but was 5.5% in 2QFY26, so the YoY step-up is modest. Management expects R&D intensity to drift up with in-licensed complex products while holding margins.

d) Gross margin fell ~185bps QoQ to 63.5% as a one-month Cenexi shutdown cut its high gross margin revenue. PAT of Rs2.91bn (+58% YoY) beat consensus by only ~4% because Cenexi losses carry no tax shield, lifting the tax rate to ~33% from ~27% in 1QFY27.

Figure 4: Actuals vs consensus estimates

(Rs bn)	Actuals	Consensus	Variance (%)
Revenue	18.34	17.53	4.6%
EBITDA	4.80	4.37	9.8%
EBITDA margin (%)	26.2%	25.0%	+125bps
PAT	2.91	2.80	4.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Cenexi turnaround has yet to show in the numbers

a) Cenexi revenue was EUR41mn (EUR40mn in 2QFY26) with an EBITDA loss of ~EUR6mn on planned summer shutdowns, taking 1H to ~EUR89mn of revenue and an EBITDA loss of ~EUR4mn, ~3.5 years after the acquisition closed.

b) The FY27 guide of ~EUR200mn at a high single-digit margin needs ~EUR111mn of 2H revenue at ~18-20% margin, well above anything Cenexi has delivered. Management did not revise it, and we see a miss as the more likely outcome.

c) The focus is now cost rather than growth, with headcount cuts, faster lines and a new Cenexi President from this month. The Chairman's remark that US plants are easier to run and no further European buys are planned reads as a tacit admission on Cenexi.

d) Cenexi still carries strategic value as the EU release leg of the global pharma deal, so fixing it beats exiting it. Until it turns, it remains the main drag on consolidated margin and the tax rate.

Fosun is recycling capital while tying Gland closer to the group

a) Fosun sold 6% of Gland on 4 Sep 2026 for ~Rs28bn at ~Rs2,829 per share, cutting its stake to ~45.8% from ~51.8%. This follows a 6% sale for ~Rs17.5bn in Jun 2024, and Fosun held ~74% at acquisition in 2017.

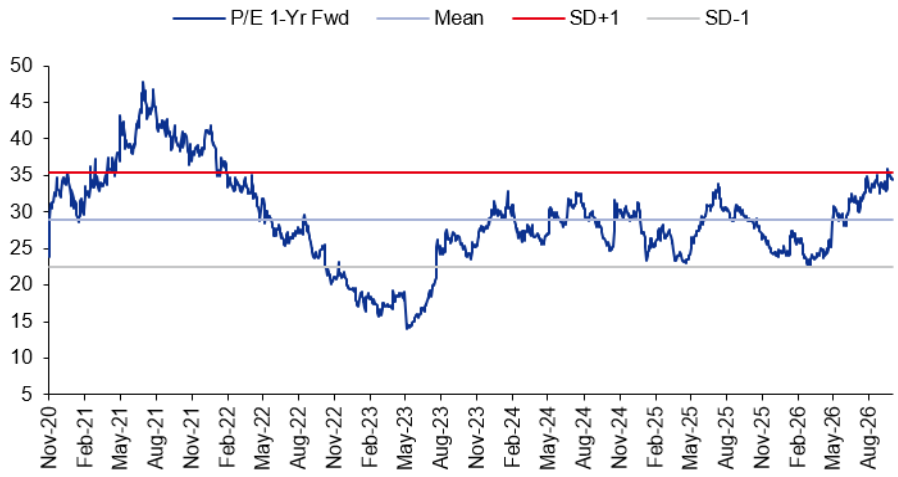
b) Stated uses are R&D, a HK$1bn buyback of Fosun Pharma's own H shares and debt repayment. Fosun sold into a rally to multi-year highs at ~40x trailing earnings, so we read it as group capital recycling rather than a view on Gland's prospects.

c) Operating ties are deepening at the same time. Fosun Pharma's President joined the board in Oct 2026, Gland paid USD21mn in cash for 60% of newly formed Novelstar alongside Fosun Pharma USA (effective 1 Nov 2026), and Gland plans to in-license Fosun-group innovative products for India.

d) The China link clearly helps product sourcing, with two patented long-acting injectables in-licensed in two quarters and a China-based CIO for M&A. It does not obviously help CDMO wins, as Western innovators are de-risking from China, and the second product, made in China, faces 100% US tariffs on patented drugs.

e) Our view is that Fosun is committed to control rather than capital. Related-party flows (Novelstar, Fosun-sourced India products, a planned US biologics buy) now matter more for minorities than the stake sale, and need arm's length disclosure.

Figure 5: Multiples still well below historical peaks, to recover with business pivot and performance



SOURCES: INCRED RESEARCH, COMPANY REPORTS

*P.S. As it's a Quick Take, the document is not edited/formatted.

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Thanks and Regards,

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