

July 23, 2021

Glenmark Life Sciences (GLS) is an active pharmaceutical ingredients (API) arm of Glenmark Ltd. Glenmark commenced the API manufacturing business by setting up a manufacturing facility in Kurkumbh, Maharashtra in 2001-02. In 2019, the API manufacturing business was spun off into Glenmark API. Currently, it has four manufacturing facilities at Ankaleshwar, Dahej in Gujarat and Mohol, Kurkumbh in Maharashtra with total installed capacity of 726.6 KL as of FY21. Revenues from regulated markets were 65.64% of FY21 revenues. As of FY21, it had a portfolio of 120 molecules globally, sold APIs in India and exported APIs to multiple countries in Europe, US, Latin America, Japan and RoW. As of May 31, 2021, it had filed 403 DMFs and CEPs.

Leadership in select APIs, strong relation with large companies

GLS is a leading developer, manufacturer of select high value, non-commoditised APIs in chronic therapeutic areas, including CVS, CNS & pain management, diabetes and continue to branch into other APIs. It has strong market share in select specialised APIs like Telmisartan (anti-hypertensive), Atovaquone (anti-parasitic), Perindopril (anti-hypertensive), Teneeligiptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology). Total market size in sales terms for GLS' portfolio of 120 molecules globally was estimated at ~US\$142 billion in 2020 and is expected to grow ~6.8% in the next five years. It works with 16 of the 20 largest generic companies globally.

Quality-focused compliant manufacturing

Since 2015, the company's facilities have been subject to 38 inspections and audits by regulators including the USFDA and others. **It has not received any warning letters/import alerts from regulatory authorities.** Its facilities have also been subject to 432 inspections by customers during this period.

Key risk & concerns

- Regulatory concern
- Customer concentration - 50%+ revenue from five customers
- Product concentration – top 10 products contribute 66.36%
- Raw material uncertainty - three largest suppliers accounted for 40.26% of total purchases of key starting materials
- Pricing pressure from customer

Priced at FY21 EV/EBITDA of 14.7x on upper band

GLS has a good performance execution and clean regulatory track record. The company is also a leading developer and manufacturer of select high value, non-commoditised APIs in chronic therapies and works with 16 of the 20 largest generic companies globally. The growth momentum also has a strong undercurrent of global API industry growth. We recommend **SUBSCRIBE** to the issue.

Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Total Revenues	1405.5	1549.3	1886.0	15.8%
EBITDA	429.3	472.0	591.1	17.3%
EBITDA Margins (%)	30.5%	30.5%	31.3%	
PAT	292.7	313.1	351.6	9.6%
EPS (₹)	23.9	25.6	28.7	
P/E (x)	30.1	28.2	25.1	
P/B (x)	8.2	1.8	1.0	
RoE (%)	332.1	77.9	46.7	
RoCE (%)	31.8	29.6	32.2	

Source: RHP, ICICI Direct Research



Particulars

Issue Details

Issue Opens	27th Jul 2021
Issue Closes	29th Jul 2021
Issue Size (₹ crore)*	₹ 1513.6 crore
Fresh Issue	₹ 1060 crore
Price Band (₹)	₹ 695 - ₹ 720
No. of Shares on Offer (in crore)	2.1
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	20
* based on upper price band of ₹ 720	

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	100.0	82.8
Public	0.0	17.2

Objective of issue

Objects of issue	₹ crore
Payment of Outstanding Purchases	800.0
Funding Capital Expenditure	152.8
General Corporate Purpose	107.2
Fresh Issue	1060.0
Offer for Sale*	453.6

*Upper Band

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Company background

Glenmark Life Sciences (GLS) is an active pharmaceutical ingredients (API) arm of Glenmark Ltd. The company is a leading manufacturer of select high value, APIs for CVS, CNS, pain management and diabetes (*Source: Frost & Sullivan Report*). It also manufactures and sell APIs for gastro-intestinal disorders, anti-infectives and other therapeutic areas. It has a strong market share in select specialised APIs like Telmisartan (anti-hypertensive), Atovaquone (anti-parasitic), Perindopril (anti-hypertensive), Teneligliptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology) (*Source: Frost & Sullivan Report*). The company is also increasingly providing contract development and manufacturing operations (CDMO) services to a range of multinational and specialty pharmaceutical companies.

Glenmark launched the API manufacturing business by setting up a manufacturing facility in Kurkumbh in Maharashtra in 2001-02 and focused on growing this business over the next 18 years. In 2019, the API manufacturing business was spun off into the company as part of a broader reorganisation designed to place Glenmark on an accelerated trajectory to attain its objectives in three different verticals, with the company focusing on the API business. Following the spin-off, it operates as an independent, professionally-managed global API business.

Revenues from regulated markets were 65.64% of FY21 revenues. As of FY21, GLS had a portfolio of 120 molecules globally, sold APIs in India and exported their APIs to multiple countries in Europe, US, Latin America, Japan and RoW. As of May 31, 2021, GLS had filed 403 drug master files (DMFs) and certificates of suitability to the monographs of the European Pharmacopoeia (CEPs). GLS work with 16 of the 20 largest generic companies globally.

The company has four multi-purpose manufacturing facilities, which are situated on leasehold properties located at Ankaleshwar, Dahej in Gujarat and Mohol, Kurkumbh in Maharashtra with an aggregate annual total installed capacity of 726.6 KL as of FY21. Since 2015, GLS facilities have been subject to 38 inspections and audits by regulators including the USFDA, PMDA, COFEPRIS, Health Canada, MFDS (Korea), EDQM, other European regulatory agencies and CDSCO conducted on a periodic basis.

GLS has not received any warning letters or import alerts from such regulatory authorities. GLS facilities have also been subject to 432 inspections and audits by our customers during this period.

The company intends to increase API manufacturing capabilities by enhancing the existing production capacities at the Ankaleshwar facility during FY22 and Dahej facility during FY22-23 by an aggregate annual total installed capacity of 200 KL. This additional production capacity is expected to help GLS further expand generic API production and also grow oncology product pipeline. GLS intends to develop a new manufacturing facility in India for the manufacture of generic APIs from FY22, which is expected to become operational in Q4FY23. The new facility will also provide a platform for the growth of CRAMS business and also add capacity for generic API business. This facility will be a greenfield project built on a 40-acre footprint with a plan to manufacture both APIs, intermediates and will house several multi-purpose manufacturing blocks with mid to high-volume capacity. It will include a high degree of automation, comply with global regulatory standards and will have an aggregate capacity of 800 KL over the next three to four years. This facility is intended to be funded from internal accruals and debt financing (if required).

The company's R&D spent was 2.1% of FY21 revenues. It regularly works on developing eight to 10 molecules each year. As of FY21, GLS has employed 213 personnel at R&D laboratories, which constituted 13.86% of their total permanent employee strength. As of May 31, 2021, it owned or co-owned 39 granted patents, had 41 pending patent applications in several countries and nine pending provisional applications in India.

Competitive Strengths

Leadership in select high value APIs in chronic therapeutics

GLS is a leading developer and manufacturer of select high value, non-commoditised APIs in chronic therapeutic areas, including CVS, CNS and pain management, diabetes and continues to branch into other APIs. The company's API portfolio comprises specialised and profitable products, including niche and technically complex molecules, which reflects GLS' ability to branch into other high value products. As of FY21, it has sold APIs in India and exported APIs to multiple countries in Europe, US, Latin America, Japan and RoW. Revenues from regulated markets were 65.64% of FY21 revenues.

The total market size in terms of sales for the company's portfolio of 120 molecules globally was estimated to be ~US\$142 billion in 2020 and is expected to grow about 6.8% over the next five years to reach ~US\$211 billion by 2026. The future growth of these products is expected to remain stable driven by the increasing prevalence of non-communicable diseases (including heart disease, stroke, cancer, diabetes and chronic lung disease), growing demand from the regulated markets for drugs indicated for hypertension, diabetes and cancer, and an aging population. The market size in terms of volume for 120 molecules was estimated to be 9,959 tonnes in 2020 and is expected to grow at 6% in the next five years to about 12,079 tonnes by 2026. The chronic therapeutic areas covered by the company's portfolio of 120 molecules accounted for 84% of the US\$142 billion end-market size and is expected to become 91% by 2026. (Source: Frost & Sullivan Report).

GLS has gradually built scale and reach in API offerings through economies of scale in manufacturing operations and a portfolio build-up, which has enabled it to service new markets and explore new product and service offerings to customers. The company works toward developing eight to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, it had filed 403 DMFs and CEPs across various major markets (i.e. US, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia). As of March 31, 2021, it had a portfolio of 120 molecules globally. GLS' business positioning is strengthened by service offerings across markets, which enables it to act as a one-stop shop for pharmaceutical product companies. The company's capabilities and experience have helped it perform well in regulated markets and have enabled it to successfully partner with customers, including offering customers a first mover advantage with respect to various products.

Strong relationships with leading global generic companies

Over the years, the company has established strong relationships with leading global generic pharmaceutical companies that has helped it expand product offerings and geographic reach. It works with 16 of the 20 largest generic companies globally as of March 31, 2021 and is believed to enjoy a reputation of trust and reliability with such companies. The company believes it has been able to build and strengthen relationships with them on account of strong brand equity, high quality products, R&D skills, knowledge of the regulatory environment and track record of manufacturing APIs at different scales, which have been inspected/audited by Indian and key global regulatory bodies such as the USFDA, MHRA, Health Canada and PMDA Japan.

As a result, GLS has been able to maintain high customer loyalty with a high rate of repeat customers. **For FY21, ~69% of customers were period-on-period repeat customers.** It also has a long history with many key customers, including Glenmark, Teva Pharma, Torrent Pharma, Aurobindo Pharma, Krka and another company, which is a global leader in generic pharmaceuticals and biosimilars. For FY21, these five key customers were among the 10 largest customers by revenue contribution. On account of these relationships and focus on customer service, the company has been able to increase sales volumes.

Quality-focused compliant manufacturing

The company currently operates four multi-purpose manufacturing facilities which are situated on leasehold properties in Ankaleshwar, Dahej in Gujarat and Mohol, Kurkumbh in Maharashtra with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021. Since 2015, the company's facilities have been subject to 38 inspections and audits by regulators including the USFDA, PMDA, COFEPRIS, Health Canada, MFDS (Korea), EDQM. Other European regulatory agencies and CDSCO also conducted them on a periodic basis. It has not received any warning letters or import alerts from such regulatory authorities. GLS' facilities have also been subject to 432 inspections and audits by customers during this period. The company believes maintaining highest standards of quality and process innovation in R&D and manufacturing operations is critical to brand and maintenance of long-term relationships with customers. It has been consistently implementing cGMPs across each of manufacturing facilities, which are monitored by a comprehensive QMS encompassing all areas of business processes from R&D and raw material procurement to manufacturing to packaging and delivery. It focuses on building quality into their products through compliance with global regulatory standards as well as compliance with local and state laws that encompass manufacturing regulations, environmental clearance norms and other statutory norms.

Key risks & concerns

Regulatory concern

The company is required to comply with regulations and quality standards stipulated by such multiple regulators including USFDA, European regulatory agencies and others. Its manufacturing facilities and products are subject to periodic inspection/audit by customers and such regulatory agencies. If they are not compliant with any of their requirements, facilities and products may be the subject of a warning letter, which could result in the withholding of the product approval for new products.

Customer concentration

The company's five largest customers accounted for more than 50% of FY21 revenues with the Promoter the largest customer. GLS does not typically have exclusivity arrangements with customers, including key customers. Reliance on a select group of customers may also constrain the company's ability to negotiate arrangements. Discontinuance of purchase of APIs from any of the large clients due to starting manufacturing of their own APIs or deterioration of the financial condition or business prospects of these customers could reduce their requirement of products and result in a significant decline in revenues from these customers.

Product concentration

The company's top 10 products accounted for 66.36% of FY21 revenue. If market growth in key products declines, or if profit margins on products sold in key products decline, results of operations could be adversely affected.

Raw material volatility

The company has multiple third-party vendors, with whom it places purchase orders from time to time, for the purchase of raw materials. GLS currently sources a significant portion of key starting materials from vendors in China and India. For FY21, three largest suppliers accounted for 40.26% of total purchases of key starting materials. Any reductions or interruptions in supply of raw materials, abrupt increase in prices of raw materials, inability to find alternate sources for the procurement of such raw materials may adversely affect business, results of operations, cash flows and financial condition.

Pricing pressure from customer

Pursuing cost-cutting measures while maintaining rigorous quality standards may lead to an erosion of margins, which may have a material adverse effect on business, results of operations and financial condition. In addition, estimating amounts of such price reductions is subject to risk and uncertainties, as any price reduction is the result of negotiations and other factors. If it is unable to offset customer price reductions in future through improved operating efficiencies, new manufacturing processes, sourcing alternatives and other cost reduction initiatives, the company's business, results of operations and financial condition may be materially adversely affected.

Financial summary

Exhibit 4: Income Statement

Revenue (₹ crore)	FY19	FY20	FY21
Revenue from operations	1,405.0	1,537.3	1,885.2
Other income	0.5	12.0	0.8
Total revenue	1,405.5	1,549.3	1,886.0
Raw Material Expenses	626.4	690.5	905.5
Employee expense	129.7	142.3	149.1
Other expenses	219.5	232.6	239.5
Total Expenses	975.7	1,065.4	1,294.1
EBITDA	429.3	472.0	591.1
Finance costs	0.6	33.5	87.5
Depreciation and amortisation expense	25.4	29.4	33.4
Profit before tax and exceptional items	403.8	421.1	470.9
Profit before tax	403.8	421.1	470.9
Tax expense	111.2	108.0	119.4
Profit after tax before Minority interest	292.7	313.1	351.6
Profit after tax	292.7	313.1	351.6

Source: RHP, ICICI Direct Research

Exhibit 6: Balance Sheet

Balance Sheet (₹ crore)	FY19	FY20	FY21
Equity and liabilities			
Shareholders' funds			
Share capital	2.0	2.0	2.0
Reserves and surplus	86.2	399.7	750.8
Non-current liabilities			
Long-term borrowings	0.0	0.0	0.0
Deferred tax liabilities (net)	6.9	16.4	22.9
Other non-current liabilities	0.0	0.0	0.0
Current liabilities			
Short-term borrowings	0.0	0.0	0.0
Trade payables	182.9	201.1	221.3
Other current liabilities	1,183.5	1,092.4	980.2
Short-term provisions	14.0	14.0	19.9
Total	1,475.4	1,725.6	1,997.1
Assets			
Non current assets			
Fixed assets			
Tangible assets	450.0	539.1	564.9
Capital work in progress	80.3	10.7	14.1
Intangible assets	6.3	7.2	7.9
Intangible assets under development	0.1	0.0	0.0
Non-current investments	0.1	0.1	0.1
Deferred tax assets (net)	0.0	0.0	1.2
Other financial assets	7.9	8.4	8.5
Other non-current assets	0.0	0.0	1.4
Current assets			
Inventories	400.8	412.8	513.4
Trade receivables	448.1	638.6	619.5
Cash and bank balances	2.1	10.0	115.6
Other current assets	79.7	98.7	150.5
Total	1,475.4	1,725.6	1,997.1

Source: RHP, ICICI Direct Research

Exhibit 5: Cash Flow Statement

Cash Flow (₹ crore)	FY20	FY21
PBT	421.1	470.9
Operating profit before working capital changes	477.8	604.3
Changes in working capital	-190.3	-107.6
Income tax paid	-92.5	-108.6
CF from operating activities	195.0	388.1
(Purchase)/Sale of Fixed Assets	-50.9	-66.4
Interest Received	0.4	0.4
Investment in bank deposits	0.0	-2.8
CF from investing activities	-50.5	-68.7
Proceeds from issue of share capital	0.0	0.0
Other Financial Activities	-136.6	-213.8
CF from financing activities	-136.6	-213.8
Net Cash Flow	7.9	105.6
Opening Cash	2.1	10.0
Closing Cash Flow	10.0	115.6
FCF	144.1	321.8

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 7: Key Ratios

Ratio Sheet	FY19	FY20	FY21
Per share data (₹)			
Diluted EPS	23.9	25.6	28.7
Cash EPS	26.0	28.0	31.4
BV per share	7.2	32.8	61.4
Cash Per Share	0.2	0.8	9.4
Operating Ratios (%)			
Gross Profit Margins	55.4	55.1	52.0
EBITDA Margins	30.6	30.7	31.4
PAT Margins	20.8	20.4	18.6
Inventory days	104.1	98.0	99.4
Debtor days	116.4	151.6	119.9
Creditor days	47.5	47.7	42.8
EBITDA Conversion Rate	NA	41.3	65.7
Return Ratios (%)			
RoE	332.1	77.9	46.7
RoCE	31.8	29.6	32.2
RoIC	34.0	30.0	34.8
Valuation Ratios (x)			
EV / Sales	6.3	5.7	4.6
EV/EBITDA	20.5	18.7	14.7
Market Cap / Sales	6.3	5.7	4.7
P/E	30.1	28.2	25.1
Price to Book Value	8.2	1.8	1.0
Solvency Ratios			
Debt / EBITDA	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0
Net Debt/ Equity	0.0	0.0	-0.2
Current Ratio	0.7	0.9	1.1
Quick Ratio	0.4	0.6	0.7
Asset Turnover	2.6	2.8	3.2

Source: RHP, ICICI Direct Research, considered upper band for calculations

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