Glenmark Life Sciences Limited

Issue Opens	Tuesday, July 27, 2021
Issue Closes	Thursday, July 29, 2021
Price Band (in Rs)	695/720
Bid Lot	20 shares and multiples thereafter

IPO UPDATE

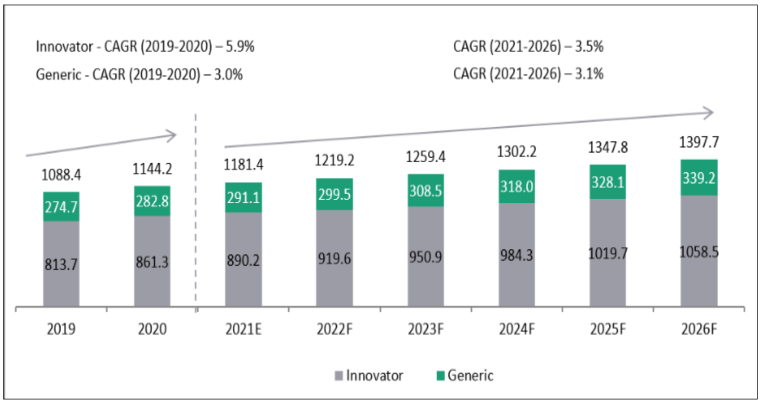
Glenmark Life Sciences Limited

Industry Overview:

Global Formulation Market:

The global formulation market was estimated to be around USD1,144bn in 2020 and is expected to grow at a CAGR (2021-2026) of 3.4% to reach to about USD1,398bn. Growth in the market is largely attributed to the launch of novel therapies, expansion of existing therapies, growing demand for generic medicines, biologics and personalized medicines as well as accelerated demand for effective treatments and drugs. In the global market, the innovator formulations sales came in at USD861bn in 2020 and is anticipated to grow at a CAGR of 3.5% from 2021-2026 to reach USD1059bn. Generics which account for 25% of the current market share, is expected to increase from USD283bn in 2020 to USD339bn in 2026; CAGR of 3.1%.

Exhibit 01: Global Formulations Market (values in USDbn)



Source: Company RHP

Therapy Areas:

The 7 therapeutic areas: oncology, CNS, anti-infectives, CVS, diabetes, respiratory disorders and pain contributed about 60.8% of the total formulations market in 2020 and is estimated to capture about 68.2% of the total formulations market by 2026. Global oncology market is the largest therapy market contributing to ~20.3% of the total formulations market in 2020 followed by CVS (including anti-thrombotics) capturing about 10.8% of the total market share. The other therapy area segments like CNS, diabetes and anti-infectives captured about 9.9%, 6.3%, and 6.8% of the total market shares, respectively in 2020.

Exhibit 02: Therapeutic Market Share (in %)

Therapy Area	2019	2020	2021	2022	2023	2024	2025	2026
Oncology	18.7	20.3	20.9	21.6	22.3	23.0	23.7	24.5
CVS+ Anti-thrombotics	10.6	10.8	11.0	11.7	12.4	13.2	14.0	14.8
Pain	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0
Anti-infectives	7.5	6.8	6.7	6.6	6.5	6.3	6.2	6.1
Diabetes	6.8	7.3	7.9	7.8	7.7	7.6	7.6	7.5
CNS	10.3	9.9	9.7	9.7	9.7	9.7	9.7	9.7
Respiratory	3.7	3.7	3.8	3.7	3.7	3.6	3.6	3.6
Others	40.2	39.2	37.9	36.9	35.7	34.5	33.1	31.8

Source: Company RHP, Progressive Research

SNAPSHOT		
Issue Opens	Tuesday, July 27, 2021	
Issue Closes	Thursday, July 29, 2021	
Price Band (Rs)	695/720	
Bid Lot	20 shares and multiples thereafter	
Face Value	Rs2	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (*Rs Mn*)	Fresh Issue	10,600
	OFS	4,536
	Total	15,136
*Implied Market Cap (*Rs Mn*)	88,220	
P/E (*based on FY21 Earnings*)*	25.09	

**Note: Implied Market Cap & P/E are calculated at upper price band of Rs720*

Issue Allocation	
Reservations	**% of Net Issue**
QIB	50
NIB	15
Retail	35
Total	**100**

Object of the Offer

- Payment of outstanding purchase consideration to the promoter for the spin-off of the API business from the promoter into the company pursuant to the business purchase agreement
- Funding capex requirements
- General corporate purposes

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Key Therapeutic Growth Drivers:

⇒ **Oncology:** the market share stood at ~20%, being the largest therapy area. The growth is driven by increased screening, cancer incidences worldwide, adoption of different lifestyle. New cancer therapies are currently the main focus of many anti-cancer drug development and thus driving the market growth in coming years.

⇒ **CVS:** including anti-thrombotics, therapy area is the next biggest therapy area with a market share of 10.8% in 2020. With respect to CVS therapy area, increase in incidence rate of cardiovascular diseases, owing to changing demographics and rise in prevalence of stroke, diabetes, and hypertension is expected to drive the anti-hypertensive drugs market.

⇒ **CNS:** this therapy area is the next biggest therapy area with a market share of 9.9% in 2020. The increasing prevalence of neurological disorders is expected to boost the adoption of advanced central nervous system treatment solutions during the forecast period.

⇒ **Diabetes:** Diabetes is next in line with its 2020 market share at 7.3%. The markets for diabetes and CVS therapy area are expected to grow over the coming years, driven by the rising incidence of obesity, sedentary lifestyle, poor eating habits and rising geriatric population.

⇒ **Anti-infectives:** captured about 6.8% of the market share in 2020 and this segment is expected to have a slow growth rate of about 1.5% in the next five years.

⇒ **Pain management:** this had a market share of 2.1% in 2020 and is expected to grow at about 2.4% from 2021 to 2026. With the growing aging population, the demand for pain relief solutions for chronic pain is increasing.

Global API Market:

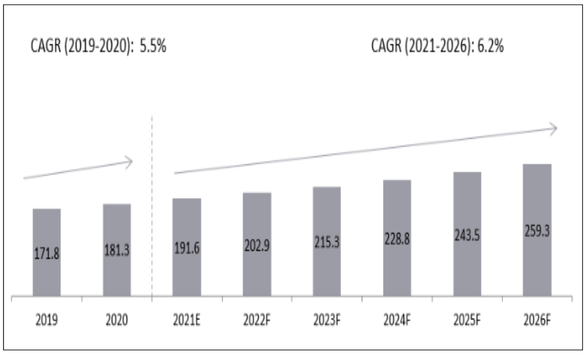
The global API market was estimated to be around USD181.3bn in 2020 and is expected to grow at a CAGR of 6.2% to reach to about USD259.3bn by 2026. The market is likely to exhibit a positive outlook with the growing trend towards the development of innovative therapeutic drugs by various pharmaceutical and biotechnology companies. Amongst the therapeutic areas, the oncology therapy area had the highest revenue share of about 25%, followed by the anti-infectives (anti-bacterials, anti-virals, anti-fungals) therapy area segment with 10% share, CNS with 9% market share and CVS and anti-thrombotics with 15% market share from consumption point of view.

Exhibit 03: Global Pharmaceutical Market-Therapy Area CAGR

Therapy Area	CAGR (2019-20)	CAGR (2021-26)
Oncology	13.8%	6.7%
Pain	5.5%	2.4%
Diabetes	12.3%	2.4%
CVS+ Anti-thrombotics	7.1%	9.7%
CNS	0.7%	3.5%
Respiratory	4.7%	2.4%
Anti-infectives	(4.9%)	1.5%

Source: Company RHP, Progressive Research

Exhibit 04: Global API Market (value in USD bn)



Source: Company RHP

Iron Compounds:

The global iron compounds API market was estimated to be worth USD1.3bn in 2020 and is expected to grow at a CAGR of 4.5% from 2021 to 2026 to reach USD1.7bn by 2026. During the historic period, the iron compounds market shows a CAGR of 11.4% and it is expected to further grow in future due to the rising incidence of anemia in patients with chronic kidney disease, number of cases of patients with postpartum anemia and number of patients undergoing elective surgeries.

Peptides Market:

Peptides are naturally occurring biological molecules. The global peptides API market was estimated to be worth USD17.6bn in 2020 and is expected to grow at a CAGR of 10% from 2021 to 2026 to reach USD34.5bn by 2026. During the historic period, the peptides API market showed a CAGR of 27% and it is expected to further grow in future due to its proven effectiveness in treatment of a wide range of metabolic and oncological disorders. The increasing prevalence of cancer and metabolic disorders, rising investments in research and development of novel drugs, and technological advancements in peptide therapeutics are the major factors driving the market growth.

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CDMO Business:

The CDMO value chain includes drug development, API and formulations services. The global CDMO market has grown at a CAGR of 7.9% from USD99bn in 2018 to USD115bn in 2020. The market is expected to continue growing from USD125bn in 2021 to USD169bn in 2026, at a CAGR of about 5.2%. The world's aging population, increasing healthcare conditions in developing countries and expensive breakthrough therapies are among the main factors driving this level of demand for pharmaceutical products. Companies are facing higher R&D costs and a need to invest in new capabilities as a result of the rapid growth in demand. As a result, lowering the cost of pharmaceuticals becomes more complicated, leading some companies to seek outsourcing partners to generate savings. The growth drivers includes, cost led advantages via outsourcing, increasing pressure to lower drug prices has led to a prevalence of CMOs and low cost manufacturing base in India.

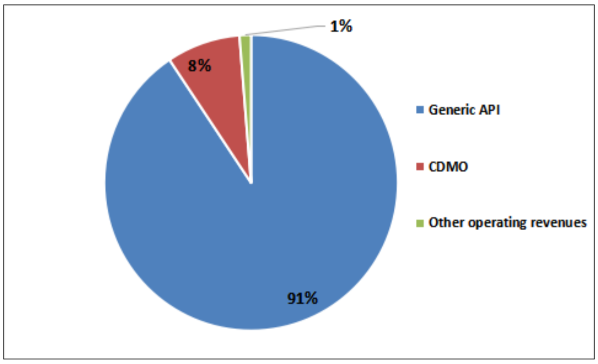
About the Company:

Incorporated in 2011, Glenmark Life Sciences (GLS) is the leading manufacturer of APIs. GLS is the wholly owned subsidiary of its promoter Glenmark Pharmaceuticals Ltd. In 2019, the API manufacturing business of Glenmark was sold and spun off into Glenmark Life Sciences as a part of broader reorganization designed to place Glenmark on an accelerated trajectory to attain its objectives in three different verticals, with Glenmark Life Sciences to lay its focus on the API business. Following the spin-off, GLS operates as an independent, professionally-managed global API business. GLS develops, manufactures, and supplies high-quality APIs for cardiovascular disease (CVS), central nervous system disease (CNS), pain management, and diabetes, gastrointestinal disorders, anti-infectives, and other therapeutic areas. It further operates in Contract Development and Manufacturing Operations (CDMO) to offer services to specialty pharmaceutical companies. Its products are being sold in India and also exported to multiple countries i.e. Europe, North America, Latin America, Japan, etc. Currently, it has 4 manufacturing facilities at Ankleshwar and Dahej in Gujarat and Mohol and Kurkumbh in Maharashtra with an aggregate annual installed capacity of 726.6 KL as of 31st March, 2021.

Business Overview:

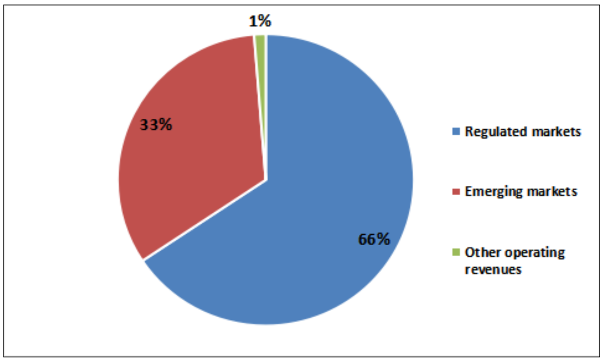
Glenmark Life Sciences operates in 2 business lines viz; Generic APIs (generics and complex APIs) and CDMO (including specialty). The **API business** comprises of development, manufacture and sale of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. These products are sold both in the regulated and emerging markets. Additionally, the company also manufactures and sells APIs for the gastro-intestinal disorders, anti-infectives and other therapeutic areas. As of 31st May, 2021, the company filed 403 DMFs and CEPs across its various major markets that include Europe, US, Japan, Russia, Brazil amongst others. For FY21, the revenues from API business came in at Rs17,084mn (90.63% of the total revenues) as against 84.16% in FY20. Under the **CDMO business,** the company applies for and procures permission to market products in regulated markets as well as contract manufacturing of APIs for utilization by pharmaceutical companies to make formulations. Specialty API is an important sub-segment of its CDMO business. Within this, the company offers customized support to pharmaceutical companies from making regulatory filings, providing research and technological support to manufacturing specialty APIs. For FY21, the revenues from the CDMO business came in at Rs1,529mn (8.11% of the total revenues) as against 13.04% in FY20.

Exhibit 05: Business Glance-FY21



Source: Company RHP, Progressive Research

Exhibit 06: Market Split-FY21



Source: Company RHP, Progressive Research

Glenmark Life Sciences Limited

Competitive Strengths:

(i) Leadership position in high value, non-commoditized APIs: API portfolio comprises specialized and profitable products, including niche and technically complex molecules, which reflects the company's ability to branch into other high value products. As of 31st March, 2021, GLS sold its APIs in India whereas exported them to multiple countries in Europe, North America, Latin America, Japan and ROW. For FY21, FY20 and FY19, the revenues from regulated market products came in at Rs12,374mn (65.64%), Rs10,966mn (71.33%) and Rs9,685mn (68.93%) of the total revenue from operations, respectively. The total market size in terms of sales for the portfolio of 120 molecules globally was estimated to be around USD142bn in 2020 and is expected to grow by about 6.8% over the next five years to reach to about USD211bn 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). The company has a target set to work on developing of about 8-10 molecules each year that consists of both high value and high volume APIs.

(ii) Customer Base: GLS has established strong relationships with leading global generic pharmaceutical companies that has helped it to expand the product offerings and geographic reach. As of 31st March, 2021, 16 of the 20 largest generic companies globally were its customers. For FY19-21, ~69% of the customers were period-on-period repeat customers. Some of the notable names includes, Glenmark, Torrent Pharma, Teva Pharmaceuticals, Aurobindo, KRKA.

(iii) Quality Checks in Place: The company currently operates 4 multi-purpose manufacturing facilities located at Ankleshwar and Dahej in Gujarat and Mohol and Kurkumbh in Maharashtra. Since 2015, the 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 hasn't received any warning letters or import alerts from such regulatory authorities. Additionally, its facilities have also been subject to 432 inspections and audits by the customers during this period.

Strategies:

(i) Expand geographic focus, API portfolio: The company intends to expand the size and scope of its business by diversifying the customer base in existing markets and increasing geographic market coverage. The management eyes opportunities in countries/regions that are adopting a more stringent regulatory framework and are moving towards becoming well-regulated markets such as South Korea, Taiwan, Russia, Brazil, Mexico and Saudi Arabia. Apart from this, trying hands on to create new opportunities in ROW markets by utilizing manufacturing in the least developed countries through local partnerships are in place.

(ii) CDMO Growth Levers: The company has rich experience and capabilities in process chemistry research and thus has the ability to attract innovator pharma companies. The company continues to partner with the needs of its customers in order to provide lifecycle management solutions towards the mature portfolio. Costly breakthrough therapies enables the companies to outsource the development part of R&D thereby reducing the pharmaceutical and clinical development cost. Large Indian CDMO players with a proven track record and integrated service offerings are likely to be beneficiaries of this future growth in outsourcing.

(iii) Expansion Plans: As of 31st March, 2021, the annual total installed capacity of its 4 multipurpose plants stands at 726.6KL. The company intends to increase the API manufacturing capabilities by enhancing the existing production capacities at its Ankleshwar facility during FY22E and at its Dahej facility during FY22-23E by an aggregate annual total installed capacity of 200KL. This additional production capacity is expected to further expand the generic API production and also lead to a growth in the oncology product pipeline. Apart from the greenfield investments, the company has plans in place to get into backward integration of KSM in order to become more self-reliant and thus less dependent on its vendors for procuring raw materials.

Financials:

The revenues for FY21 came in at Rs 18,852mn as against Rs15,373mn in FY20. The revenues have grown at a CAGR of ~45.83% over FY19-21. On the operational front, the company has a decent track record with margins reported at 31.4% in FY21. The PAT for FY21 came in at Rs3,516mn as against Rs3,131mn in FY20. In terms of exports, the company sells its products in both the regulated and emerging markets. The percentage share in regulated markets for FY21 stood at 65.64% as against 71.33% in FY20. The capex (greenfield) plans at its Ankleshwar and Dahej facilities are on track and as per management they are anticipated to become operational from Q4FY23E. Additionally, the company lays its focus on concentrating towards the CDMO business and leverage its position thereby maintaining a quality oriented approach and thus grow the business in the near future.

Exhibit 7: Financials Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	8,864	15,373	18,852
EBITDA	2,477	4,720	5,911
EBITDA Margin %	*27.9*	*30.7*	*31.4*
Net Profit After Tax	1,956	3,131	3,516
Net Profit Margin %	*22.1*	*20.4*	*18.6*
Earning Per Share	24.6	29.0	32.6
RoNW (%)	*99.3*	*77.9*	*46.7*

Source: Company RHP, Progressive Research

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Risks & Concerns:

- Adherence to all regulatory authorities and quality standards are expected to be in place. In case of being identified as non-complaint in any of its facilities would have an adverse effect on the business.
- Loss of any key customers, deterioration of their financial condition or prospects, or a reduction in their demand for the company's products could adversely affect the business, results of operations, financial condition and cash flows.
- Any slowdown in the industry trends can effect the normal business operations.
- Any plant/facilities shutdown in the manufacturing operations could have an adverse effect on the business, results of operations, financial condition and cash flows.
- Delay in terms of sourcing/reduction in the supply of raw materials to manufacture products could adversely affect the business operations.

Outlook and Recommendations:

Glenmark Life Sciences has a niche product portfolio at its disposal with major revenues coming in from the API base. The company has a decent revenue mix in the therapeutic areas under its API division, with CVS category contributing ~45.44% to the FY21 revenues followed by CNS (9.82%), Diabetes (3.62%), Pain management (4.13%), Others (36.99%). Additionally, the management foresees good opportunities in the onco, peptides and the CDMO space in the near future. The company has its molecule development targets in place with 8-10 being developed each year. Additionally, being regulatory compliant, GLS hasn't received any warning letters or import alerts from such regulatory authorities. GLS continues to grow its generics base by emphasizing on the existing products along with new pipelines in place. Although around 40% (as on date stands at low single digits) of the raw materials are being sourced from China, the management has strategies in place and has undertaken de-risking for few commercial products as well as future pipelines; the company would reduce the dependency to almost zero levels in years time. The management had indicated of applying in the PLI scheme and anticipates to benefit through incremental business. At the upper end of the IPO price band, GLS is offered at 25.09x based on its FY21 earnings. Based on the rationale of leadership in selected high value APIs in the chronic space, strong management and balance sheet, cost leadership, growing business with good return ratios, we recommend a **Subscribe** rating to the IPO.

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