

Stability in the Base Business; Maintain HOLD

Est. Vs. Actual for Q2FY24: Revenue – **INLINE**; EBITDA Margin – **INLINE**; PAT – **MISS**

Changes in Estimates post Q2FY24

FY24E/FY25E: Revenue: 1.2%/0.6%; EBITDA Abs.: 1.2%/0.6%; PAT: 1.2%/0.6%

Recommendation Rationale

The base business of the **GLAND (Ex Cenexi)** registered consistent revenue de-growth of 3.0% YoY in Q2FY24. It maintained EBITDA margins of ~34% in line with preceding quarters.

The acquired company – **Cenexi** reported revenue of Rs 359 (+11.4% QoQ), EBITDA of Rs 23 Cr, and comprises EBITDA margins of 6.4% YoY, margins are impacted one time due to the annual summer shutdown in France.

The company introduced a total of **34 products** into the **US market**, including 9 entirely new products in Q2FY24.

Sector Outlook: Positive

Company Outlook & Guidance: China remains a key geographic focus for the company. Gland has received and launched one product this year. It is also First-to-File (FTF) for one product, which it filed in H1FY24 with a US market size of around \$170 Mn. We expect the company to post a revenue CAGR of ~5% in the long term, which is as par with other injectible players like HIKMA, Auro, and Hoshipora.

Current Valuation: PE 23x for Sep 26E earnings (**Earlier Valuation:** PE 23x)

Current TP: Rs 1,700/share (**Earlier TP:** Rs 1,620/share)

Recommendation: HOLD

Financial Performance

GLAND' Q2FY24 base business (Ex Cenexi) registered consistent revenue de-growth of 3.0% YoY, maintaining EBITDA margins of ~34%, which is in line with preceding quarters. The said growth was led by volume growth in the existing portfolio, new launches and milestone income. The acquired company – Cenexi reported revenue of Rs 359 Cr (+11.4% QoQ), EBITDA of Rs 23 Cr, and EBITDA margins of 6.4% YoY. Margins are impacted one time due to the annual summer shutdown in France. The consolidated revenue stood at Rs 1,373 Cr, up 13.6% YoY while the company's consolidated EBITDA margins were at 23.6%. It reported a PAT of Rs 194 Cr, which is flat on a QoQ basis.

During Q2FY24, the company introduced a total of 34 products into the US market, including 9 entirely new products. Among these offerings was a complex peptide product. The quarter also witnessed a resurgence in sales from two clients whose operations had been disrupted in Q4FY23.

Outlook: The company has enhanced its geographical footprint in Europe through the acquisition and integration of Cenexi for CDMO operations and new B2B partnerships in other markets through portfolio maximization of the US-approved ANDA portfolio. China remains a key geographic focus, having received and launched one product this year. The company is First-to-File (FTF) for one product, which it filed in H1FY24 with a US market size of around \$170 Mn. We expect the company to post a revenue CAGR of ~5% in the long term, which is as par with other injectible players like HIKMA, Auro, and Hoshipora.

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	1,373	13.6	31.5	1,350	1.7
EBITDA	324	10.2	9.1	320	1.3
EBITDA Margin	23.6%	-73	-485	30.5%	-
Net Profit	194	0.0	-19.6	210	-7.5
EPS (Rs)	11.8	0.0	-19.6	12.8	-7.5

Source: Company, Axis Research

(CMP as of 7 Nov 2023)

CMP (Rs)	1,578
Upside /Downside (%)	7.4%
High/Low (Rs)	1,908/861
Market cap (Cr)	25,900
Avg. daily vol. (6m)Shrs.	2,72,564
No. of shares (Cr)	16.4

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	57.9	57.9	57.9
FII	9.4	6.1	4.7
MFs / UTI	15.5	18.5	19.5
Banks / FI	17.2	17.6	18.0
Others	57.9	57.9	57.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	5,038	5,723	6,238
EBITDA	1,315	1,499	1,641
Net Profit	1,003	1,164	1,257
EPS (Rs)	60.8	70.9	76.5
PER (x)	25.9	22.3	20.6
P/BV (x)	17.7	15.0	13.1
EV/EBITDA (x)	2.9	2.6	2.3
ROE (%)	11.2	11.5	11.1

Change in Estimates (%)

Y/E Mar	FY24E	FY25E	FY26E
Sales			-
EBITDA			-
PAT			-

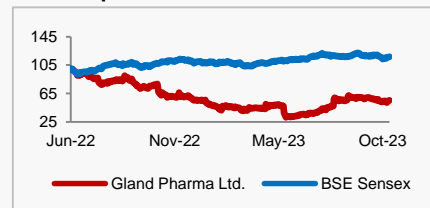
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA
Sector Average	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: ACE Equity, Axis Securities

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Key Risks to our Estimates and TP

- The potential USFDA inspections resulting in the issuance of Warning Letters (WL), Official Action Indicated (OAI) status, or 483 observations could potentially have an impact on the company's revenue growth.
- The entry of new competitors into the market might lead to heightened pricing pressures within the injectable portfolio.
- Any delays in launching Biosimilars in the market could also pose challenges to the company's operations and growth strategy.

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	5,038	5,723	4,979	5,689	1.2%	0.6%
EBITDA	1,315	1,499	1,299	1,490	1.2%	0.6%
PAT	1,003	1,164	991	1,157	1.2%	0.6%

Source: Company, Axis Securities

Results Review

Particulars (INR Crore)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	1,044	938	785	1,209	1,373	32	14
Growth (%)	-3.3%	-11.8%	-28.8%	41.1%	31.5%		
Total Expenditure	747	649	617	915	1,049	40	15
Raw Material Consumed	504	433	438	466	518		
Purchase of stock in trade	4	4	3	4	6		
Stock Adjustment	11	-10	-77	-16	-2		
% of sales	49.7%	45.5%	46.5%	37.5%	38.0%		
Gross margins %	50.3%	54.5%	53.5%	62.5%	62.0%	1,174	-51
Employee Expenses	101	101	103	255	305	201	20
% of sales	9.7%	10.8%	13.1%	21.1%	22.2%		
Other Expenses	95	91	119	157	165	74	5
% of sales	9.1%	9.7%	15.2%	13.0%	12.0%		
Power & Fuel	32	29	30	50	58		
% of sales	3.1%	3.1%	3.8%	4.1%	4.2%		
EBITDA	297	290	169	294	324	9	10
EBITDAM (%)	28.5%	30.9%	21.5%	24.3%	23.6%	-485	-73
Interest	2	3	2	5	6		
Depreciation	37	38	38	65	81		
Other Income	66	62	39	38	53		
PBT	325	311	111	261	290	-11	11
Tax	83	79	32	67	96		
Tax (%)	25.5%	25.4%	29.1%	25.7%	33.0%		
Reported PAT	242	232	79	194	194	-20	0

Source: Company, Axis Securities

Geographical Breakup

Particulars (INR Crore)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
USA	748	663	550	660	708	-5	7
India	73	81	65	65	88	21	35
RoW	224	194	171	162	219	-2	35

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total Net Sales	3,625	5,038	5,723	6,238
Growth (%)	-17.6%	39.0%	13.6%	9.0%
Total Expenditure	2,600	3,723	4,224	4,598
Raw Material Consumed	1,685	2,716	3,079	3,350
Gross margins %	53.5%	46.1%	46.2%	46.3%
Employee Expenses	403	534	607	661
% of sales	11.1%	10.6%	10.6%	10.6%
Other Expenses	511	474	538	586
% of sales	14.1%	9.4%	9.4%	9.4%
EBIDTA	1,025	1,315	1,499	1,641
EBITDAM (%)	28.3%	26.1%	26.2%	26.3%
Interest	7	0	0	0
EBIT	1,018	1,315	1,499	1,641
EBITM (%)	28.1%	26.1%	26.2%	26.3%
Depreciation	147	211	223	236
Other Income	240	231	272	267
Share of profit/ (loss) of joint venture and associate, net	0	0	0	0
Exceptional items, net	-56	0	0	0
PBT	1,055	1,335	1,548	1,671
Tax Rate (%)	25.0%	24.9%	24.8%	24.8%
Tax	274	332	384	414
Reported PAT	781	1,003	1,164	1,257

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Share Capital	16.5	16.5	16.5	16.5
Reserves & Surplus	7,942	8,944	10,111	11,371
Shareholders Fund	7,959	8,961	10,128	11,387
Total Debt	4	4	4	4
Deferred Tax Liab. (Net)	84	88	88	88
Provisions	0	0	0	0
Trade Payables	587	828	941	1,025
Other Liabilities	143	154	174	190
Total Liabilities	8,777	10,034	11,334	12,694
Gross Block	2,291	3,291	3,491	3,691
Depreciation	733	944	1,167	1,403
Fixed Assets (incl. CWIP)	1,748	3,025	3,002	2,965
Inventories	1,945	2,485	2,822	3,076
Trade Receivables	871	1,215	1,380	1,504
Cash & Cash Equivalents	3,771	2,781	3,527	4,488
Other Current Assets	442	529	601	655
Total Current Assets	6,901	6,834	8,130	9,505
TOTAL ASSETS	8,777	10,035	11,332	12,689

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
PBT	1,055	1,335	1,548	1,671
Add: Depreciation	147	211	223	236
Add: Interest	7	0	0	0
Cash flow from operations	1,209	1,546	1,771	1,908
Change in working capital	200	718	441	332
Taxes	274	332	384	414
Miscellaneous expenses	0	0	0	0
Net cash from operations	736	496	946	1,161
Capital expenditure	-214	-1,488	-200	-200
Change in Investments	155	0	0	0
Net cash from investing	-59	-1,488	-200	-200
Increase/Decrease in debt	0	-0	0	0
Dividends	0	0	0	0
Proceedings from equity	0	0	0	0
Interest	-7	-0	-0	-0
Others	16	4	-0	0
Net cash from financing	9	3	-0	-0
Net Inc./(Dec.) in Cash	685	-989	746	961
Opening cash balance	3,086	3,771	2,781	3,527
Closing cash balance	3,771	2,781	3,527	4,488

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	(17.6)	39.0	13.6	9.0
OPM	28.3	26.1	26.2	26.3
Oper. profit growth	(32.1)	28.3	14.0	9.4
COGS / Net sales	46.5	53.9	53.8	53.7
Overheads/Net sales				
Depreciation / G. block	6.4	6.4	6.4	6.4
Effective interest rate	25.0	24.9	24.8	24.8
Net wkg.cap / Net sales				
Net sales / Gr block (x)	1.6	1.5	1.6	1.7
RoCE	20.3	18.1	19.2	20.0
Debt / equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	25.0	24.9	24.8	24.8
RoE	9.8	11.2	11.5	11.1
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	47.4	60.8	70.9	76.5
EPS Growth	(35.5)	28.2	16.5	8.0
CEPS (Rs.)	28.0	21.4	18.7	17.4
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

Gland Pharma Price Chart and Recommendation History



Date	Reco	TP	Research
24-Jan-22	HOLD	3,570	Result Update
20-May-22	HOLD	3,300	Event Update
21-Jul-22	HOLD	2,700	Result Update
27-Oct-22	HOLD	2,100	Result Update
24-Jan-23	HOLD	1,500	Result Update
02-May-23	BUY	1,500	Result Update
18-May-23	BUY	1,400	Result Update
09-Aug-23	HOLD	1,620	Result Update
07-Nov-23	HOLD	1,700	Result Update

Source: Axis Securities

About the analyst

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Sector: Pharma Sector/ Midcaps

Analyst Bio: Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector

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SELL	Less than -10%
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NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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