

Sector: Pharmaceuticals

RESULT REVIEW Q3FY22

Declared On: 21 Jan 2022

Gland Pharma Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs3305	Rs2882	Rs4100	24%	BUY	543

*as on 24th Jan, 2022

About the Company:

Established in 1978, Gland Pharma Ltd (Gland Pharma) has grown from being a contract manufacturer of small liquid parenteral products to become one of the largest and fastest growing injectable focused company with production capacity of ~755mn units (name plate capacity) per annum of various formulations as of 30th June 2020. The company sells products primarily under a Business to Business (B2B) model in over 60 countries including the United States, Europe, Canada, Australia, India and RoW. The company's expertise lies in development and manufacturing of injectable products, meeting the required regulatory standards. The business existence ranges from sterile injectables, including oncology and ophthalmic, focus on high value generics such as complex molecules, first-to-file products. Gland has expanded its portfolio base from liquid parenterals to cover other elements of injectable value chain, including contract development, own development, dossier preparation and filing, technology transfer and manufacturing across a range of delivery systems. Gland was the first Indian company to get USFDA approval for an injectables site in India in 2003. In terms of products, Gland Pharma was the pioneer in producing Heparin and Enoxaparin in India and is still the only supplier to the US market from India (These two products accounted for ~25% of the company's revenues in FY20). The company has 7 manufacturing facilities in India comprising 4 finished formulations facilities (sterile injectables, penems facility at Pashamylaram, Hyderabad) with a total of 23 production lines and 3 API (oncology facility at Vishakhapatnam) facilities. The company is promoted by Shanghai Fosun Pharma, a global pharmaceutical major. Gland Pharma has Mr. Srinivas Sadu as the Managing Director and the CEO.

Results: Quick Glance

- The total revenue for the quarter grew by 23.7% to Rs10,633mn as compared to Rs8,594mn in the same quarter last year
- The EBITDA margin for the quarter under review stood at 32.8% as against 30.7% in the corresponding quarter of last year
- The company reported a net profit of Rs2730mn as against Rs2041mn in the comparative quarter
- The EPS for the quarter under review stood at Rs16.62

Geographic Revenues:

(a) USA, Europe, Canada and Australia (Core markets): Growth of 10% on y-o-y basis was witnessed in the core markets. The revenues came in at Rs6,652mn in Q3FY22 as against Rs6,022mn in Q3FY21; driven by key product growth Micafungin Sodium, Ketorolac Tromethamine and Heparin Sodium. The core markets contribution for Q3FY22 stood at 63%. Q3FY22 had new launches with 6 product SKUs

(b) India: The revenues came in at Rs1,950mn in Q3FY22 as against Rs1,493mn; growth of 31%. This was on account of volume growth of existing products along with ramp up of launched products for the exports market. Ertapenem has been the key contributor to the Indian markets growth. The contribution came in at 18% of the total revenues for Q3FY22

(c) RoW: The revenues came in at Rs2,031mn as against Rs1,079mn; growth of 88% on y-o-y basis. Enoxaparin Sodium was the biggest contributor to the growth among the key products

Conference Call Highlights:

- The performance for the quarter was driven by new launches and volume growth of the existing product portfolio. Despite witnessing some material supply delays during the quarter; Gland has been in constant touch with the vendors to address the same and has maintained the growth momentum for the quarter under review
- In the **US business**, with regard to the filings update as on 31st Dec, 2021; the company had 309 ANDAs, of which 249 were approved and 60 have a pending status. During Q3FY22, the company has filed 18 ANDAs, 3 DMFs and received 4 ANDA approvals; whereas for 9MFY22 the number stands at 27, 11 and 16 respectively. The total registrations globally as on date stands at 1,552. Gland witnessed a pent up in the ANDA filings during the quarter that led to an increased R&D expense. The normal run rate for ANDA filings stands at ~Rs50-60mn but for this quarter it came in at Rs300mn

Conference Call Highlights (contd.):

- The company foresees good contract demand in terms of Micafungin (2 major contracts here), Enoxaparin and anticipates further new launches for the US markets. The total market size purely in terms of launches stands at ~USD1.3-1.4bn (in next 9 months); wherein Gland anticipates approx. 7 launches in the next 3 months
- As far as the ban on Enoxaparin is concerned (bifurcated into prohibited and restricted category, the ban is based on the restricted category), there hasn't been any concern seen for Gland considering the no. of players floating in the Indian markets. If at all any shortage is witnessed then there might be some rigid restrictions in terms of getting an approval for the shipments to be undertaken
- In terms of Chinese product commercialization, Gland is awaiting its 1st approval and the product at present is at the decisive stage in terms of either a virtual/physical audit to be undertaken from inspection per se. Once that is finalized, Gland anticipates the commercialization to happen most likely in Q1FY23 or could be deferred by few months or so
- **RoW market:** This business has seen a good y-o-y growth. So far the historic revenue run rate has been ~Rs2,000-2.500mn. Being business driven, Gland has several tenders signed, the supply execution of which starts in different quarters, hence most likely a step up can be witnessed in April quarter
- Gland has completed four complex injectable filings in Q3FY22 which includes three hormonal products and one complex peptide, all Gland ANDA owned. These products have an addressable market size of USD983mn in the US market. Additionally, the company has completed submission batches for next set of three products and the filings are expected by Q2FY23. These planned filings include one complex peptide and two hormonal products
- On the **Vaccines front**, Gland has been in a tech transfer agreement for Sputnik Light which stands completed as on Q3FY22 and is awaiting necessary regulatory approval to initiate the manufacturing of the same. The batches have been sent to Kasauli and NOC has been issued in the current month, with the remaining documentary protocol to be completed and followed, Gland can start exporting 50 million doses order that it has received; the timeline of which should take about 4-5 months
- For the **biosimilars business (focused for the regulated markets)**, Gland is not into the product development rather developing work for other companies and has an R&D team in place that caters to the service work. Post the ramp up of vaccines (most likely by end of Q3FY23), the company hopes to start getting the revenue contribution from biosimilars maybe in Q1 of next year
- The total R&D expense for Q3FY22 was Rs699mn (6.6% of revenues); for 9MFY22 the same stood at Rs1,714mn (5.2% of revenues). The company maintains its guideline for R&D investments at 3.5-4% of the revenues
- The cash flow from operations for 9MFY22 stood at Rs6,127mn. The effective tax rate for Q3FY22 and 9MFY22 stands at 25%
- Cash conversion cycle for 9MFY22 stood at 190 days as against 189 days in 9MFY21; on account of increased inventory
- **Capex:** total capex incurred during Q3FY22 stood at Rs1,261mn and Rs4,547mn for 9MFY22. Another ~Rs1,000mn is expected in this quarter; Rs5,500mn for FY22E. For FY23E: Rs3,000mn for Pashamylaram, additional capacities for vertical integration for the APIs
- During the quarter, other income included Rs342mn for interest on FDs, Rs86mn forex gains on operations; for 9MFY22, interest on FDs stood at Rs1,033mn and Rs520mn as forex gains on operations
- Net cash balance as on Dec, 2021: Rs32,807mn to be utilized for capex and inorganic plans. Net working capital for Dec, 2021 stood at Rs19,227mn
- ROCE (ex-cash basis) stands at 34% for 9MFY22
- Fixed asset turnover for 9MFY22 stood at 3.2x; increased from 2.9x in 9MFY21; this was on account of increased capacity utilization

Financials:

Performance (Q3FY22)									
Q3FY22 Result (Rs mn)	Dec-21	Dec-20	y-o-y	Sept-21	q-o-q	9MFY2	9MFY21	y-o-y	FY22E
Total Revenue	10633	8594	23.7%	10805	(1.6%)	32977	25751	28.1%	45366
EBITDA	3489	2642	32.0%	3766	(7.4%)	11618	9746	19.2%	16332
Other Income	457	351	30.0%	512	(10.8%)	1587	876	81.2%	2017
Interest	12	12	2.2%	10	15.6%	32	24	34.3%	39
Depreciation	278	250	11.5%	261	6.6%	792	739	7.3%	1063
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	925	691	33.9%	986	(6.1%)	3123	2493	25.3%	4381
Net Profit	2730	2041	33.8%	3021	(9.6%)	9258	7366	25.7%	12866

Outlook and Recommendations:

The company yet again reported good set of numbers for the quarter under reference. Growth was attributed to the geographical revenue mix, good strength in the wide portfolio base in the core markets and new launches undertaken. Despite witnessing certain supply chain issues, Gland has managed to maintain its momentum. The company's key products like Enoxaparin, Micafungin have been the biggest contributors, with further huge contracts under its radar. In terms of vaccine development, Gland is awaiting the manufacturing license which would eventually help spur the export demand that it foresees and be able to start the execution of the dosage contract it has in hands. Post the ramp up of the vaccine facility, re-purposing the same for biosimilars product development is something that the company is keenly focusing and working on. The company continues to expand its capabilities in peptides, suspensions, hormonal products, maintaining and trying to achieve its vision of being a strong contender in the complex injectables space in the near term. The company has a sound financial profile with decent cash in its books, well defined capex plans chalked over the medium term and good CFO generation. Continuing the same optimism, but factoring in the delayed realization of Sputnik as well as the supply disruptions we have tweaked our estimates and accordingly recommend Buy for a target price of Rs4100.

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