

**BUY**

TP: Rs 620 | ▲ 40%

**GLENMARK LIFE  
SCIENCES**

| Pharmaceuticals

| 20 June 2022

**Niche API player with superior margins – initiate with BUY**

- Pure-play API company with robust market share in key high-value, low-volume chronic therapies, alongside budding CDMO business
- Superior EBITDA margin profile (~30%) vs. peers; ongoing brownfield and greenfield expansion targeted to double sales by FY25
- Initiate with BUY and DCF-based TP of Rs 620, implying 12.5x FY24E P/E and 8.2x EV/EBITDA

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**Niche API player focused on lucrative chronic therapies:** GLS is a generic API manufacturer (90% of revenue) that focuses on high-value, low-volume products and draws a significant portion of revenue from chronic therapies (63%). Focus therapy areas include CVS (38% of revenue), CNS (14%), diabetes (7%) and pain management (4%). The company also manufactures and sells APIs in gastrointestinal, anti-infective and other therapeutic areas.

**Sizeable market share in key products:** As of FY21, GLS had global market share in excess of 30% in its key products of Atovaquone, Perindopril, Adapalene and Zonisamide, 20-30% share in Desloratadine, Riluzole and Cilazapril, and 10-20% in Telmisartan, Etoricoxib and Teneligliptin.

**Better realisations and CDMO contribution drive superior margins:** GLS earns EBITDA margins of ~30% vs. 19% for API peers on average (FY20-FY22) backed by its portfolio of high-value products in chronic therapy areas which has superior realisations, as well as tight controls over employee cost and other expenses. Margins are further supported by the ~8% revenue contribution from its higher-margin CDMO business where peers such as ARTD and NLL have little to no presence in.

**Capacity expansion targeted to double sales by FY25:** Management has guided for investments of Rs 6bn-6.5bn toward manufacturing capacities to meet demand from the expanding API portfolio and CDMO clientele over FY20-FY25. Given that Rs 3.2bn of this capex drive has been implemented till FY22 and internal accruals are intended as a major source of funding, we believe the investment plan will be back-ended in nature while retaining the spotlight on profitable growth.

**Initiate with BUY:** GLS is trading at attractive valuations of 10.6x/8.9x P/E and 7.0x/5.6x EV/EBITDA on FY23E/FY24E. We value the stock using a two-stage DCF model which yields a TP of Rs 620 and implies an FY24E P/E of 12.5x – which is ~35% discount to the peers as we take a conservative approach and find comfort in valuation. In light of the company's solid market positioning in APIs, attractive margins and ongoing CDMO expansion, we commence coverage with BUY.

**Key changes**

	Target	Rating
	▲	▲

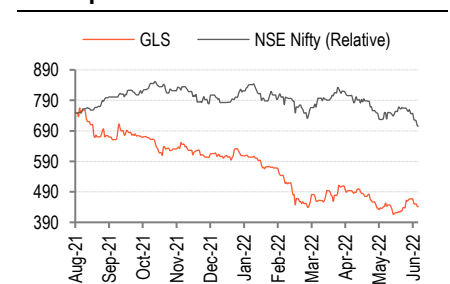
Ticker/Price	GLS IN/Rs 442
Market cap	US\$ 692.8mn
Free float	17%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 799/Rs 410
Promoter/FPI/DII	83%/8%/0%

Source: NSE | Price as of 17 Jun 2022

**Key financials**

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	21,232	24,227	28,257
EBITDA (Rs mn)	6,160	7,122	8,453
Adj. net profit (Rs mn)	4,180	5,106	6,079
Adj. EPS (Rs)	34.1	41.7	49.6
Consensus EPS (Rs)	34.1	38.6	44.6
Adj. ROAE (%)	31.0	24.3	24.4
Adj. P/E (x)	12.9	10.6	8.9
EV/EBITDA (x)	10.3	7.9	5.9
Adj. EPS growth (%)	4.6	22.2	19.1

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

**Stock performance**

Source: NSE

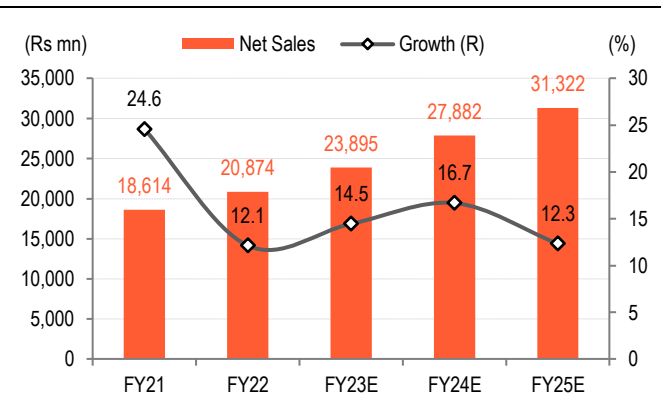


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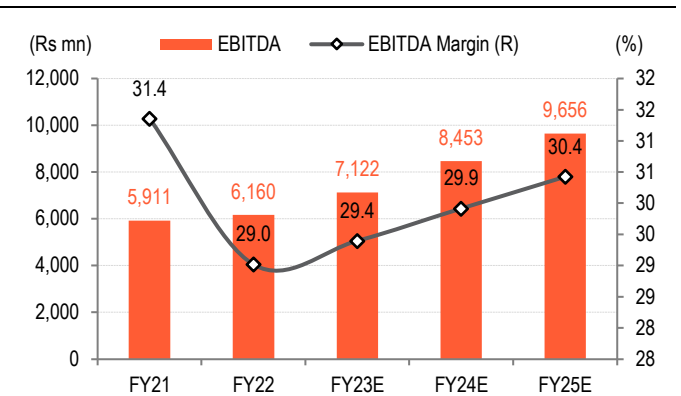
## Focus charts

**Fig 1 – Revenue to clock 14% CAGR, FY22-FY25E**



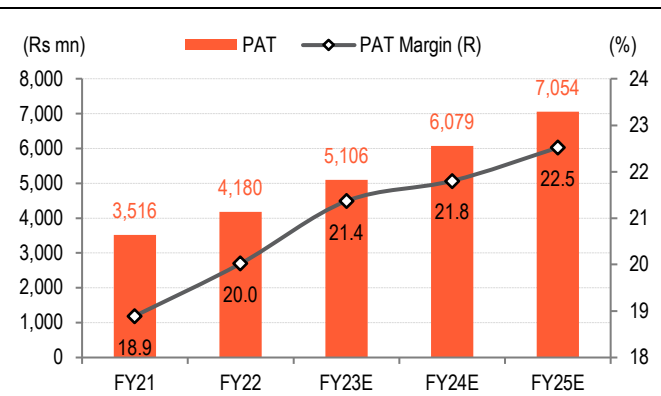
Source: Company, BOBCAPS Research

**Fig 2 – EBITDA margin to hold at ~30% in long run**



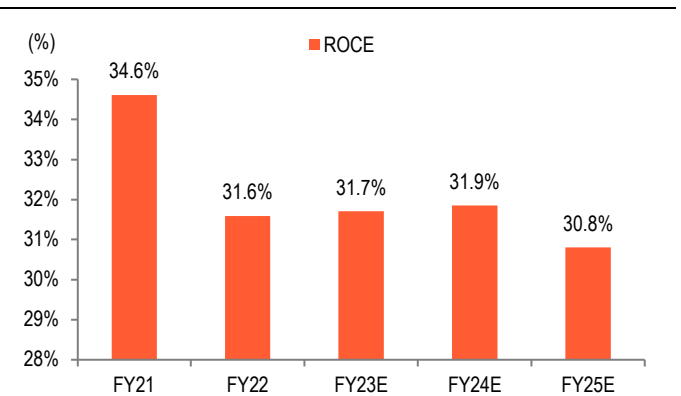
Source: Company, BOBCAPS Research

**Fig 3 – PAT forecast to log 19% CAGR, FY22-FY25E**



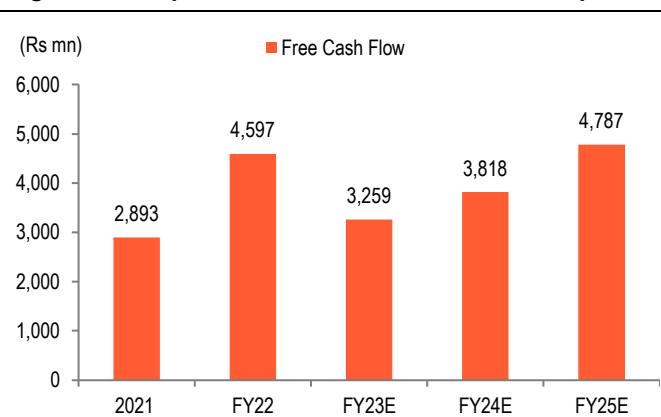
Source: Company, BOBCAPS Research

**Fig 4 – High capex to suppress ROCE in investment phase**



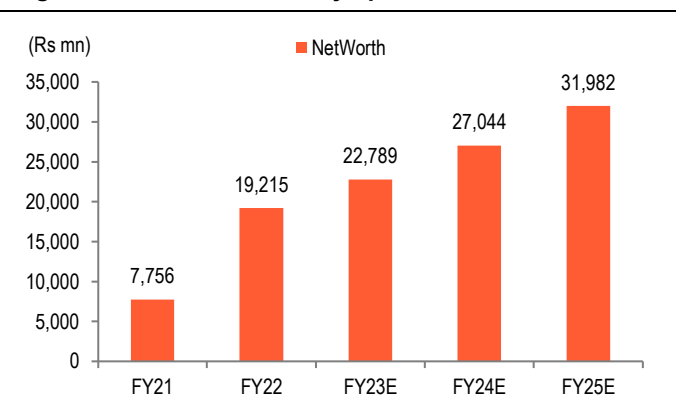
Source: Company, BOBCAPS Research

**Fig 5 – FCF expected to rebound after investment phase**



Source: Company, BOBCAPS Research

**Fig 6 – Net worth on a steady uptrend**



Source: Company, BOBCAPS Research

## Investment rationale

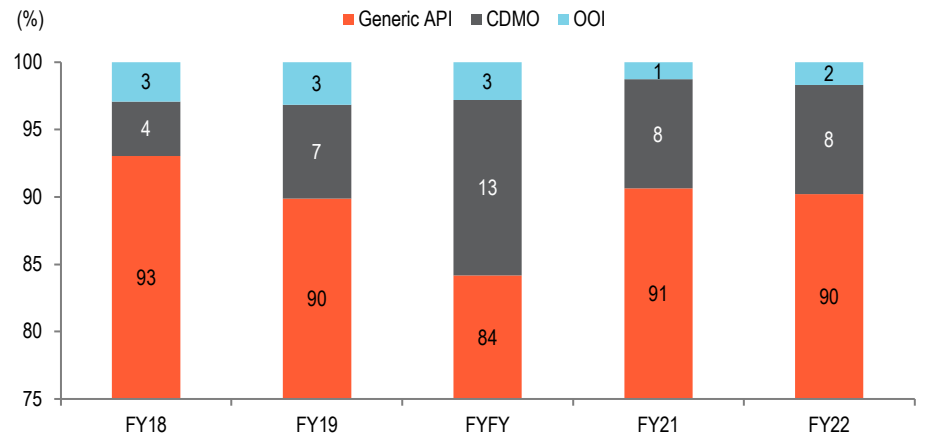
### Significant market share in key products

GLS is a generic API manufacturer (90% of revenue as of FY22) focused on high-value, low-volume products and drawing a significant portion of its revenue from chronic therapies (63%). Focus therapy areas include CVS (38% of total revenue), CNS (14%), diabetes (7%) and pain management (4%). The company also manufactures and sells APIs in gastrointestinal, anti-infective and other therapeutic areas.

GLS has a portfolio of 120 molecules and targets the development of 8-10 more each year. Its current pipeline comprises four iron complexes and seven oncology products. Apart from India, the company exports APIs to key markets such as the US, Europe, Japan, Russia, Brazil, Canada, China and Australia. It has 10 key clients from the top 20 global generic companies (including parent Glenmark Pharma) and earns 72% of revenue from regulated markets with the balance coming from emerging markets (FY22).

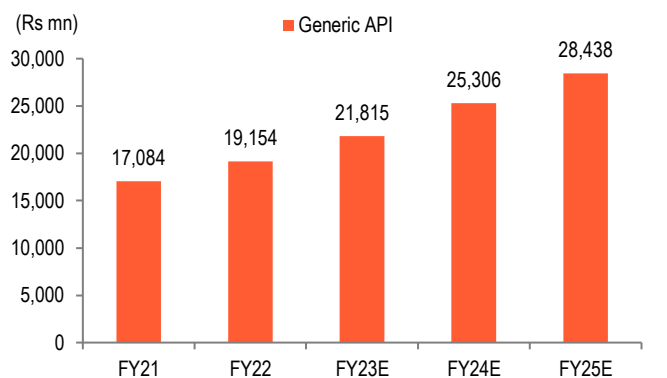
Per Frost & Sullivan, the global market size for GLS’s portfolio of 120 molecules totalled ~US\$ 142bn in 2020 and is forecast to grow at 6.8% to ~US\$ 211bn by 2026. Notably, the company has a global market share in excess of 30% in its key products of Atovaquone, Perindopril, Adapalene and Zonisamide, 20-30% share in Desloratadine, Riluzole and Cilazapril, and 10-20% in Telmisartan, Etoricoxib and Teneligliptin.

**Fig 7 – Segmental revenue mix**



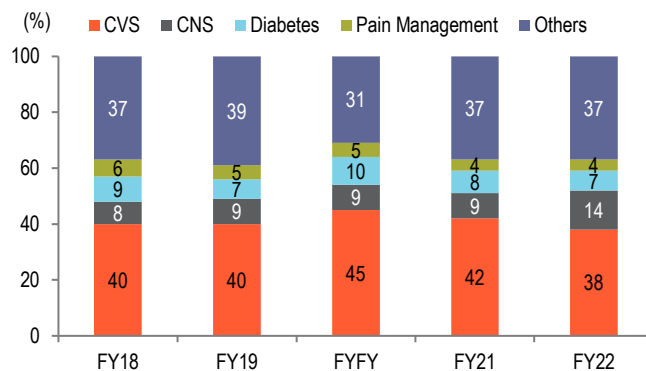
Source: Company, BOBCAPS Research | OOI – Other operating Income

**Fig 8 – API sales**



Source: Company, BOBCAPS Research

**Fig 9 – API revenue by therapy**



Source: Company, BOBCAPS Research

**Fig 10 – Key API products**

Therapies	No. of commercialised products	Key products	Contribution to API revenue, FY21 (%)
CVS	21	Olmesartan, Amiodarone, Telmisartan, Perindopril, Rosuvastatin, Cilostazol	38
CNS	27	Oxcarbazepine, Zonisamide, Topiramate, Bupropion, Ropinirole, Riluzole, Lacosamide	14
Diabetes	9	Glimepiride, Teneeligliptin, Vildagliptin, Linagliptin	7
Pain Management	2	Etoricoxib, Lornoxicam	4
Others	61	Atovaquone, Voriconazole, Mirabegron, Desloratadine, Esomeprazole, Magnesium, Adapalene, Fluconazole	37
<b>Total</b>	<b>120</b>		<b>100</b>

Source: Company, BOBCAPS Research

**Fig 11 – Global market share in key products, 2021**

Market share range (%)	Volume market share (%)	Value market share (%)	Key products
<10	27	36	Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole
10-20	31	18	Telmisartan, Etoricoxib, Teneeligliptin
20-30	1	3	Desloratadine, Riluzole, Cilazapril
>30	41	44	Atovaquone, Perindopril, Adapalene, Zonisamide

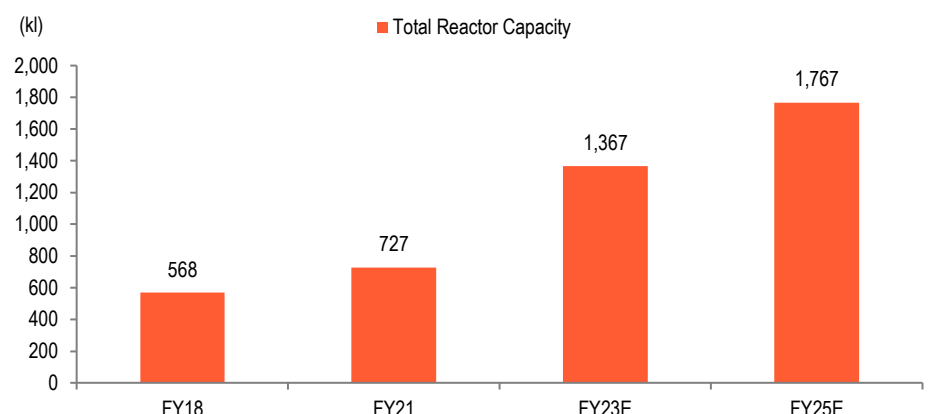
Source: Company, BOBCAPS Research |

GLS aims to bolster its base generics business by focusing on (a) continued growth in its top products through market share gains and forays into new geographies, and (b) portfolio expansion through launches of new off-patent generics. The company is targeting launches in complex APIs which offer a key growth opportunity by way of stronger pricing and market share retention, especially in the areas of oncology, peptides and iron compounds.

## Robust capex plan targeted to double sales by FY25

With average capacity utilisation of 87% at its Ankleshwar, Dahej and Mohol plants (68% at Kurkumbh), GLS began execution of a Rs 6bn-6.5bn capex plan in FY20 to expand capacity and double sales by FY25. The expansion will take total API reactor capacity from 727kl in FY21 to 1,767kl by FY25 and comprises a mix of brownfield (Dahej and Ankleshwar) and greenfield (Solapur, Maharashtra) projects for both API and CDMO.

**Fig 12 – API reactor capacity**



Source: Company

Expansion at Ankleshwar entails backward integration for intermediates via the addition of 400kl of capacity to the existing 550kl by Q2FY23. At Dahej, API capacity is being raised by 240kl in two phases ending Q2FY23, along with the setup of an oncology facility scheduled for Q1FY23. Lastly, an 800kl greenfield API unit in Solapur is targeted for completion by FY26. GLS has spent Rs 3.2bn on implementing its capex drive over FY20-22. We expect an outlay of Rs 1.2bn in FY23 and Rs 1bn each in FY24 and FY25, benefits of which should accrue beyond FY25.

**Fig 13 – Production capacity and volumes**

Facility	2019	2020	2021
<b>Ankleshwar</b>			
Annual production capacity (MT)*	251	246	301
Actual production volumes (MT)	206	214	259
Capacity utilisation (%)	82	87	86
<b>Dahej</b>			
Annual production capacity (MT)*	122	112	151
Actual production volumes (MT)	101	97	133
Capacity utilisation (%)	83	87	88
<b>Mohol</b>			
Annual production capacity (MT)*	27	33	55
Actual production volumes (MT)	21	28	47
Capacity utilisation (%)	78	83	86
<b>Kurkumbh</b>			
Annual production capacity (MT)*	43	43	56
Actual production volumes (MT)	32	32	38
Capacity utilisation (%)	74	75	68

Source: Company, BOBCAPS Research | \* Annual production capacity on product mix at the end of the relevant year/period

**Fig 14 – Expansion plans**

Location	Expansion type	Division	Current capacity (kl)	Status & Planned capacity	Operational timelines
Dahej	Brownfield	API	142	Under construction: 4 Modules 240kl	Phase I – Q4FY22 Phase II – Q2FY23
Ankleshwar	Brownfield	Intermediate	550	New plant: 400kl	Q2FY23
Dahej	Brownfield	Oncology	-	3 Modules: Under construction	Q1FY23
Solapur	Greenfield	API	-	Land acquired: 800kl	FY24-FY26

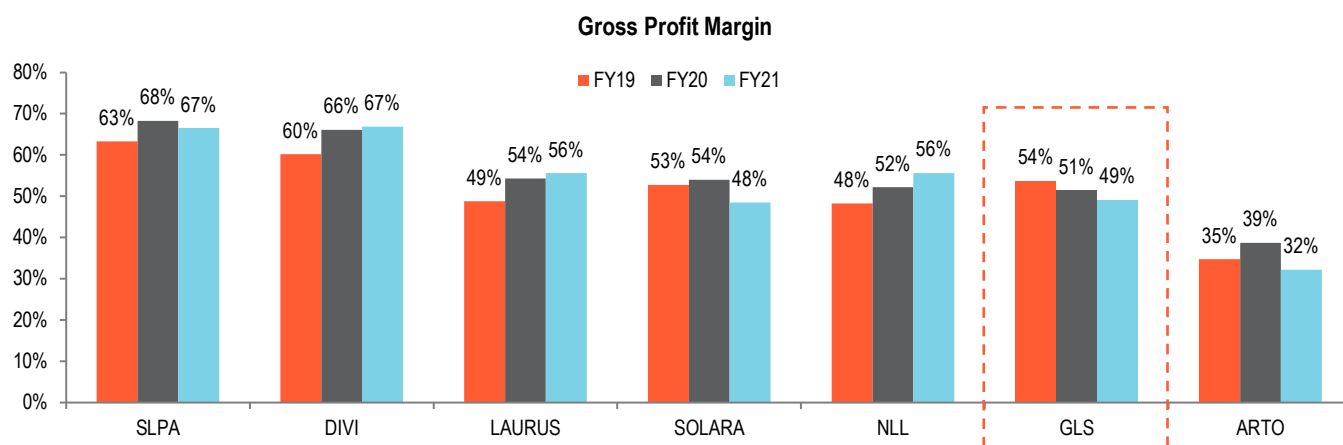
Source: Company, BOBCAPS Research

In spite of limited headroom to increase utilisation, we remain convinced about the company’s operational efficiency considering the 20% CAGR achieved in core sales (ex-capex benefits) over FY20-FY22 vs. the 22% CAGR in reported sales. GLS’s strategic shifts in revenue mix and operational flexibility to accommodate new molecules that encash on new opportunities helped it to sustain growth in adverse conditions. We expect the company to post a topline CAGR of 14% over FY22-FY25 supported by a combination of backward integration, capacity and geographic expansion, and new launches.

### Superior margin profile among API peers

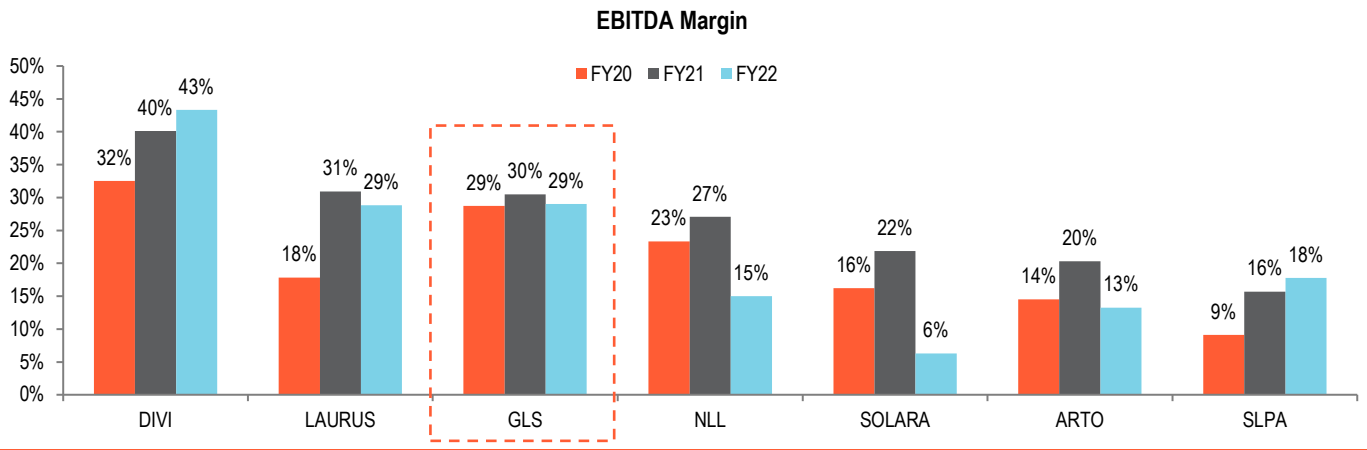
At ~30%, GLS boasts one of the best operating margin profiles among API peers (excluding DIVI and LAURUS which have significant contributions from the lucrative CDMO and formulation segments). The company’s superior margins stem from better realisations due to its low-volume, high-value product focus, in conjunction with a tight leash over employee costs and other expenses compared to similar firms. Margins are further augmented by the ~8% revenue contribution from its CDMO business, which gives GLS an edge over the peers.

**Fig 15 – Gross margin in line with peers...**



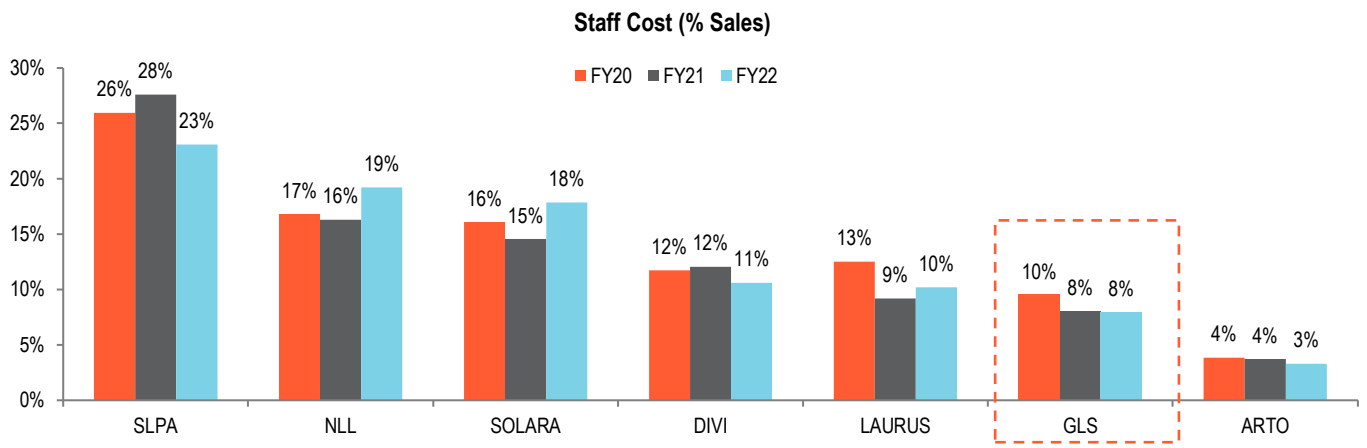
Source: Company, BOBCAPS Research

**Fig 16 – ...but operating margin among best in class**



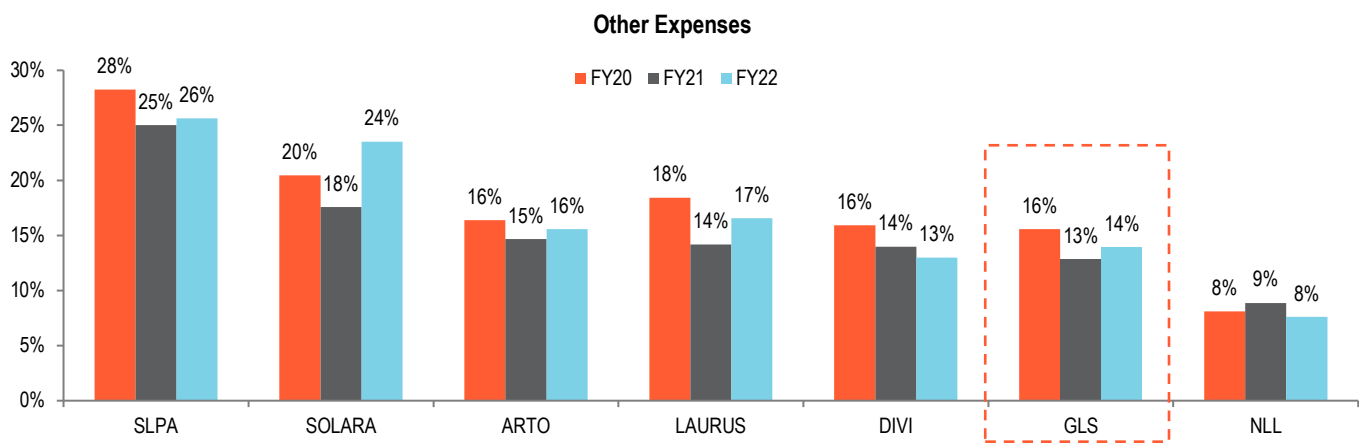
Source: Company, BOBCAPS Research

**Fig 17 – Substantially lower employee cost...**



Source: Company, BOBCAPS Research

**Fig 18 – ...and low other expenses drive superior margins vis-à-vis peers**



Source: Company, BOBCAPS Research

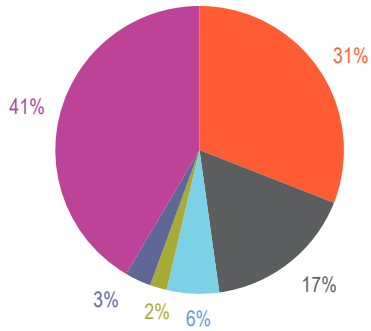


The charts below illustrate GLS's edge over peers in terms of reining in various overhead expenses.

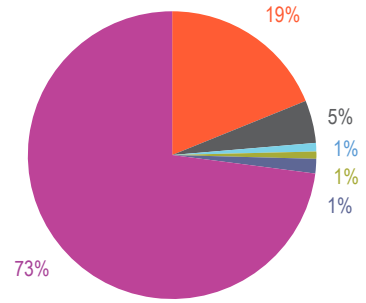
**Fig 19 – Overhead expense comparison vs. peers**

Power, Fuel & Water   Labour & Subcontracting   Freight Outward   Travelling & Conveyance   Selling, Marketing and Promotional & Advertising   Others

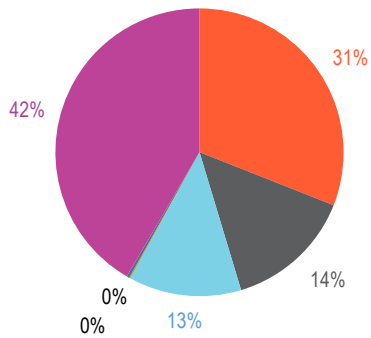
**GLS (Overheads – 13% of FY21 Sales)**



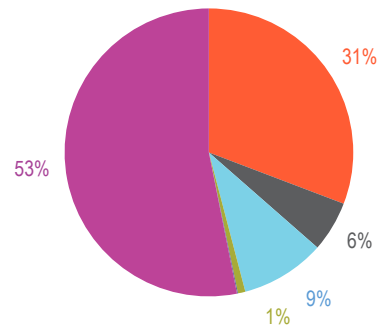
**SLPA (Overheads – 25% of FY21 Sales)**



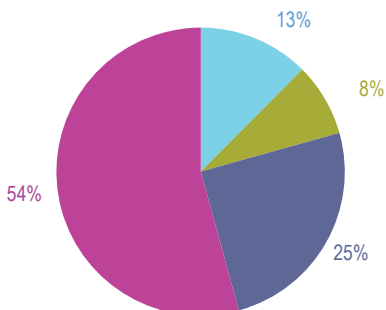
**ARTD (Overheads – 15% of FY21 Sales)**



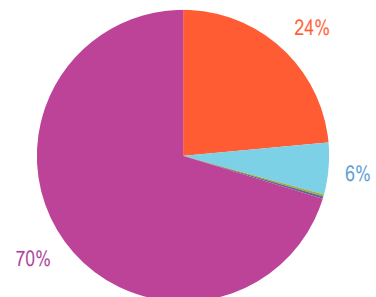
**SOLARA (Overheads – 18% of FY21 Sales)**



**NLL (Overheads – 9% of FY21 Sales)**



**LAURUS (Overheads – 14% of FY21 Sales)**

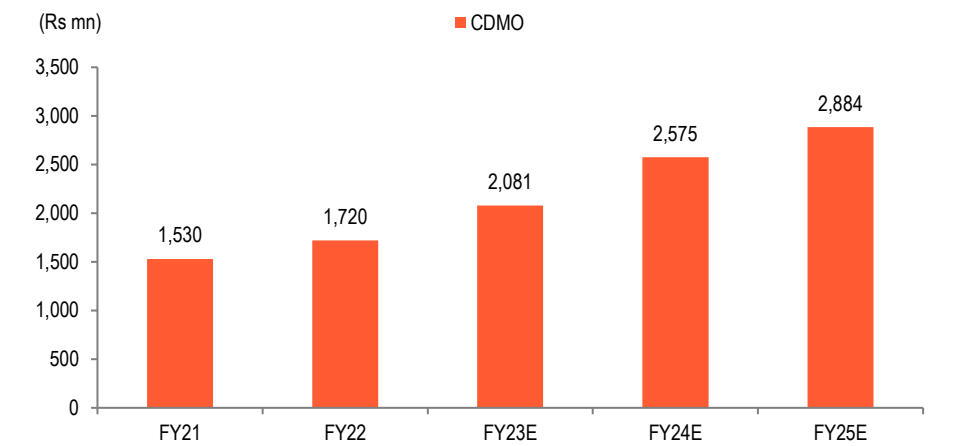


Source: Company, BOBCAPS Research

### CDMO scale-up to further augment margins

Over the last few years, GLS has widened its relationships with innovator companies for providing CDMO (contract development and manufacturing) services. The company currently derives ~8% of its revenue from CDMO (Rs 1.7bn in FY22). It has plans to ramp up DMF filings and expand its presence in strategically important geographies such as EM and ROW markets to raise visibility among key clientele. We expect these initiatives to aid a 16% CAGR in CDMO revenue over FY22-FY25 to Rs 2.7bn. CDMO being a high margin business, we expect rising CDMO contribution to improve business mix and augment blended headline margins.

**Fig 20 – CDMO business expected to log 16% CAGR, FY22-FY25E**



Source: Company, BOBCAPS Research

### Plans to diversify client base

Parent Glenmark Pharma (GNP) contributed 38-40% of GLS’s revenue in FY22. With strong price competition in US and focus on volume management, GLS is going to benefit from the plan of GNP for more captive production for key markets. GLS is however in its process to diversify sources of revenues in favor of third-party clientele over a period.

Unlike peers, GLS was unable to earn supernormal profits from the production of Covid-19 drug Favipiravir (Fabiflu) in its capacity as API manufacturer for GNP in the domestic market. Headline margins have thus remained stable at 30-31% sans the wide fluctuations seen among peers post pandemic in FY22.

**Fig 21 – Margin comparison with peers**

Companies	GPM (%)			EBITDAM (%)		
	FY20	FY21	FY22	FY20	FY21	FY22
DIVI	60.1	66.1	66.9	33.8	41.0	43.3
LAURUS	48.8	54.3	55.6	20.0	31.9	28.8
NLL	48.2	52.3	55.6	23.2	28.5	15.0
SLPA	63.3	68.3	66.5	24.2	20.2	17.8
ARTD	34.7	38.7	32.1	14.5	20.3	13.2
SOLARA	52.8	54.0	48.4	19.6	23.9	6.3
<b>GLS</b>	<b>53.8</b>	<b>51.4</b>	<b>49.1</b>	<b>30.7</b>	<b>31.4</b>	<b>29.0</b>

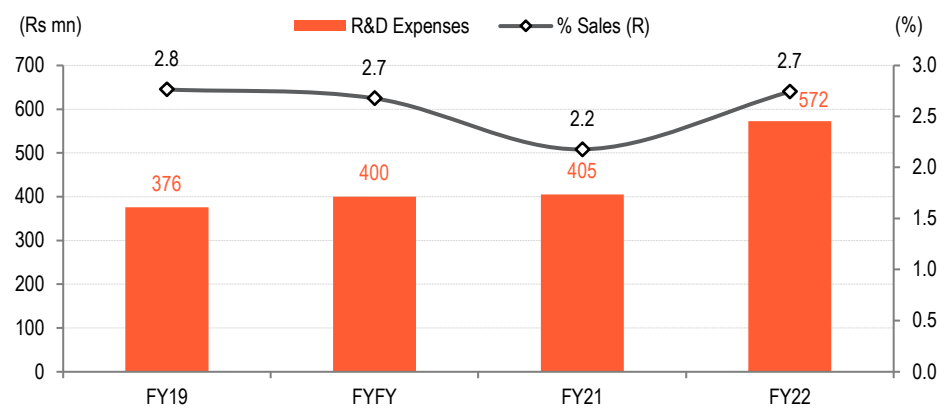
Source: Companies, BOBCAPS Research

### Strong R&D capability

GLS's globally commercialised portfolio has 120 molecules, including complex chemistry products. In FY22, the company spent Rs 572mn or 2.7% of revenue on R&D and filed 35 DMF/CEPs, leading to cumulative filings of 433 DMFs/CEPs.

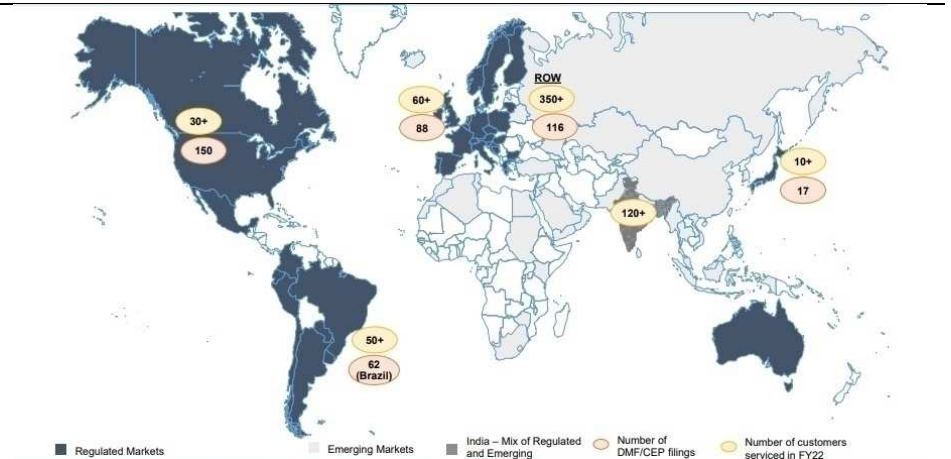
Average R&D expenditure is at 2.5-3% of sales with 50% of the company's DMF/CEP filings focused on chronic therapies (CVS/CNS) in North America and the EU. Even with a higher base of sales, management expects to maintain the current proportion of R&D spends through to FY24. Company has four complex iron compounds in its development pipeline and seven products in the oncology space.

**Fig 22 – R&D investments average at 2.5-3% of sales**



Source: Company, BOBCAPS Research

**Fig 23 – Global footprint: 433 DMF and CEP filings across major markets**



Source: Company

**Fig 24 – DMF filings across therapies and geographies**

Therapy	North America	Europe	Japan	Brazil	ROW	Total
CVS	36	30	4	16	35	121
CNS	35	19	7	12	12	85
Diabetes	9	3	0	7	10	29
Pain Management	1	2	0	3	9	15
Others	69	34	6	24	50	183
<b>Total</b>	<b>150</b>	<b>88</b>	<b>17</b>	<b>62</b>	<b>116</b>	<b>433</b>

Source: Company, BOBCAPS Research

### Judicious working capital management

While GLS’s investment and operating performance was once skewed towards its portfolio of Covid-19 and related products, the company has successfully streamlined operations and drawn down working capital requirements – to 42% of sales in FY22 from 49% in FY21 vs. an increase in the peer group average to 47% from 36% of sales over the same period.

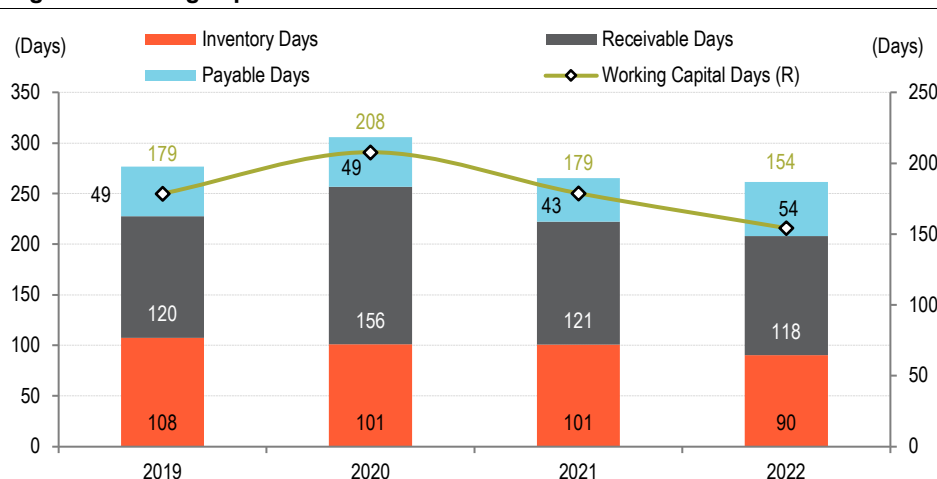
**Fig 25 – Net working capital**

(% of Sales)	FY19	FY20	FY21	FY22
NLL	36	39	33	41
SLPA	42	42	52	52
ARTD	30	27	30	32
SOLARA	19	22	29	62
<b>GLS</b>	<b>49</b>	<b>57</b>	<b>49</b>	<b>42</b>
<b>Aggregate (ex-GLS)</b>	<b>32</b>	<b>32</b>	<b>36</b>	<b>47</b>

Source: Company, BOBCAPS Research

Net working capital days for the company decreased to 154 in FY22 from 179 days in FY21 whereas the peer average increased to 170 from 131 days. Receivable days show similar trends with GSL’s DSO improving to 118 from 121 days while that of the peer set deteriorated to 116 from 94 days. Payable days have risen to 54 in FY22 vs. 43 in FY21, indicating that GLS is securing alternative sources of supply from non-MSME segments, including imports (the regulatory cut-off for payables to the MSME sector is 45 days in India).

**Fig 26 – Working capital**



Source: Company, BOBCAPS Research

Management has guided for further improvement in net working capital days in FY23-FY24 aided by a better revenue mix and the absence of overstocking by distributors globally as pandemic-related buying has subsided. Revenue mix improvement should be led by a higher contribution from the Europe, India and US markets (DSO of 45-90 days), alongside a lower share from LATAM and Africa (DSO of 150-180 days).

**Fig 27 – Peer comparison of working capital**

Parameter	FY19	FY20	FY21	FY22
<b>Inventory (Days)</b>				
NLL	105	105	96	102
SLPA	93	91	128	113
ARTD	58	66	70	77
SOLARA	56	77	67	166
GLS	172	101	101	90
Aggregate (ex-GLS)	78	85	90	114
<b>Receivables (Days)</b>				
NLL	90	91	85	90
SLPA	101	99	88	123
ARTD	107	99	94	110
SOLARA	76	63	109	141
GLS	192	156	121	118
Aggregate (ex-GLS)	94	88	94	116
<b>Payables (Days)</b>				
NLL	66	55	59	43
SLPA	40	37	27	47
ARTD	57	67	56	69
SOLARA	64	60	70	82
GLS	78	49	43	54
Aggregate (ex-GLS)	57	55	53	60

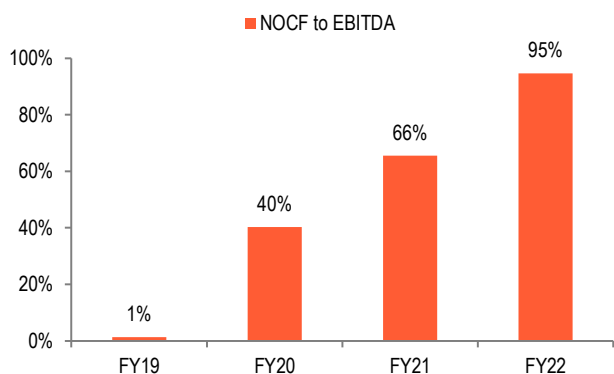
Source: Companies, BOBCAPS Research

### Debt-free with robust cash flows

GLS has repaid the entire long-term debt owed to its parent through IPO proceeds, and is currently debt-free. The company funds working capital needs through internal accruals and has no short-term borrowings. Backed by strong cash flows and a shorter conversion cycle, non-operating cash flow stood at 95% of EBITDA and FCF at 74% of EBITDA in FY22. We expect further improvement in the net working capital cycle to drive cash flows and augment conversion ratios.

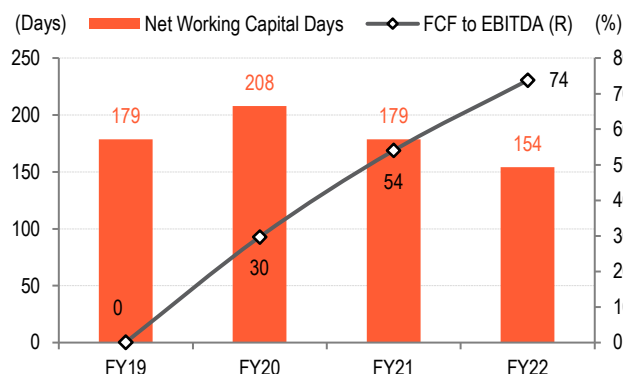
Given the Strong cash flow & steady capex plan, management believes they will be able to maintain dividend pay-out at current levels (30% of PAT). Company paid a total dividend of 21 per equity share in FY22.

**Fig 28 – Net-operating cash flow-to-EBITDA conversion**



Source: Company, BOBCAPS Research

**Fig 29 – FCF-to-EBITDA conversion**



Source: Company, BOBCAPS Research

## Valuation methodology

We like GLS for its strong market position in key APIs and its focus on product value over volumes which translates to a superior margin profile. Management has guided for investments of Rs 6bn-6.5bn toward manufacturing capacities to meet demand from the expanding API portfolio and CDMO clientele over FY20-FY25. Given that Rs 3.2bn of this capex drive has been implemented over FY20-22 and internal accruals are intended as a major source of funding, we believe the investment plan will be back-ended in nature while retaining the emphasis on profitable growth.

We expect GLS to post a brisk 14%/16%/19% revenue/EBITDA/PAT CAGR over FY22-FY25. The stock is trading at attractive valuations of 10.6x/8.9x P/E and 7.0x/5.6x EV/EBITDA on FY23E/FY24E. We value GLS using a two-stage DCF model (COE 11.8%, WACC 11.8%, terminal growth 3%), which yields a TP of Rs 620 and implies an FY24E P/E of 12.5x – which is ~35% discount to peer group average (NLL, SLPA, ARTD & SOLARA) as we take a conservative approach and find comfort in valuation. Initiate with BUY.

**Fig 30 – Key assumptions**

Revenue (Rs bn)	FY22	FY23E	FY24E	FY25E
Generic API	19.2	21.8	25.3	28.4
CDMO	1.7	2.1	2.6	2.9
OOI	0.4	0.3	0.4	0.4

Source: Company, BOBCAPS Research

**Fig 31 – Valuation assumptions**

Variables	Assumptions	Basis
Risk Free Rate (%) (A)	7.4	10Y Average GIND10Y Index
Equity Risk Premium (%) (B)	6.1	(Rm-Rf)
Beta (C)	0.72	5Y Average Beta of Nifty Pharma
Cost of Equity (%) (D) = A + B x C	<b>11.8</b>	
Cost of Debt (E)	9	As of FY21
Marginal Tax Rate (%) (F)	25	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	<b>7</b>	
Current Debt to Equity (2024) (H)	<b>0</b>	
WACC (I) = (1 x D + H x G)/(1 + H)	<b>11.8</b>	
	<b>Stage 1</b>	<b>Stage 2 (Terminal)</b>
FCF CAGR (FY22-FY32E) (%)	8.0	3%

Source: BOBCAPS Research

**Fig 32 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY22-24E (%)	EPS (Rs)		ROE (%)		Implied P/E (x)
					FY23E	FY24E	FY23E	FY24E	
Glenmark Lifesciences	GLS IN	BUY	620	15.6	41.7	49.6	24.3	24.4	12.5
Neuland Labs*	NLL IN	NR	NA	15.3	63.9	83.7	9.5	11.3	-
Shilpa Medicare*	SM IN	NR	NA	10.9	11.1	14.8	5.2	6.5	-
Aarti Drugs*	ARTD IN	NR	NA	18.2	26.4	41.3	24.4	25.8	-
Solara Active Pharma*	SOLARA IN	NR	NA	17.6	8.2	30.8	1.9	7.9	-

Source: BOBCAPS Research, \*Bloomberg Consensus Estimates | NR – Not Rated

**Fig 33 – Sector recommendation snapshot**

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,806	2,050	BUY
Alembic Pharma	ALPM IN	1.8	725	770	HOLD
Alkem Labs	ALKEM IN	4.7	3,051	3,400	BUY
Aurobindo Pharma	ARBP IN	3.9	523	680	BUY
Cipla	CIPLA IN	9.7	941	1,100	BUY
Divi's Labs	DIVI IN	12.1	3,565	4,250	HOLD
Dr Reddy's Labs	DRRD IN	9.1	4,288	4,450	HOLD
Eris Lifesciences	ERIS IN	1.1	640	970	BUY
Glenmark Life Sciences	GLS IN	0.7	443	620	BUY
Laurus Labs	LAURUS IN	3.4	493	645	BUY
Sun Pharma	SUNP IN	25.0	815	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Jun 2022

## Key risks

Key downside risks to our estimates are:

- **Regulatory lapses:** The US and EU are key geographies for GLS's clientele, implying the 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 56% of revenue from its top-5 clients over FY19-FY21– implying revenue concentration risk.
- **Raw material supply disruptions:** Periodic uncertainty over 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.

## Company profile

### Background

Glenmark Life Sciences (GLS), a subsidiary of Glenmark Pharmaceuticals (GNP), has been engaged in manufacturing and selling niche high-value, low-volume APIs since 2001 (listed in Aug'21). APIs contribute 90% of revenue while its new CDMO venture contributes 8%. Parent GNP is the company's largest client for APIs, accounting for 38-40% of overall revenue in FY22. The CDMO business helps innovator companies roll out NCEs (new chemical entities).

Key therapy areas for the company are CVS, CNS, diabetes and pain management (PMS) which together contributed ~63% of revenue (FY22). Other therapy areas such as gastrointestinal disorders (GI) and anti-infectives (AI) make up the balance. Apart from India, the company sells its APIs in countries such as the US, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia.

GLS has 10 key clients from the top 20 global generic companies (including parent GNP) and earned 72% of FY22 revenue from regulated markets while the remaining came from emerging markets. The company has a portfolio of 120 molecules globally and develops 8-10 molecules annually. Its current pipeline comprises four iron complexes and seven oncology products. The generic API segment remains a growth driver even as the contribution from CDMO and complex APIs is steadily increasing.

**Fig 34 – Key commercialised API molecules**

SN	Product	Therapy
1	Olmesartan	CVS
2	Atovaquone	Others
3	Lercanidipine	CVS
4	Telmisartan	CVS
5	Perindopril	CVS
6	Amiodarone	CVS
7	Etoricoxib	Pain management
8	Rosuvastatin	CVS
9	Voriconazole	Others
10	Oxcarbazepine	CNS
11	Desloratadine	Others
12	Cilostazol	CVS
13	Zonisamide	CNS
14	Adapalene	Others
15	Glimepiride	Diabetes
16	Esomeprazole Mg	Others
17	Vildagliptin	Diabetes
18	Topiramate	CNS
19	Ezetimibe	CVS
20	Omeprazole	Others

Source: Company, BOBCAPS Research



**Fig 35 – Manufacturing facilities, FY21**

Location	Description	Annual capacity (kl)	Top products (therapeutic Area)	Last inspection	Personnel
Ankleshwar, Gujarat	API manufacturing facility	511	Amiodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	Gujrat FDCA (May-21), USFDA (Jul-19) MHRA (Nov-06), FIMEA (Jul-14) Romania (Feb-14), PMDA (Aug-19) COFEPRIS (Feb-16), Health Canada (Jul-19), KFDA (Apr-11)	900
Dahej, Gujarat	API manufacturing facility	142	Amiodarone (CVS), Etoricoxib (Pain management), Omeprazole (Gastrointestinal), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA (Oct-18), EDQM (Mar-18), PMDA (Dec-16), KFDA (May-17)	259
Mohol, Maharashtra	API manufacturing facility	49	Telmisartan (CVS), Rosuvastatin (CVS), Vildagliptin (diabetes)	USFDA (Mar-18), Maharashtra FDA (Jan-21)	78
Kurkumbh, Maharashtra	API manufacturing facility	25	Glimepiride (diabetes), Sertaconazole (dermatology), Adapalene (dermatology)	Maharashtra FDA (Jan-21)	70
<b>Total</b>		<b>727</b>			<b>1,307</b>

Source: Company, BOBCAPS Research

**Fig 36 – IPO Proceed Utilization**

Particulars (Rs mn)	Estimates as per prospectus	Revised net proceeds	Utilised up to 31-Mar-22	Unutilised as on 31-Mar-22
Payment of outstanding purchase consideration to the Promoter for the spin-off of the API business from the Promoter into GLS pursuant to the Business Purchase Agreement dated October 9, 2018	8,000.00	8,000.00	8,000.00	-
Funding the capital expenditure requirements	1,527.64	1,527.64	628.49	899.15
General corporate purposes	576.75	494.4	494.4	-
<b>Total</b>	<b>10,104.39</b>	<b>10,022.04</b>	<b>9,122.89</b>	<b>899.15</b>

Source: Company, BOBCAPS Research

## Key personnel

- Glenn Saldanha – Chairman & Managing Director, Glenmark Pharma:** Glenn holds a Bachelor's degree in Pharmaceutical Sciences from the University of Bombay and an MBA degree from the Leonard N. Stern School of Business at New York University. He is currently Chairman & Managing Director of Glenmark Pharma.
- Dr Yasir Rawjee – Chief Executive Officer:** Dr Yasir holds a PhD in Chemistry from Texas A&M University, USA, a BSc (Tech) degree from UDCT, India, and a BSc (Chemistry) degree from St. Xavier's College, University of Bombay. Prior to joining GLS, he was the Senior Vice President & Head – Global API Operations at Mylan.
- Vinod Naik – Head, Operations:** Vinod holds a Bachelor's degree and Master's degree in Science from the Karnataka University, Dharwad. He has also completed a Master's program in Business Administration with specialisation in financial management from the National Institute of Management. Prior to joining GLS, he worked with Sun Pharmaceutical Industries. He has also been associated with Cipla where he headed a manufacturing unit and has worked with Micro Labs as Vice President of the Technical and Operations department.

- **Dr Raghu Palle – Head, R&D:** Dr Raghu holds MSc and PhD degrees in Chemistry from the University of Hyderabad. He has also completed an MBA from IIM Calcutta. Prior to joining GLS, he was associated with Biocon, Dr Reddy's Laboratories and Sun Pharmaceutical Industries.
- **Tushar Mistry – Chief Financial Officer:** Tushar assumed the responsibility of CFO effective 1 Jun 2022. He is a chartered accountant from the Institute of Chartered Accountants of India and also a Grad CWA from the Institute of Cost Accountants of India. Tushar's previous experience includes stints at Sequent Scientific as CFO and at Wockhardt as General Manager.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>18,852</b>	<b>21,232</b>	<b>24,227</b>	<b>28,257</b>	<b>31,738</b>
EBITDA	5,911	6,160	7,122	8,453	9,656
Depreciation	334	386	457	515	564
EBIT	5,577	5,774	6,665	7,938	9,092
Net interest inc./(exp.)	(875)	(280)	(1)	0	0
Other inc./(exp.)	8	147	143	167	313
Exceptional items	0	0	0	0	0
EBT	4,709	5,642	6,808	8,105	9,406
Income taxes	1,194	1,462	1,702	2,026	2,351
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,516</b>	<b>4,180</b>	<b>5,106</b>	<b>6,079</b>	<b>7,054</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,516</b>	<b>4,180</b>	<b>5,106</b>	<b>6,079</b>	<b>7,054</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Accounts payables	2,213	3,077	3,142	3,361	3,604
Other current liabilities	251	602	717	836	940
Provisions	199	144	165	193	217
Debt funds	9,551	29	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	20	245	245	245	245
Reserves & surplus	7,737	18,970	22,544	26,799	31,737
Shareholders' fund	7,756	19,215	22,789	27,044	31,982
<b>Total liab. and equities</b>	<b>19,971</b>	<b>23,067</b>	<b>26,814</b>	<b>31,435</b>	<b>36,743</b>
Cash and cash eq.	1,156	3,490	4,441	6,561	9,466
Accounts receivables	6,195	6,735	7,332	8,403	9,440
Inventories	5,134	5,162	5,630	6,417	7,208
Other current assets	1,616	823	956	1,115	1,253
Investments	1	1	1	1	1
Net fixed assets	5,649	5,847	7,438	7,921	8,356
CWIP	141	917	917	917	917
Intangible assets	79	92	98	101	102
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>19,971</b>	<b>23,067</b>	<b>26,814</b>	<b>31,435</b>	<b>36,743</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>3,691</b>	<b>6,230</b>	<b>4,567</b>	<b>4,944</b>	<b>6,021</b>
Capital expenditures	(571)	(1,451)	(1,200)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(571)</b>	<b>(1,451)</b>	<b>(1,200)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Equities issued/Others	0	225	0	0	0
Debt raised/repaid	(1,186)	(9,522)	(29)	0	0
Interest expenses	(875)	(280)	(1)	0	0
Dividends paid	0	(2,577)	(1,532)	(1,824)	(2,116)
Other financing cash flows	(3)	9,710	(855)	0	0
<b>Cash flow from financing</b>	<b>(2,065)</b>	<b>(2,444)</b>	<b>(2,416)</b>	<b>(1,824)</b>	<b>(2,116)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,056</b>	<b>2,334</b>	<b>950</b>	<b>2,120</b>	<b>2,905</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,156</b>	<b>3,490</b>	<b>4,441</b>	<b>6,561</b>	<b>9,466</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	FY23E	FY24E	FY25E
Reported EPS	31.9	34.1	41.7	49.6	57.6
Adjusted EPS	32.6	34.1	41.7	49.6	57.6
Dividend per share	0.0	21.0	12.5	14.9	17.3
Book value per share	63.3	156.8	186.0	220.7	261.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
EV/Sales	3.5	3.0	2.3	1.8	1.5
EV/EBITDA	11.0	10.3	7.9	5.9	5.0
Adjusted P/E	13.5	12.9	10.6	8.9	7.7
P/BV	7.0	2.8	2.4	2.0	1.7

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22P	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.7	74.1	75.0	75.0	75.0
Interest burden (PBT/EBIT)	84.4	97.7	102.1	102.1	103.4
EBIT margin (EBIT/Revenue)	29.6	27.2	27.5	28.1	28.6
Asset turnover (Rev./Avg TA)	29.2	29.0	28.8	28.4	26.9
Leverage (Avg TA/Avg Equity)	2.7	1.4	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>58.9</b>	<b>31.0</b>	<b>24.3</b>	<b>24.4</b>	<b>23.9</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	22.6	12.6	14.1	16.6	12.3
EBITDA	25.2	4.2	15.6	18.7	14.2
Adjusted EPS	12.3	4.6	22.2	19.1	16.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	31.4	29.0	29.4	29.9	30.4
EBIT margin	29.6	27.2	27.5	28.1	28.6
Adjusted profit margin	18.6	19.7	21.1	21.5	22.2
Adjusted ROAE	58.9	31.0	24.3	24.4	23.9
ROCE	34.7	32.4	32.4	32.5	31.9
<b>Working capital days (days)</b>					
Receivables	121	118	112	110	110
Inventory	101	90	86	84	84
Payables	43	54	48	44	42
<b>Ratios (x)</b>					
Gross asset turnover	2.9	2.7	2.6	2.8	2.8
Current ratio	5.3	4.2	4.6	5.1	5.7
Net interest coverage ratio	6.4	20.7	7,703.7		
<b>Adjusted debt/equity</b>	<b>1.1</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>

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

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**BUY** – Expected return >+15%

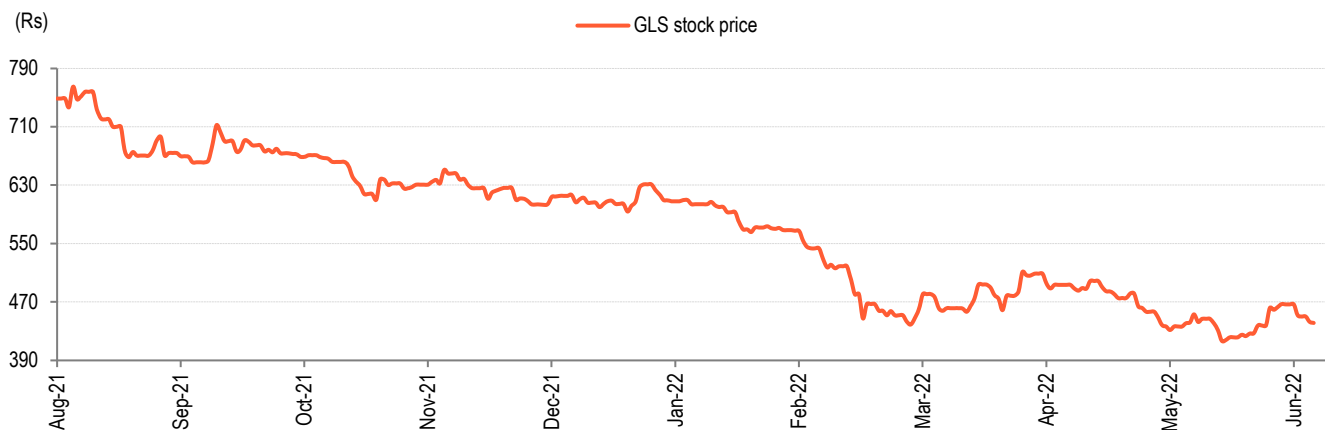
**HOLD** – Expected return from -6% to +15%

**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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