

BUY

TP: Rs 600 | ▲ 19%

GLENMARK LIFE SCIENCES

| Pharmaceuticals

| 29 April 2023

All-round beat

- Q4 revenue of Rs 6.2bn (+21% YoY) beat our estimate by 14% driven by recovery in CDMO and growth in API
- EBITDA margin expanded to 33.2% on a better product mix, PLI scheme benefits and moderating input prices
- We raise FY24-FY25 EPS by 5-6% and revise our TP to Rs 600 (vs. Rs 585)

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Strong revenue beat: GLS posted a beat on all fronts in Q4FY23 as revenue/ EBITDA/PAT surpassed our estimates by 14%/33%/32%. Revenue grew 21% YoY and 15% QoQ to Rs 6.2bn aided by recovery in CDMO (+30% YoY) and growth across generic APIs (+15%). Pricing pressure in generic APIs continued, particularly in US markets. External business growth of 19% YoY (ex-Glenmark Pharma: GPL) was driven by strong demand in regulated markets (US, LATAM, and Japan) while other geographies were stable. GPL business rebounded 45% QoQ and 25% YoY, recovering from inventory tightening and rationalisation undertaken by the parent.

EBITDA margin buoyant; guidance at 30-31%: EBITDA grew at a robust 45% YoY (+42% QoQ) with a 33.2% margin (+560bps YoY, +630bps QoQ), mainly due to an improved gross margin and lower operating costs. Gross margin rose to 54.9% (+450bps YoY, +385bps QoQ) on the back of a better product mix as CDMO contribution moved up (+200bps impact), PLI scheme benefits (+150-200bps) and lower input costs. PAT for the quarter grew 48% YoY and 39% QoQ. Management has guided for 12-14% topline growth in FY24 and expects EBITDA margin to settle at 30-31% for the year.

Expansion plans on track; total reactor capacity to double by FY26: GLS has completed the addition of 240kl of API capacity as well as the oncology facility at Dahej. A 208kl backward integration plant is under construction at Ankleshwar, with a further 192kl commissioned in Mar'23. The greenfield project at Solapur is also progressing well with consent to establishment (CTE) received for 1,000kl, scheduled to be operationalised over FY24-FY26. In all, the company's reactor capacity stood at 1,198kl as of FY23 which is targeted to double to 2,405kl by FY26.

Maintain BUY: The stock is trading at attractive valuations of 11.9x/10.3x P/E and 7.8x/6.3x EV/EBITDA on FY24E/FY25E. We raise our FY24-FY25 earnings estimates by 5-6%. Our two-stage DCF model thus yields a revised TP of Rs 600 (vs. Rs 585), implying an FY25E P/E of 12.2x ~ ~15% discount to the average for GLS's peer group (Neuland Laboratories, Aarti Drugs and Solara Active Pharma). Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GLS IN/Rs 504
Market cap	US\$ 755.1mn
Free float	17%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 525/Rs 370
Promoter/FPI/DII	83%/8%/1%

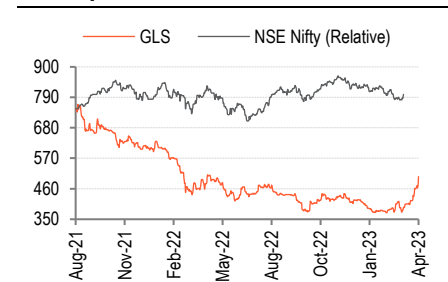
Source: NSE | Price as of 28 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	21,613	24,417	27,349
EBITDA (Rs mn)	6,424	7,093	8,346
Adj. net profit (Rs mn)	4,671	5,194	6,023
Adj. EPS (Rs)	38.1	42.4	49.2
Consensus EPS (Rs)	38.1	39.8	46.0
Adj. ROAE (%)	21.9	22.0	21.9
Adj. P/E (x)	13.2	11.9	10.3
EV/EBITDA (x)	9.9	8.1	6.8
Adj. EPS growth (%)	11.5	11.2	16.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenues	6,213	5,141	20.9	5,407	14.9	21,613	21,232	1.8
EBITDA	2,064	1,422	45.1	1,455	41.9	6,424	6,161	4.3
Depreciation	115	96	-	108	-	421	379	-
EBIT	1,949	1,327	46.9	1,347	44.7	6,003	5,782	3.8
Interest	1	1	-	2	-	5	280	-
Other Income	28	51	-	66	-	290	147	-
PBT	1,976	1,376	43.6	1,411	40.0	6,287	5,649	11.3
Less: Taxation	513	387	-	361	-	1,616	1,462	-
Less: Minority Interest	0	0	-	0	-	0	0	-
Recurring PAT	1,463	989	48.0	1,050	39.4	4,671	4,187	11.5
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,463	989	48.0	1,050	39.4	4,671	4,187	11.5
Key Ratios (%)								
Gross Margin	54.9	50.4	450	51.0	385	50.5	50.0	44
EBITDA Margin	33.2	27.7	556	26.9	632	29.7	29.0	71
Tax / PBT	25.9	28.1	-	25.6	-	25.7	25.9	-
NPM	24.9	19.7	526	20.7	427	22.8	20.1	275
EPS	11.9	8.1	48.0	8.6	39.4	42.9	34.2	0.3

Source: Company, BOBCAPS Research

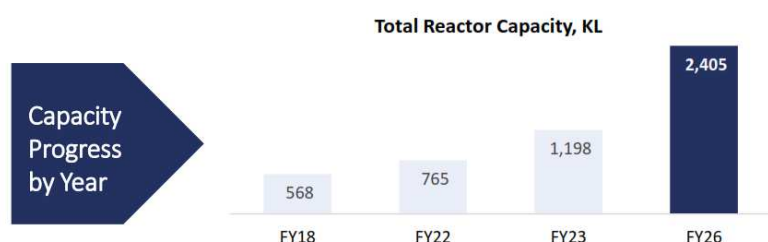
Fig 2 – Revenue mix

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Generic API	5,299	4,590	15.5	4,799	10.4	19,080	19,154	(0.4)
CDMO	568	435	30.5	279	103.3	1,400	1,720	(18.6)
Net Sales	5,867	5,025	16.8	5,078	15.5	20,479	20,874	(1.9)
OOI	346	116	198.6	329	5.2	1,134	358	216.9
Revenues	6,213	5,141	20.9	5,407	14.9	21,613	21,232	1.8

Source: Company, BOBCAPS Research

Fig 3 – Future capacity expansion plan

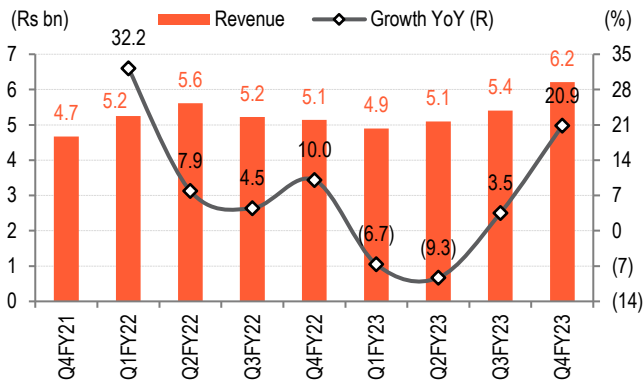
Expansion Type	Division	Location	Current Capacity	Status & Planned Capacity	Operational Timelines
Brownfield	Intermediate	Ankleshwar	742.2 KL	192 KL capacity added in Mar 23. Under Construction 208 KL	Q3 FY24
Greenfield	API	Solapur	-	CTE Received for 1,000 KL	FY24 - FY26



- ✓ Capex for API capacity expansion of 240 KL and Oncology facility at Dahej has been completed
- ✓ Backward Integration plant at Ankleshwar of 208KL is under construction

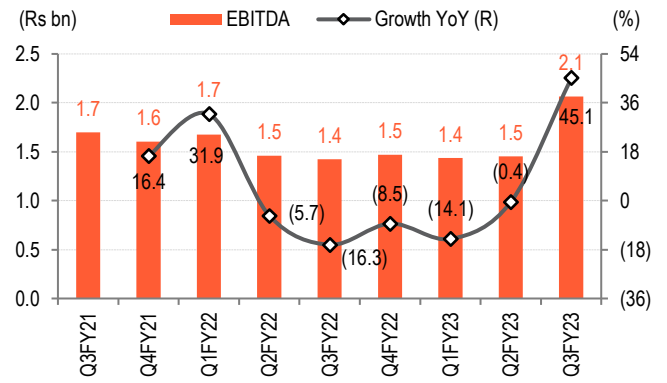
Source: Company, BOBCAPS Research

Fig 4 – Revenue



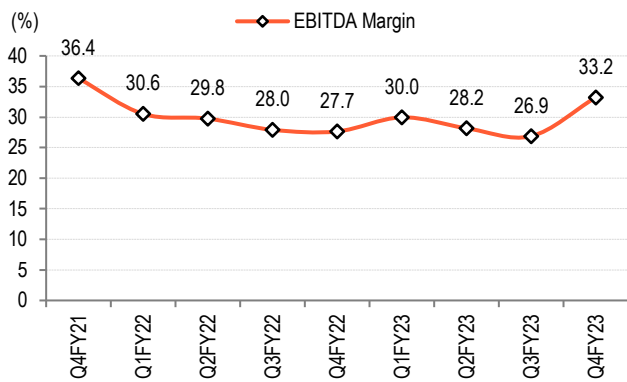
Source: Company, BOBCAPS Research

Fig 5 – EBITDA



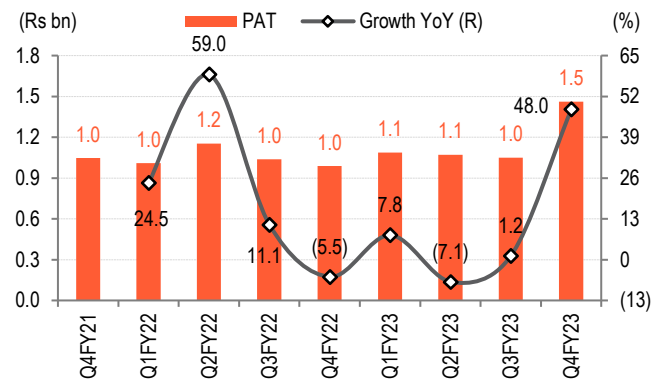
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 7 – PAT



Source: Company, BOBCAPS Research

Earnings call highlights

- **CDMO:** CDMO revenue growth of 30% YoY was driven by pick-up in demand from one project that was affected by inventory rationalisation. GLS does not plan to seek CDMO opportunities beyond pharma (such as agrochemicals) as this would dilute infrastructure quality standards.
- **Raw materials:** Solvent prices came down with the softening in crude prices. Freight costs continued to improve.
- **Cash generation:** During the year, GLS recorded healthy cash generation from operations at Rs 31bn with free cash flow generation of Rs 1.4bn.
- **Working capital:** The company clocked a rise in working capital days to 171 days from 152 in FY22 on account of an increase in Q4FY23.
- **Capacity expansion:**
 - **Dahej (Gujarat):** Brownfield expansion for generic API products at Dahej is complete with 240kl capacity, as is the expansion for the oncology plant. Out of the two independent modules for the latter, one is 100% commissioned.
 - **Ankleshwar (Gujarat):** The intermediate manufacturing block at the Ankleshwar (Gujarat) site has a manufacturing capacity of 400kl, of which 192kl is commissioned and operational. The balance is to become operational in the second half of FY24.
 - **Solapur (Maharashtra):** The company has received environmental clearance for the installation of 1,000kl capacity along with CTE (Consent to Establish) for the planned greenfield site at Chincholi industrial area, Solapur in Maharashtra, and construction work will begin in FY24. Investment in Solapur will be in phases, in line with business progression.
- **High-potent API:** One high-potent API has been added into development, taking the total number to nine.
- **Capex:** FY23 capex spend was Rs 1.7bn. Management expects spends in the range of Rs 1.5bn-2bn in FY24.
- **Asset turnover:** Asset turnover expectation from the new capex is 1.8-2.0x.
- **Regulatory Inspection:** All three existing plants are due for USFDA inspection and are ready. Successful inspection by the Brazilian and Mexican authorities gives the company confidence of a successful outcome.

Valuation methodology

We like GLS for its strong market position in key APIs and focus on product value over volumes which translates to a superior margin profile. The company is investing Rs 6bn-6.5bn toward manufacturing capacities over FY20-FY25 to meet demand from the expanding API portfolio and CDMO clientele, with a majority of the brownfield expansion now near completion, which will lend a fillip to growth.

The stock is trading at attractive valuations of 11.9x/10.3x P/E and 7.8x/6.3x EV/EBITDA on FY24E/FY25E. We raise our FY24-FY25 earnings estimates by 5-6%. Our two-stage DCF model thus yields a revised TP of Rs 600 (vs. Rs 585), implying an FY25E P/E of 12.2x – ~15% discount to the average for GLS's peer group (Neuland Laboratories, Aarti Drugs and Solara Active Pharma). Maintain BUY.

Fig 8 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	24.4	27.3	23.1	25.8	5.9	5.9
EBITDA	7.1	8.3	6.7	7.9	5.4	5.5
EBITDA margin (%)	29.0	30.5	29.2	30.6	(13bps)	(12bps)
EPS (Rs)	42.4	49.2	40.2	46.6	5.6	5.5

Source: BOBCAPS Research

Fig 9 – Key assumptions

Revenue (Rs bn)	FY23E	FY24E	FY25E
Generic API	19.1	21.7	24.4
CDMO	1.4	1.6	1.8
Other Op. Rev	1.1	1.1	1.1

Source: Company, BOBCAPS Research

Fig 10 – DCF valuation summary

Variables	Assumptions	Basis
Risk Free Rate (%) (A)	7.4	10Y Average GIND10Y Index
Equity Risk Premium (%) (B)	6.0	(Rm-Rf)
Beta (C)	0.7	5Y Average Beta of Nifty Pharma
Cost of Equity (%) (D) = A + B x C	11.8	
Cost of Debt (%) (E)	NA	Debt free
Marginal Tax Rate (%) (F)	25	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	0	Debt free
Current Debt to Equity (2024) (H)	0	
WACC (%) (I) = (1 x D + H x G)/(1 + H)	11.8	
	Stage 1	Stage 2 (Terminal)
FCF CAGR (FY22-FY33E) (%)	20	3

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Regulatory lapses:** The US and EU are key geographies for GLS's clientele, implying potential risk of lapses in maintaining the strict cGMP standards required by regulators in these markets. There have, however, been no regulatory lapses at the company's manufacturing plants to date.
- **Customer concentration:** GLS derived ~55% of revenue from its top-5 clients over FY19-FY21, implying revenue concentration risk.
- **Raw material supply disruptions:** Periodic uncertainty regarding the supply chain from China and other geographies due to local pandemic-linked lockdowns and geopolitical tensions poses risks to our assumptions of growth and raw material costs in the near-to-medium term.
- **Pricing pressure:** Pricing pressure from customers may affect gross margins, profitability, and the ability to increase prices.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.1	1,313	1,470	HOLD
Alembic Pharma	ALPM IN	1.3	556	615	HOLD
Alkem Labs	ALKEM IN	5.1	3,510	3,000	SELL
Aurobindo Pharma	ARBP IN	4.4	617	635	BUY
Cipla	CIPLA IN	9.0	908	1,250	BUY
Divi's Labs	DIVI IN	10.6	3,268	3,200	HOLD
Dr Reddy's Labs	DRRD IN	10.0	4,930	4,700	HOLD
Eris Lifesciences	ERIS IN	1.0	631	810	BUY
Glenmark Life Sciences	GLS IN	0.8	504	600	BUY
Laurus Labs	LAURUS IN	2.0	308	340	HOLD
Lupin	LPC IN	3.9	710	700	HOLD
Sun Pharma	SUNP IN	29.0	988	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 28 Apr 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	18,852	21,232	21,613	24,417	27,349
EBITDA	5,911	6,160	6,424	7,093	8,346
Depreciation	334	379	421	511	578
EBIT	5,577	5,782	6,003	6,581	7,768
Net interest inc./(exp.)	(875)	(280)	(5)	(6)	0
Other inc./(exp.)	8	147	290	350	262
Exceptional items	0	0	0	0	0
EBT	4,709	5,649	6,287	6,925	8,030
Income taxes	1,194	1,462	1,616	1,731	2,008
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,516	4,187	4,671	5,194	6,023
Adjustments	0	0	0	0	0
Adjusted net profit	3,516	4,187	4,671	5,194	6,023

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	2,213	3,077	3,966	2,811	3,016
Other current liabilities	251	602	901	700	786
Provisions	199	144	155	177	199
Debt funds	9,551	29	194	0	0
Other liabilities	0	0	0	0	0
Equity capital	20	245	245	245	245
Reserves & surplus	7,737	20,613	21,561	25,197	29,413
Shareholders' fund	7,756	20,858	21,806	25,442	29,658
Total liab. and equities	19,971	24,710	27,021	29,129	33,659
Cash and cash eq.	1,156	5,121	3,094	6,796	9,250
Accounts receivables	6,195	6,735	8,068	7,027	7,899
Inventories	5,134	5,162	6,042	5,366	6,032
Other current assets	1,616	823	1,395	933	1,048
Investments	1	1	1	1	1
Net fixed assets	5,649	5,847	7,749	8,247	8,665
CWIP	141	970	616	616	616
Intangible assets	79	51	57	143	147
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	19,971	24,710	27,021	29,129	33,659

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	3,691	6,230	3,512	6,555	5,261
Capital expenditures	(571)	(588)	(1,659)	(1,700)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(571)	(588)	(1,659)	(1,700)	(1,000)
Equities issued/Others	0	225	0	0	0
Debt raised/repaid	(1,186)	(9,522)	165	(194)	0
Interest expenses	(875)	(280)	(5)	(6)	0
Dividends paid	0	(2,579)	(1,401)	(1,558)	(1,807)
Other financing cash flows	(3)	10,480	(2,638)	605	0
Cash flow from financing	(2,065)	(1,676)	(3,879)	(1,153)	(1,807)
Chg in cash & cash eq.	1,056	3,966	(2,027)	3,702	2,454
Closing cash & cash eq.	1,156	5,121	3,094	6,796	9,250

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	31.9	34.2	38.1	42.4	49.2
Adjusted EPS	32.6	34.2	38.1	42.4	49.2
Dividend per share	0.0	21.1	11.4	12.7	14.7
Book value per share	63.3	170.2	178.0	207.6	242.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.9	3.4	2.9	2.4	2.1
EV/EBITDA	12.3	11.6	9.9	8.1	6.8
Adjusted P/E	15.5	14.8	13.2	11.9	10.3
P/BV	8.0	3.0	2.8	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.7	74.1	74.3	75.0	75.0
Interest burden (PBT/EBIT)	84.4	97.7	104.7	105.2	103.4
EBIT margin (EBIT/Revenue)	29.6	27.2	27.8	27.0	28.4
Asset turnover (Rev./Avg TA)	29.2	27.8	25.2	25.7	24.8
Leverage (Avg TA/Avg Equity)	2.7	1.3	1.0	1.0	1.0
Adjusted ROAE	58.9	29.3	21.9	22.0	21.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	22.6	12.6	1.8	13.0	12.0
EBITDA	25.2	4.2	4.3	10.4	17.7
Adjusted EPS	12.3	4.8	11.5	11.2	16.0
Profitability & Return ratios (%)					
EBITDA margin	31.4	29.0	29.7	29.0	30.5
EBIT margin	29.6	27.2	27.8	27.0	28.4
Adjusted profit margin	18.6	19.7	21.6	21.3	22.0
Adjusted ROAE	58.9	29.3	21.9	22.0	21.9
ROCE	34.7	31.0	29.3	29.2	29.1
Working capital days (days)					
Receivables	121	118	144	110	110
Inventory	101	90	108	84	84
Payables	43	54	71	44	42
Ratios (x)					
Gross asset turnover	2.9	3.0	2.5	2.3	2.4
Current ratio	5.3	4.7	3.7	5.5	6.1
Net interest coverage ratio	6.4	20.7	1,097.4	1,133.3	
Adjusted debt/equity	1.1	(0.2)	(0.1)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

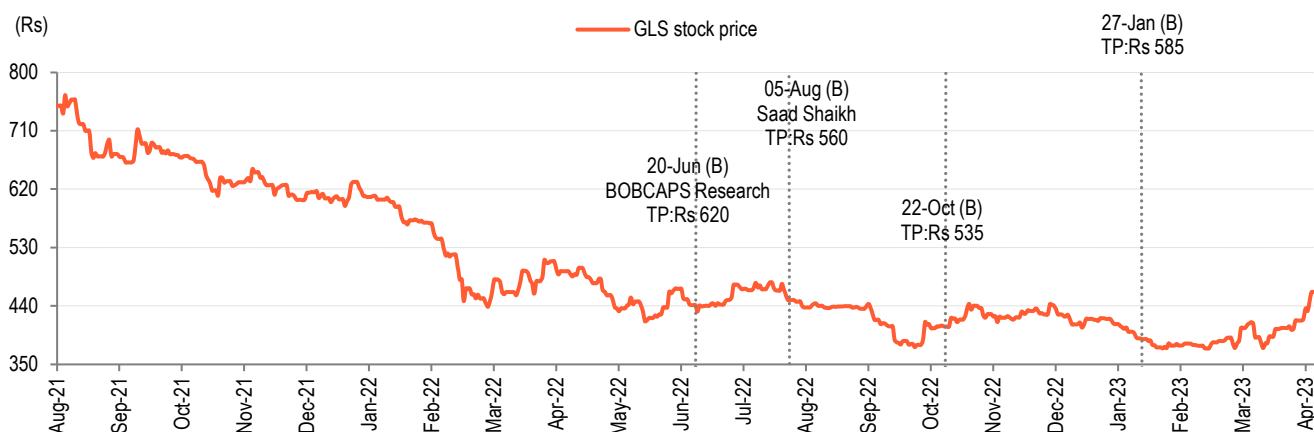
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): GLENMARK LIFE SCIENCES (GLS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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