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Acumen at work

Gland Pharma

BUY

INITIATING COVERAGE | GLAND IN EQUITY | November 23, 2020

Injecting compliant remedies

Gland's business model is B2B-led and generates 67% revenue from US. Filings are split 70%/20%/10% between injectables/oncology/opthalmics. Superior compliance setup vs listed Indian generic majors drives Gland's unique capabilities. Wide B2B customer base and superior execution ensure scale benefits. Gland's FY16-20 EBITDAM averaged 37% vs 21% median for listed names. Rise in generics injectable penetration (57%), USD60bn worth loss-of-exclusivity in 2019-24, and perennial shortages would ensure sustained growth momentum (FY20-23 sales/EBITDA CAGR: 15%/20%). Balance sheet remains healthy despite growth momentum with FY20 pre-tax RoCE at 31%. Initiate with BUY and DCF-based TP of ₹2,109. FY22E exit EPS of 28x is in line with our top picks (Dr. Reddy's, Cipla) but at 30% premium to global peers (e.g. Recipharm) factoring superior RoCE. Chinese parentage offers newer growth and RM sourcing avenues, but geopolitical issues could result in operational challenges.

Competitive position: STRONG Changes to this position: POSITIVE

An exception to repeated compliance violations flagged by USFDA

Gland's ANDAs entail 70% injectables, with <5 players as competition in 41% of products launched prior to 2019, indicating complexity. Indian generic majors have been red flagged for compliance over the last 5 years. But, founder P.V.N. Raju built a robust manufacturing setup, with current MD/CEO (Srinivas Sadu) ensuring business continuity after Shanghai Fosun acquired Gland in 2017.

Gland's business model is B2B-led, but marked with IP capabilities

Revenue reliance on B2B is 96%. However, Gland spends 4-5% of sales on R&D as well in order to develop and own IP rights for various filings. It owns 38% of US ANDA filings and has access to key APIs (e.g., heparin, enoxaparin) which no other Indian players have. Gland also works with a technology transfer model in which the marketer retains IP rights to the filings. IP ownership ensures superior value-accretion vs a 'COGS plus profit margin' model in technology transfer.

Growth visibility high; injectable margins offer CDMOs scope to thrive

Gland recorded 21% revenue CAGR over FY17-20, with growth momentum sustenance likely given USD60bn worth of molecules facing loss-of-exclusivity over 2019-24, generic penetration by volumes still low at 57% (orals: >90%) and perennial shortages. On the margin front, Hikma's injectable segment generates 40-45% EBITDAM in regulated markets. Hikma is representative of a typical Gland customer, with its EBITDAM indicating scope for CDMOs to thrive.

Re-rating would be driven by superior RoCE and growth outlook

Our ₹2,109 DCF-based TP implies 28x FY22 P/E, with 24% FY20-23 EPS CAGR. Gland outscores Recipharm (global peer) on RoCE, resulting in premium valuation scope to latter's current 1-year 20x P/E. Gland lacks branding strength and innovator relationships compared to generic majors and CDMOs (e.g. Divis), respectively. But, growth visibility and execution track record overcome these deficiencies. Hence, our exit multiple is in line with majors like Dr. Reddy's.

Key financials

Year to March	FY19	FY20	F21E	F22E	F23E
Net Revenues (₹ mn)	20,442	26,332	32,184	34,803	39,823
Operating Profits (₹ mn)	7,065	9,555	13,576	14,391	16,448
Net Profits (₹ mn)	4,519	7,729	10,336	12,369	14,853
RoE (%)	17%	24%	22%	19%	19%
P/E (x)	65.8	38.5	28.8	24.0	20.0
P/B (x)	10.4	8.2	5.0	4.1	3.4

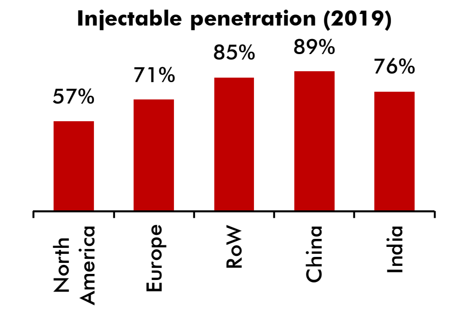
Source: Company, Ambit Capital research

Healthcare

Recommendation

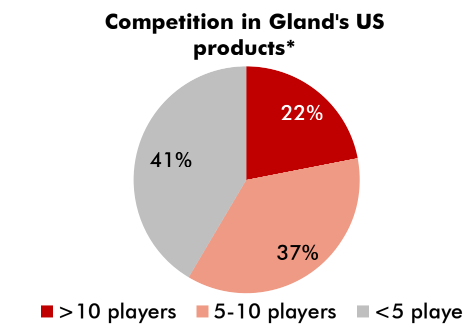
Mcap (bn):	₹300/US$4
CMP:	₹1,820
TP (12 mths):	₹2,109
Upside (%):	16

Scope for generics penetration to increase is quite high in the US



Source: Company, Ambit Capital research

Competition in Gland's products is quite limited



Source: Company, Ambit Capital research; Note: *Analysis includes products launched prior to 2019

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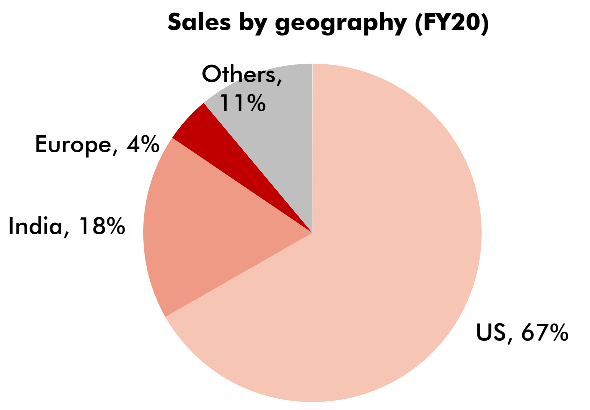
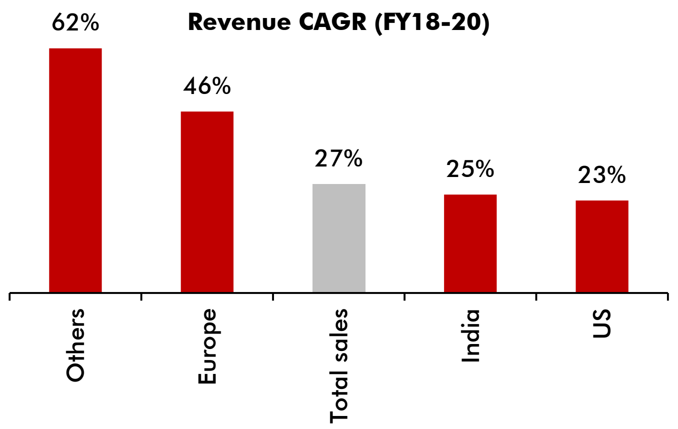
Narrative in charts

US is the key geography for Gland, accounting for 67% of sales in FY20



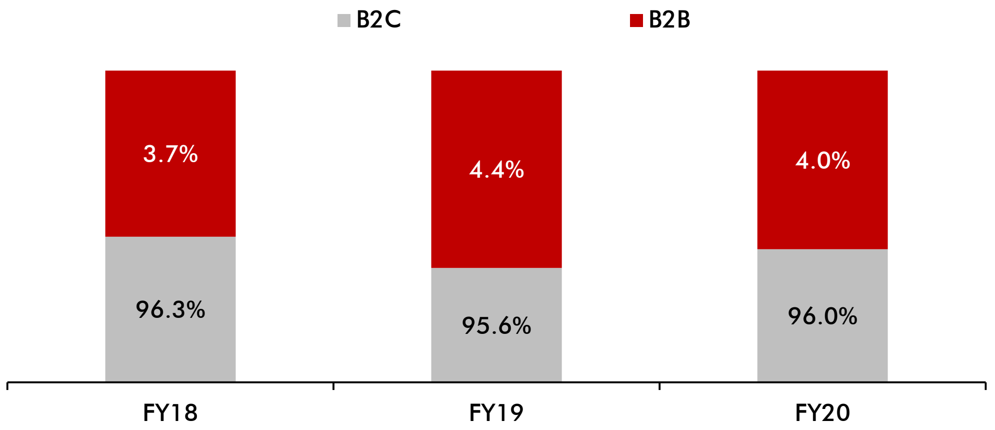
Source: Company, Ambit Capital research

Growth has been quite broad-based for Gland over FY18-20



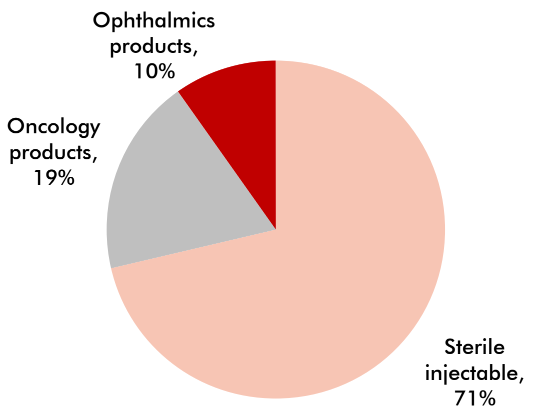
Source: Company, Ambit Capital research

B2B has represented 96% of Gland's sales over the last 3-years



Source: Company, Ambit Capital research

Sterile injectables represent 71% of Gland's ANDAs filings in the US



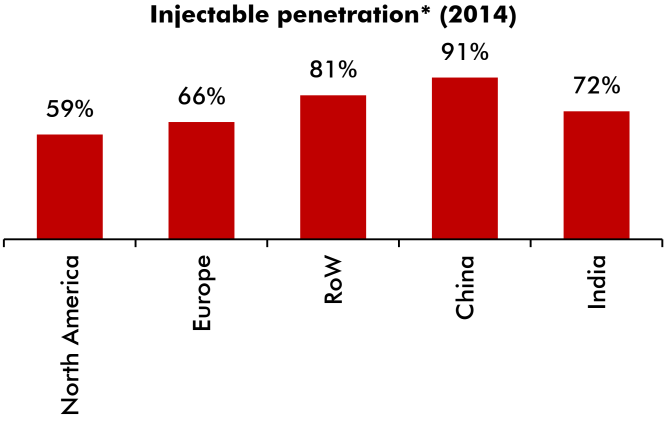
Source: Company, Ambit Capital research

Gland owns 38% of the ANDAs filed in the US market

Filings (as on Mar'20)	Units
Total ANDAs filed (incl. partners)	**265**
- ANDAs approved	204
- ANDAs pending approval	61
Total ANDAs filed (incl. partners)	**265**
Owned by Gland	100
- Approved	63
- Pending approval	37
Owned by partners	165

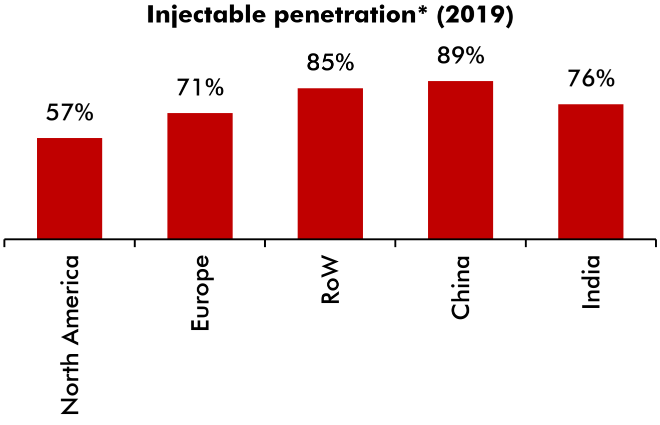
Source: Company, Ambit Capital research

We still see room for generic penetration in injectables to move up in key markets like North America…



*Source: Company, Ambit Capital research; Note: *penetration has been represented on volumes*

…as generics still represent 57% of total prescription volume vs >90% levels in orals



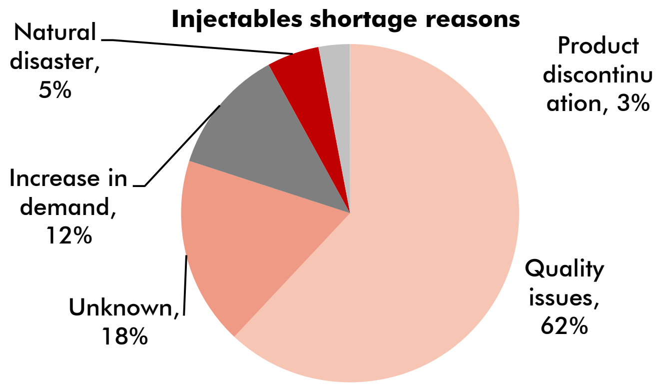
*Source: Company, Ambit Capital research; Note: *penetration has been represented on volumes*

63% of all shortages over 2013-17 have been for injectable products

USFDA's study on drug shortages between (2013-17)	Units	% of total
Total drugs under shortages	163	100%
- Injectables	103	63%
- Others	60	37%

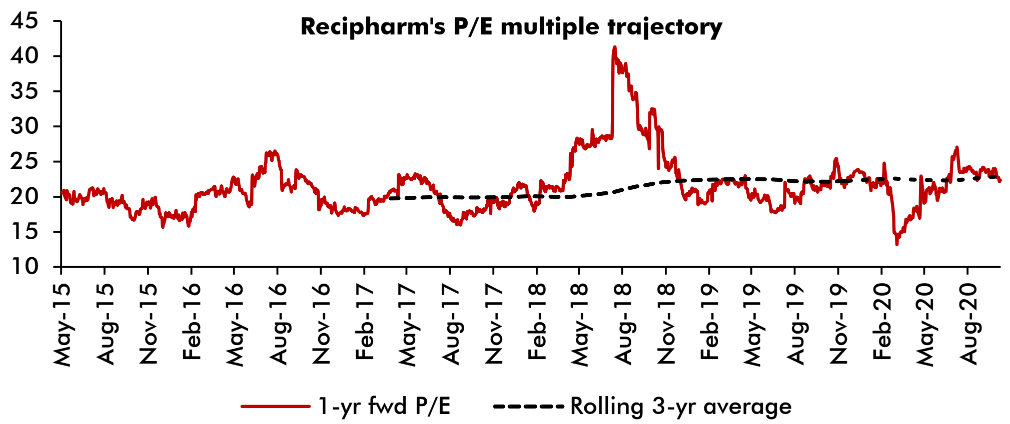
Source: Company, Ambit Capital research

Quality is the key reason for perennial injectable shortages in the market



Source: Company, Ambit Capital research

Recipharm (global comparable) has traded in the range 20-22x on rolling 3-year average basis; Gland's operating metrics are materially superior to Recipharm



Source: Bloomberg, Company, Ambit Capital research

A franchise that swears by compliance

Gland's 70% US filings are sterile injectables, while the remainder is split 20/10 between oncology/opthalmics. None of Indian generic majors boast of such a high proportion of sales being generated from complex products in the US. Aurobindo is an exception as it is part of the top 10 pack. Gland has achieved this on the back of a clean compliance track record envisioned and built by Mr. P.V.N Raju. The company has not received any warning letters in the last five years. Meanwhile, generic majors (e.g., Cadila, Cipla, Sun) have all been red flagged on their compliance of injectable units. Gland's business model is predominantly B2B-led. But, it spends 4-5% of sales in R&D, due to which a high proportion (38%) of 265 ANDAs in the US are company-owned. This ensures a revenue model that's better than the typical 'COGS plus profit margin'.

None of Indian generic majors boast of such a high proportion of sales being generated from complex products in the US

Exhibit 1: Gland's portfolio is highly skewed towards complex injectables and generates 67% of sales from the US

Company overview	Remarks
Business	▪ Gland is predominantly an injectables focussed company and generated 67% of FY20 sales from the US ▪ Derives 96% of sales from B2B relationships with remainder B2C presence largely being in India ▪ Established in 1978 and has expanded from liquid parenterals over the years to other elements of the injectables value chain such as contract development, own development, dossier preparation/filing, technology transfer and manufacturing across a range of delivery systems
Parent	▪ **Shanghai Fosun Pharma**: global pharma major with extensive pharma manufacturing, distribution and R&D expertise in China and international markets ▪ Strategically, Gland's relationship with Shanghai Fosun is enabling the company to target injectables in China and Africa as growth avenues
Key segments	▪ **Sales by geography:** US (67%), India (18%), Europe (4%), others (11%) ▪ **US ANDA split:** sterile injectables (71%), oncology products (19%), opthalmics (10%)
Manufacturing	▪ **7 manufacturing facilities in India:** 4 finished formulations (22 production lines) and 3 API facilities ▪ Formulations manufacturing capacity as of end-Jun'20: 755 mn unit vials per annum
Shareholding*	▪ Fosun Singapore (58%), Gland Celsus (6%), Empower Trust (3%), Nilay Trust (1%)

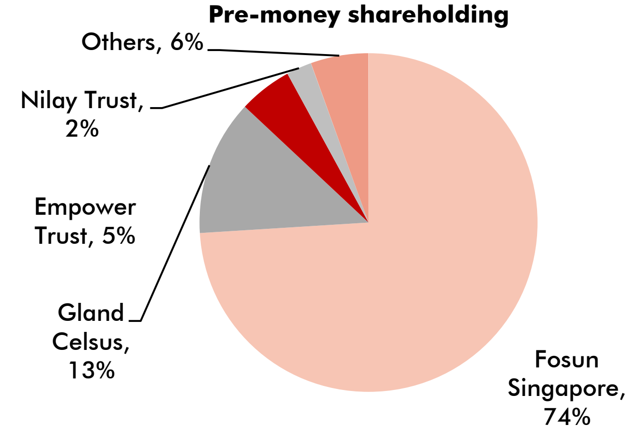
*Source: Company, Ambit Capital research; Note: *shareholding is on post money basis*

Exhibit 2: We see many internal strengths, though opportunities are currently restricted to injectables

Strengths	Weaknesses
▪ **USFDA compliance:** A clean compliance track record in the injectables space, with no major compliance violations ▪ **Facilities:** Manufacturing is concentrated across three areas (Dundigal, Pashamylaram, Vizag); expert interactions suggest that large concentrated facilities ensure scale benefits ▪ **Business model:** B2B relationships help Gland to generate scale, as same products can be manufactured for multiple customers ▪ **Parentage:** Chinese (Shanghai Fosun) promoter would enable Gland to penetrate the Chinese market and foster better raw material sourcing relationships ▪ **Vertical integration:** >40 DMFs have been filed by Gland, with access in major APIs quite restricted to peers	▪ **Branding capabilities:** Gland has to tie-up with front end partners, with profit sharing agreements dampening earnings ▪ **Over reliance on injectables:** Capabilities do not extend to biologics, which would potentially be a high growth area in the coming decade ▪ **Innovator relationships:** Companies like Divis undertake custom manufacturing for innovator companies, with end product entailing pricing power; Gland's relationships are limited to generic manufacturers
Opportunities	**Threats**
▪ **Penetration in injectables:** Considerable growth on offer as generic penetration levels are still 57% vs >90% in orals in the US ▪ **Chinese market opportunities:** Parent Shanghai Fosun would ensure market entry, with six products having been filed	▪ **Competition from frontline Indian players:** Aurobindo, Dr. Reddy's are highly focussed on the injectable market ▪ **Geopolitics:** Indian-China geo-political conflict could result in uncertain policies given 58% post money Chinese shareholding

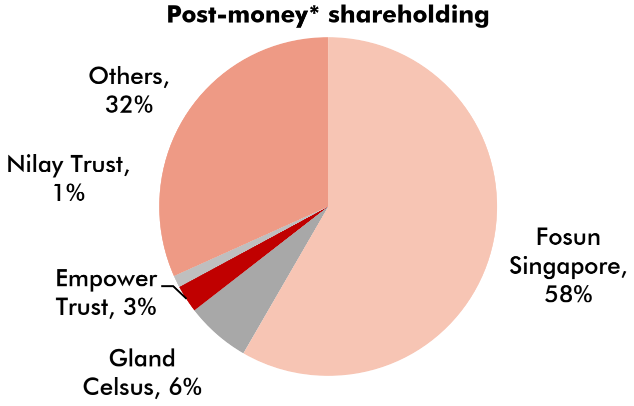
Source: Company, Ambit Capital research

Exhibit 3: Key promoter Fosun Singapore's shareholding will fall…



Source: Company, Ambit Capital research

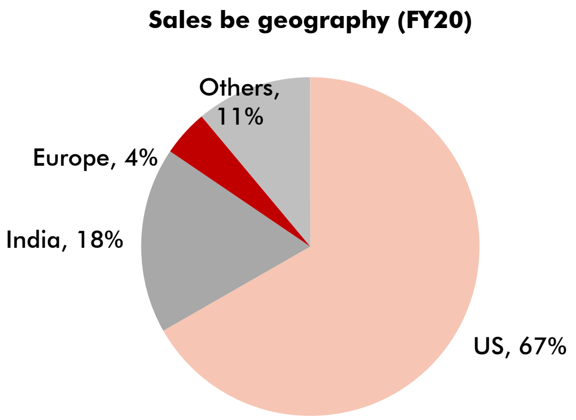
Exhibit 4: …from 74% to 58% post the IPO



*Source: Company, Ambit Capital research; Note: *Post-money shareholding has been calculated based on ₹1,490-1,500 issue price band*

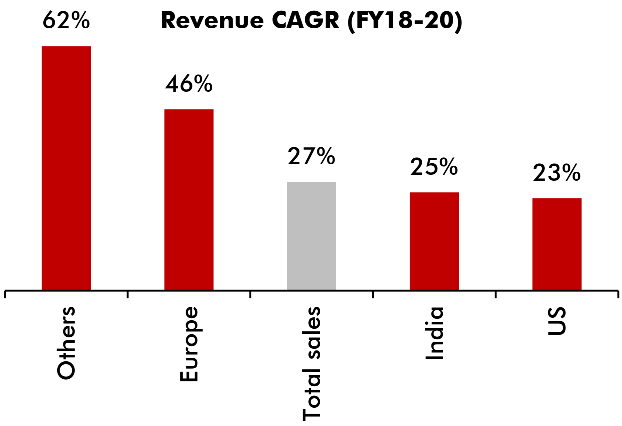
Gland is a unique company not just with regards to its business model but also due to its parentage being Chinese. Shanghai Fosun owns 74% of the company on a pre-money basis and had bought promoter stake in 2017 for USD1.1bn, implying company-wide valuation of USD1.5bn. Some of the advantages that Gland possesses due this relationship include: (i) access to the Chinese market, with Gland having filed its first product in the country in 2019; and (ii) favorable scale and bargaining power to procure raw material and equipment from China.

Exhibit 5: US is the key geography for Gland, accounting for 67% of sales in FY20



Source: Company, Ambit Capital research

Exhibit 6: Growth has been quite broad-based for Gland over FY18-20



Source: Company, Ambit Capital research

Exhibit 7: Complex facilities' clearances received from various regulatory agencies are a key highlight of Gland's journey over the last 2 decades

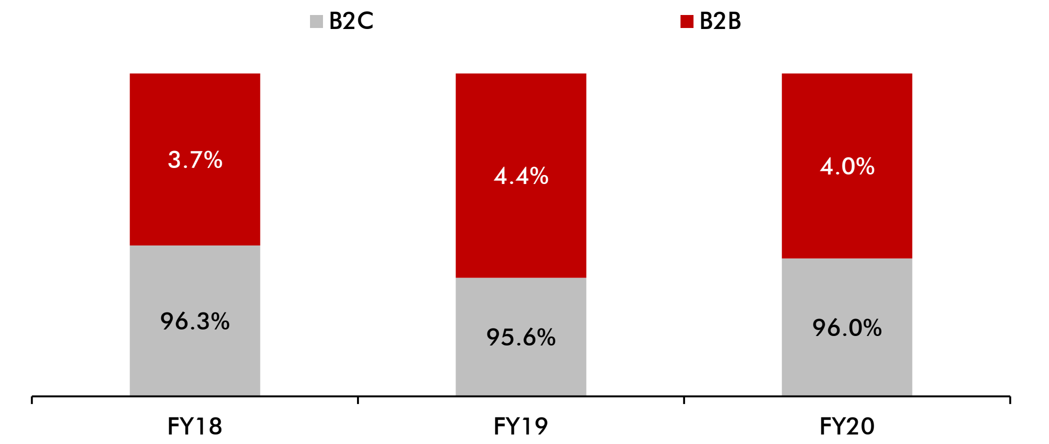
Year	Milestone	Strategic development
2019	Filed dexrazoxane for injection, first filing in China; received clinical waiver	Geographic entry
2018	Received ANDA approval for enoxaparin sodium injection USP	Product approval/launch
	Received ANDA approval for olopatadine hydrochloride ophthalmic solution USP, 0.1% (first ophthalmic product approval)	Product approval/launch
2017	Fosun Singapore acquired majority 74% stake	M&A
2016	USFDA approval received for facilities at Jawaharlal Nehru Pharma City, Visakhapatnam	Plant approval
	USFDA approval received for manufacturing facility at Pashamylaram	Plant approval
	Obtained USFDA approval for facility at the Visakhapatnam Special Economic Zone	Product approval/launch
2014	USFDA approval received for Visakhapatnam small volume parenteral manufacturing facility	Plant approval
	Commissioned the Pashamylaram Unit-II manufacturing facility	Plant approval
	Received GMP compliance certificate from MHRA (UK) for Dundigal (Hyderabad) unit	Plant approval
	USD100mn capital infused pursuant to private equity investment aggregating to USD200mn with KKR Floorline Investment Pte Ltd	Capital infusion
2012	Received GMP compliance certificate from BGV Hamburg (Germany) for Dundigal (Hyderabad) unit	Plant approval
2010	Launched heparin sodium injection in the US	Product approval/launch
2007	₹1bn capital infused pursuant to private equity investment aggregating to ₹1.2bn with EILSF Co-Invest LLC	Capital infusion
2004 - 2005	enoxaparin sodium Injection (gCutenox) launched in India and RoW	Product approval/launch
2003	Dundigal (Hyderabad) manufacturing unit approved by USFDA	Plant approval
2000	R&D facility established at Dundigal (Hyderabad)	R&D initiative

Source: Company, Ambit Capital research

Gland's business model is largely B2B-driven

Gland's business model is unique as it's not a typical contract manufacturer. A large proportion of relationships are IP-driven, which enables Gland to showcase both product development and manufacturing capabilities. Flexibility is high in Gland's contract structuring, as it works with both IP ownership and technology transfer based models. ANDA/filing ownership lies with the marketing partner in the IP-led model, while both the models entail royalty/profit share-based payments.

Exhibit 8: B2B represented 96% of Gland's sales in FY20



Source: Company, Ambit Capital research

Exhibit 9: Gland's business model is a bit unique compared to other major listed/un-listed Indian pharma names owing to high prevalence of IP capabilities even in B2B

Model		Rights/ownership				
		ANDA/product registration ownership	Development by Gland	IP Ownership	Marketing rights	Royalty/profit sharing
B2B IP-led	Own filing	Y	Y	Y	Y	Y
	Partner filing	N	Y	Co-owned	N	y
B2B Technology transfer		N	Y*	N	N	Y
B2B CMO		N	N	N	N	N
B2C		Y	Y	Y	Y	NA

*Source: Company, Ambit Capital research; Note: *Exhibit batches and stability studies are conducted by Gland*

B2B model enables Gland to operate in an opex-light manner: This model entails IP-led, technology transfer or contract manufacturing relationships with customers. The model enables Gland to: (i) realize growth without the need to build front-end marketing presence and leverage reputation of marketing partners; (ii) establish contract manufacturing credentials, which in turns leads to sharp scale-up as new customers are won; and (iii) maintain a tight cost structure and focus on capacity building initiatives.

B2C model is restricted to India: Gland focusses on injectables in the domestic market and owns majority of the product pipeline. As of end-Jun'20, the company had a sales force of >200 employees and a distribution network covering 2,000 corporate hospitals, nursing homes and government facilities.

Exhibit 10: IP-led and technology transfer are 2 major types of B2B models; revenue in the latter is limited to cost of goods sold and profit margin

Parameter	IP-led players	Technology transfer players
IP/ANDA ownership	Own the IP/ANDA	Do not own the IP/ANDA
Developmental costs	Incurred by CDMO	Borne by drug marketer
Revenue model	**Development stage drugs** - milestone fee + transfer pricing + profit margin **Approved drugs** -license fee + transfer price + profit margin charged from the marketer	COGS + profit margin
Customers*	**IP-led own filings –** Athenex Pharmaceuticals **IP-led partner filings –** Sagent Pharmaceuticals, Apotex	

*Source: Company, Ambit Capital research; Note: *Number of customers highlighted in the exhibit are not holistic*

Gland's competitive landscape primarily includes companies that directly operate in the B2C injectables space, with key players being Hikma and Fresenius Kabi. Both the companies are part of top 3 that commands >56% market share in the US injectable market. Names like Recipharm are competitors in the B2B space, with the company generating 44% of total topline from injectables.

Exhibit 11: A number of companies are present in both B2C and B2B global injectables manufacturing

Global injectable business models	Competitors
B2C	Hikma, Fresenius Kabi, Amphastar, Sagent, American Reagent, Mylan, Teva, Sandoz
B2B	Gland, Recipharm, Lonza, Piramal Pharma Solutions
B2C + B2B	Pfizer Centreone, Merck Bioreliance, Abbvie, Baxter, Ratio Pharma, Sanofi, GSK

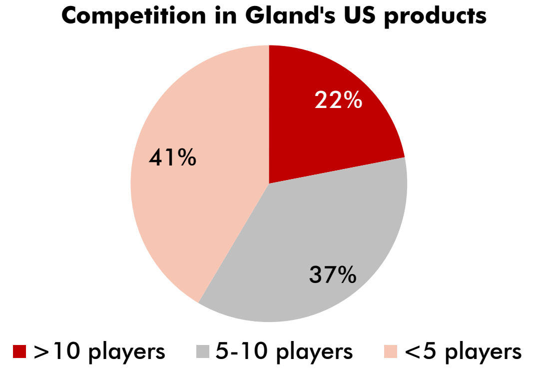
Source: Company, Ambit Capital research

Portfolio analysis yields extended limited competition

Approximately 40% of the portfolio launched prior to 2019 entails <5 players as competition

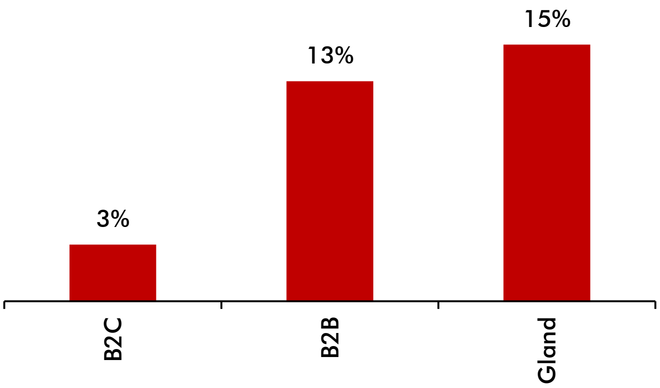
Gland's prospectus discloses key injectable products in various geographies, due to which we are able to map competitive intensity. Our analysis yields that competition in majority of products in the US is quite limited with approximately 40% of the portfolio launched prior to 2019 having less than 5 other players. Competition in commoditized oral solids reaches 15-20 players within 1-2 years of the first generic launch, in our view. Major Indian companies like Aurobindo, Sun, Cipla and Cadila have been flagged for compliance violations in sterile units. Thereby, we expect Gland's limited competition run to continue for both base business and pipeline products.

Exhibit 12: 41% of Gland's products in the US launched prior to 2019 still have less than 5 players as competition



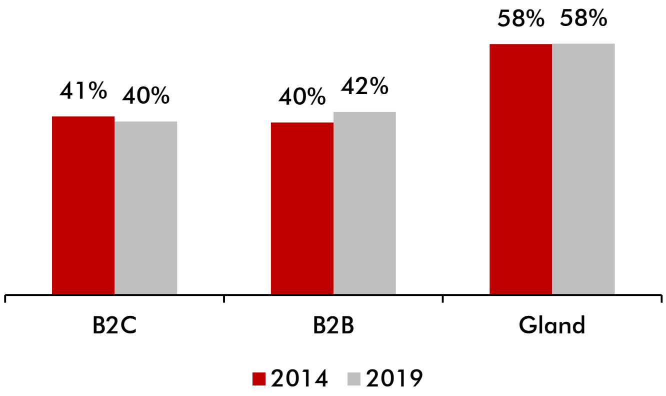
Source: Company, Ambit Capital research

Exhibit 13: Gland has outgrown the wider B2B and B2C injectable industry over 2014-19



Source: Company, Ambit Capital research

Exhibit 14: Gland has also generated materially higher gross margin compared to the industry over 2014-19



Source: Company, Ambit Capital research

Capabilities in many areas ensures top notch portfolio

Factors that enable Gland to operate seamlessly in the complex injectables space include:

- **Robust quality management system:** It had ~1,180 full-time employees working in the quality assurance and quality control team as of end-Mar'20, which represents 32% of total workforce. This is evidence of extreme focus on quality management, which is a key reason behind Gland holding a clean compliance track record even after inspections by multiple global agencies.
- **Complex chemistry development capabilities:** A key highlight from Gland's portfolio is that competition is limited in a number of molecules despite generics having been launched. We see this as proof of Gland's complex chemistry development skills, with par excellence compliance standards.

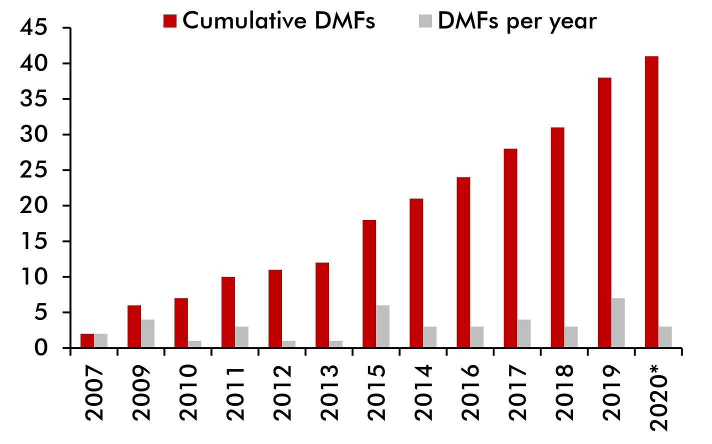
Exhibit 15: We hardly see any Indian generic majors as DMF filers in key products of Gland, which we believe is evidence of process chemistry skills

Gland's key APIs	# of DMF filers	# of Indian filers (ex-Gland)
Atracurium besylate	6-7	nil
Cis-atracurium besylate	5-7	nil
Dexrazoxane	4-6	1
Enoxaparin sodium	10-12	2
Heparin sodium	22-25	nil
Rocuronium bromide	10-12	1

Source: USFDA, Company, Ambit Capital research

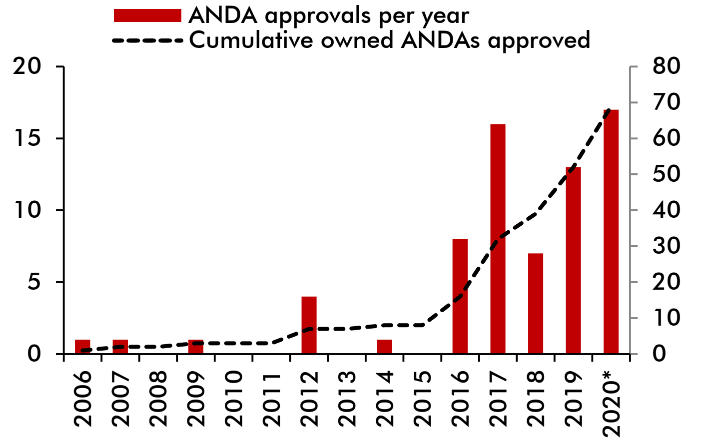
- **Vertical integration capabilities**: Gland is also vertically integrated to an extent with 42 DMF filings in the US. Some of the key APIs that the company manufactures includes atracurium besylate, cis-atracurium besylate, dexrazoxane, enoxaparin sodium, heparin sodium and rocuronium bromide. Access to these APIs appears to be quite limited as we hardly see any Indian DMF filings.

Exhibit 16: Gland has filed >40 DMFs (owned ANDAs: 100) over the years to realize vertical integration



*Source: Bloomberg, Company, Ambit Capital research; Note: *2020 figures include data till Nov*

Exhibit 17: Pace of ANDA approvals has accelerated in the last 5-years for the company



*Source: Bloomberg, Company, Ambit Capital research; Note: *2020 figures include data till Nov*

Exhibit 18: Gland's facilities manufacture complex sterile products with regulatory clearances from multiple agencies

Location	Facility	Presentation	Capacity (Lines)	Exiting capacity (units p.a.)*	Key products	Key regulatory approvals	Remarks
Dundigal, Hyderabad	Sterile injectables	Liquid Vials	6	240mn	Enoxaparin, Sodium, Caspofungin, Levetiracetam, Daptomycin	USFDA (US), MHRA (UK), ANVISA (Brazil), TGA (Australia), BGV Hamburg (Germany)	Obtained USFDA approval in 2003
		Lyophilizers (7 Nos)	NA	48mn			
		Ampoules	1	60mn			
		Pre-filled Syringes	2	60mn			
		Bags	2	5mn			
		Ophthalmics	1	45mn			
Pashamylaram, Hyderabad	Sterile injectables	Liquid Vials	3	132mn	Heparin Sodium, Vancomycin	USFDA (US), GUB Munich (Germany)	Commenced domestic sales in Sep-15 and US sales in Sep-16 following receipt of USFDA approval in Mar-16
		Lyophilizers (3 Nos)	NA	18mn			
		Ampoules	2	120mn			
Pashamylaram, Hyderabad	Penems	Vials (2 Lyophilizers)	1	8mn	-	USFDA (US)	Filed first ANDA in Feb-14 and obtained USFDA approval in Mar-16
		Dry Powder	1	4mn			
Visakhapatnam	Oncology	Liquid Vials	3	11mn	Paclitaxel, Bortezomib	USFDA (US), AGES (Austria), TGA (Australia)	Received USFDA/GMP (EU) approval in 2014, and commenced Europe commercial sales in 2015 and in the US in 2016. Presently, it has additional capacity under installation
		Lyophilizers (4 +1)	NA	5mn			
Dundigal, Hyderabad	API	-	-	NA	-	USFDA (US), MHRA (UK), ANVISA (Brazil), TGA (Australia), BGV Hamburg (Germany)	
Visakhapatnam	API	-	-	3,000 kg/year	-	USFDA (US), ANVISA (Brazil)	
Visakhapatnam	API	-	-	8,000 kg/year	-	USFDA (US), DMA (Denmark)	

Source: Company, Ambit Capital research

Well-established R&D capabilities

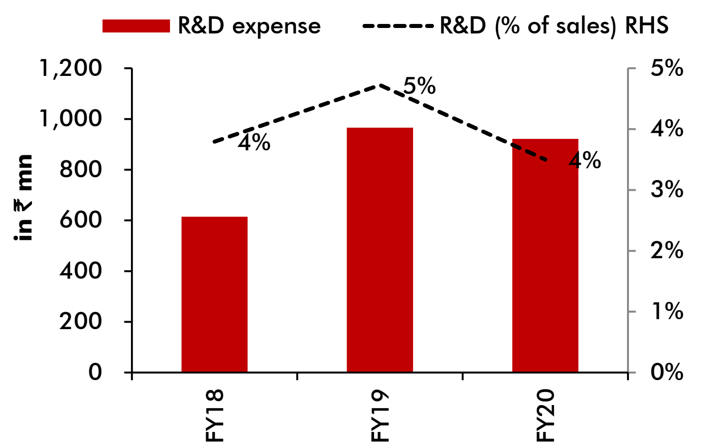
Gland's R&D spend over the last 3 years has been in the range 4-5%, which we believe is quite efficient as the range for generic majors is 4-13%. The company has a centralized R&D lab in Hyderabad (Dundigal) with 250 personnel including PhDs, pharmacy post-graduates and chemists. These personnel hold expertise in synthesis of low molecular weight injectable drugs, steroids and oncology drugs. Other areas of competency include developing complex injectables such as lyophilized products, high-potent drugs and long-acting suspensions.

Exhibit 19: Gland's development capabilities are quite broad-based, especially in the complex molecules space

Development capability	Products
Complex drug molecules synthesis	low molecular weight heparins, steroids, cytotoxics
Complex drug molecules development	cytotoxic, lyopholized ready to use formulations
Complex drug molecules characterization	glycosaminoglycans, including heparin, low molecular weight heparins, chondroitin sulphate, hyaluronic acid, and drug conjugates of glycosaminoglycans
Complex steroids development	vecuronium, rocuronium, fulvestrant and vitamin D analogues

Source: Company, Ambit Capital research

Exhibit 20: R&D spend as percentage of sales has broadly been in the range 4-5% in the last 3 years…



Source: Company, Ambit Capital research

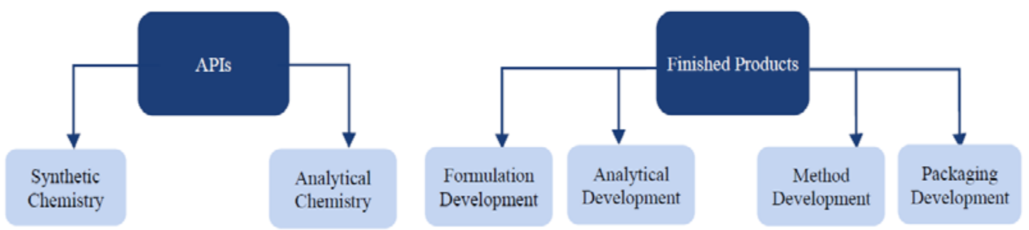
Exhibit 21: …which when compared to generic Indian majors appears to be towards the lower end

R&D as % of sales	FY17	FY18	FY19	FY20
Sun	8%	9%	7%	6%
Aurobindo	4%	4%	4%	4%
Dr. Reddy's	14%	13%	10%	9%
Lupin	13%	12%	11%	10%
Glenmark	14%	14%	15%	13%
Cadila	8%	7%	7%	7%
Cipla	4%	4%	5%	7%
Alkem	6%	6%	6%	6%
Torrent	5%	8%	7%	6%

Source: Company, Ambit Capital research

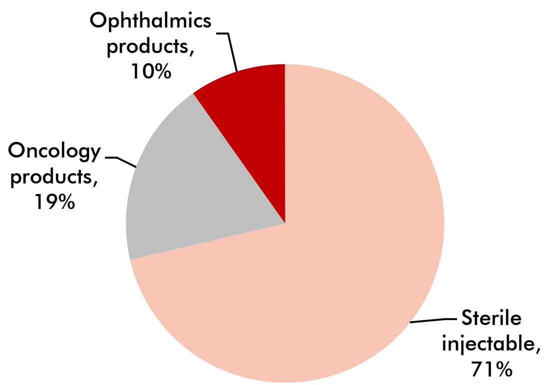
Gland's development capabilities are spread across both APIs and formulations. With regards to the US market, around 70% of filings are in the sterile injectables space followed by 20%/10% in other complex areas like oncology/opthalmics. As we have discussed in the preceding sections, the company also has a B2B IP-led model in which it owns the ANDAs. Total 265 ANDAs have been filed by Gland, with 100 filings being owned by the company.

Exhibit 22: Development process for drug candidates is supported by infrastructure entailing both in-house API and formulation capabilities



Source: Company, Ambit Capital research

Exhibit 23: Sterile injectables represent 71% of Gland's ANDA filings in the US



Source: Company, Ambit Capital research

Exhibit 24: Gland owns 38% of the ANDAs filed in the US market

Filings (as on Mar'20)	Units
Total ANDAs filed (incl. partners)	**265**
- ANDAs approved	204
- ANDAs pending approval	61
Total ANDAs filed (incl. partners)	**265**
Owned by Gland	100
- Approved	63
- Pending approval	37
Owned by partners	165

Source: Company, Ambit Capital research

Exhibit 25: We highlight some of Gland's large-sized injectable products in the exhibit below; a number of these products have competition <12 players despite generics having been launched a while back

Key products	Route (Dosage form)	Brand (innovator)	First generic approval	First generic player approved	# of players approved (excl. innovator)	Key players	Market size (USD mn)
Daptomycin	Intravenous (Powder)	Cubicin (Cubist)	Sep-14	Hospira	10	Dr. Reddy's, Fresenius, Hospira, Mylan, Teva	641
Enoxaparin Sodium	Subcutaneous (Injectable)	Lovenox (Sanofi)	Jul-10	Sandoz	5	Sandoz, Apotex, Teva, Amphastar, Nanjing	616
Palonosetron HCL	Intravenous (Injectable)	Aloxi (Helsinn)	Oct-15	Sandoz	14	Aurobindo, Dr. Reddy's, Teva, Hospira, Hikma, Fresenius	446
Fosaprepitant Dimeglumine	Intravenous (Powder)	Emend (Merck)	Jun-16	Fresenius	12	Fresenius, Teva, Lupin, Mylan, Apotex, Baxter	285
Vancomycin HCL	Injection (Injectable)	Vancoled (West-Ward)	Aug-88	Hospira	10	Aurobindo, Fresenius, Hospira, Hikma, Mylan	247
Dexmedetomidine HCL	Injection (Injectable)	Precedex (Hospira)	Aug-14	Mylan, Par	18	Fresenius, Amneal, Aurobindo, Hikma	210
Heparin Sodium	Injection (Injectable)	-	Aug-09	Hospira	11	Fresenius, Hospira, Mylan, Sandoz,	185
Zoledronic Acid	Intravenous (Injectable)	Zometa (Novartis)	Mar-13	Dr. Reddy's, Mylan, Breckenridge	16	Aurobindo, Dr. Reddy's, Fresenius, Hikma, Mylan	150
Doxercalciferol	Injection (Injectable)	Hectorol (Sanofi)	Aug-13	Hikma	9	Amneal, Hikma, Sandoz, Sun, Lupin, Hospira, Akorn	133
Melphalan HCL	Injection (Injectable)	Alkeran (Apotex)	Jun-09	Mylan	9	Actavis, Dr. Reddy's, Fresenius, Mylan, West-Ward	107
Methylprednisolone Sodium Succinate	Injection (Injectable)	Solu-Medrol (Pharmacia)	Jul-04	Fresenius	5	Amneal, Aurobindo, Fresenius, Sagent, Hikma	102
Bivalirudin	Intravenous (Injectable)	Angiomax (Sandoz)	Jul-15	Hospira	9	Aurobindo, Dr. Reddy's, Fresenius, Mylan, Hospira	101

Source: USFDA, Company, Ambit Capital research

Exhibit 26: Gland is also targeting para IV filings; such filings were scarce from Gland prior to 2019, but we note eight para IV ANDAs in recent times

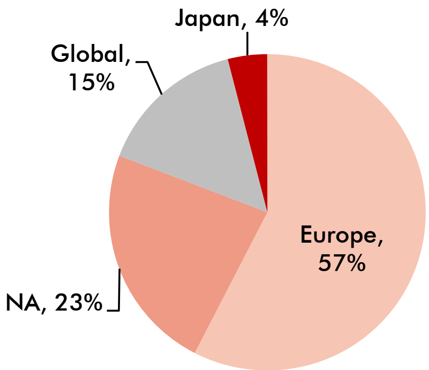
Brand (innovator)	Active ingredient	Market size (USD mn)	Route (dosage form)
NAROPIN (Fresenius Kabi)	ROPIVACAINE HYDROCHLORIDE	34	Injection (solution)
LASTACAFT (Allergan)	ALCAFTADINE	<50	Opthalmic (solution/drops)
BRIDION (Organon)	SUGAMMADEX SODIUM	600	Intravenous (solution)
LEXISCAN (Astellas)	REGADENOSON	NA	Intravenous (solution)
KENGREAL (Chiesi)	CANGRELOR	15-25	Intravenous (powder)
MOZOBIL (Genzyme)	PLERIXAFOR	100	Subcutaneous (solution)
PRECEDEX (Hospira)	DEXMEDETOMIDINE HYDROCHLORIDE	210	Injection (injectable)
AGGRASTAT (Medicure)	TIROFIBAN HYDROCHLORIDE	20-25	Injection (injectable)

Source: Bloomberg, USFDA, Company, Ambit Capital research

Opportunities galore in the wider CDMO space

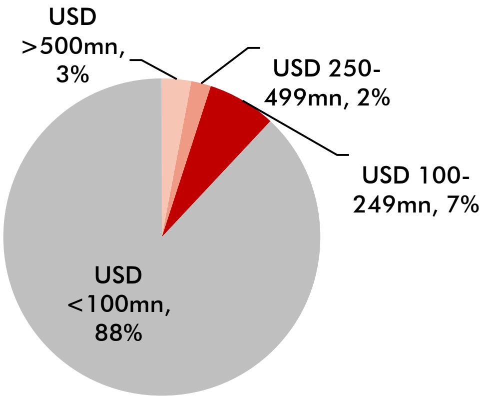
Gland is part of the broader CDMO industry, with outsourced commercial manufacturing market for both small and large molecules touching USD77bn in 2019 as per Recipharm's 2019 AR. Factors that would ensure CDMO uptake in the coming decade include: (i) formulation developers' reluctance to commit high capex; (ii) CDMOs offer flexibility in matching supply-demand, leading to optimum utilization levels; and (iii) better absorption of operating costs. However, CDMO market overall is quite fragmented as only 36 players globally generate >USD100mn sales, which implies only 12% of the market. Gland is part of >USD100mn bracket, but global market share is <1%. We believe companies like Gland are well-positioned to capture opportunities in complex areas like injectables given stringent compliance requirements, low generics penetrations levels and higher customers' margins offering space for contract manufacturers to thrive.

Exhibit 27: Only 15% of CDMOs have manufacturing and business development spanning multiple geographies



Source: Company, Ambit Capital research

Exhibit 28: CDMO space is highly fragmented, with only 12% of players generating >USD100mn sales



Source: Company, Ambit Capital research

Entry barriers quite pronounced in injectables…

Top three injectable players in the US represent >56% of the market, which is evidence of manufacturing complexities in the space. This is despite the market facing perennial shortages as per USFDA. Couple of reasons for this market dynamics includes:

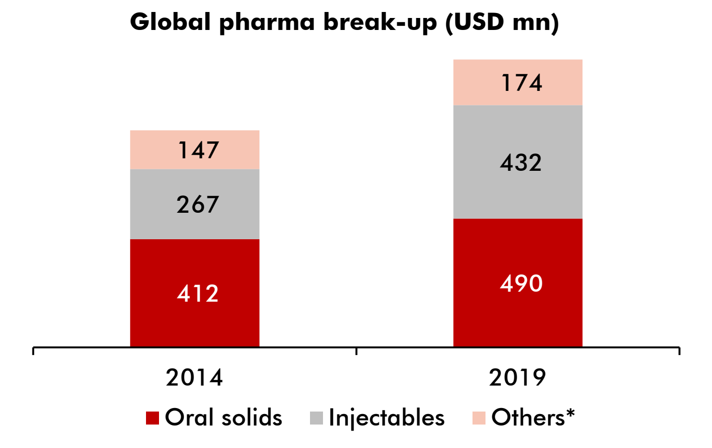
- **High capital investments**: Injectable plants require 1.3-x1.5x more capex as compared to oral solid plants. This includes automation, self-contained manufacturing lines, adherence to terminal sterilization and lyophilization.
- **Manufacturing complexities to meet stringent regulatory norms**: This includes complexities in various parts of manufacturing, such as activities associated with packaging, sterilization, stability and personnel training.

…and still under-penetrated from generics standpoint

Share of injectables in dosage form in the global pharma market value has increased by 7ppt to 39% over 2014-19. Key growth drivers for this uptake include:

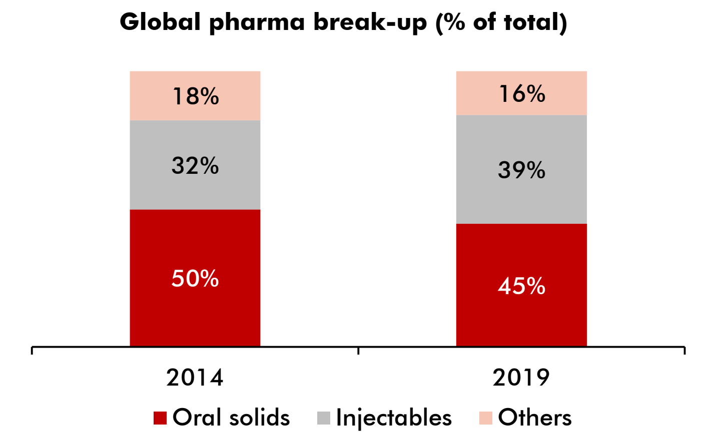
- **Expanding market opportunities** – newer ailments like rheumatoid arthritis, multiple scelorosis, certain other cancers and autoimmune disorders are currently being treated through injectable solutions.
- **Prevalence of certain chronic diseases** is increasing, with their treatment being administered predominantly through injectables.
- **New Drug Delivery Systems offer convenience** – demand is rising for self-administered medications in the form of auto injectors, pen injectors, pre-filled syringes and needle-free injectors.
- **Biosimilars uptake** – biosimilars will see upsurge as a number of biologic products witness loss of patent exclusivity in the next 5 years. Hence, demand for injectables would increase, especially for pre-filled syringes.

Exhibit 29: Global injectable market size is USD430bn and has recorded 10% revenue CAGR over 2014-19



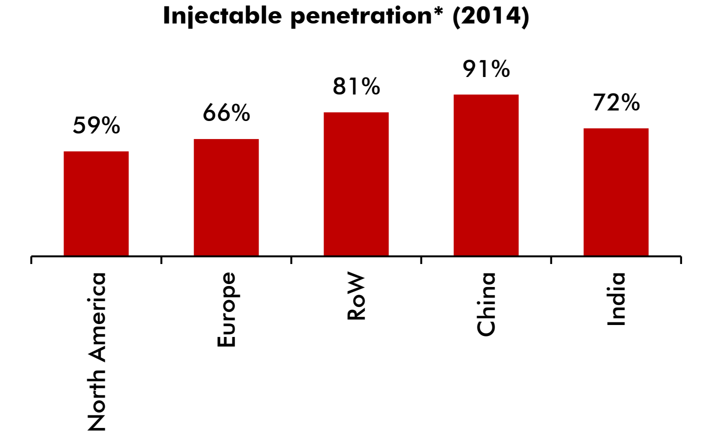
Source: Company, Ambit Capital research

Exhibit 30: Injectables represented ~40% of the pharma market in 2019 vs 32% in 2014



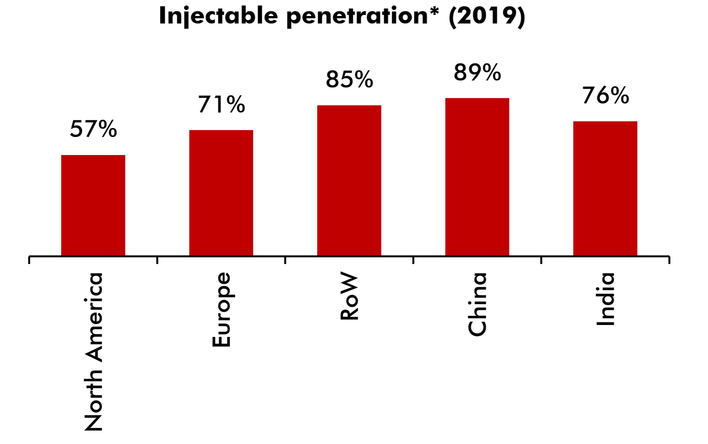
Source: Company, Ambit Capital research

Exhibit 31: We still see room for generic penetration in injectables to move up in key markets...



*Source: Company, Ambit Capital research; Note: *penetration has been represented on volumes*

Exhibit 32: ...like North America as generic prescription by volumes is still 57% vs >90% in orals



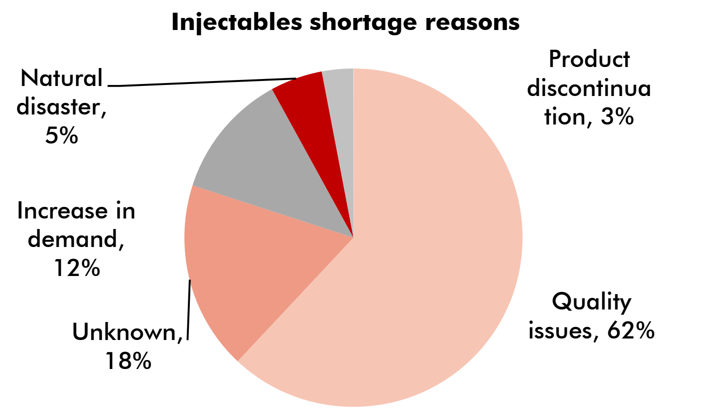
*Source: Company, Ambit Capital research; Note: *penetration has been represented on volumes*

Exhibit 33: 63% of all shortages over 2013-17 have been for injectable products

USFDA's study on drug shortages between (2013-17)	Units	% of total
Total drugs under shortages	163	100%
- Injectables	103	63%
- Others	60	37%

Source: Company, Ambit Capital research

Exhibit 34: Quality is the key reason for perennial injectable shortages in the market



Source: Company, Ambit Capital research

Exhibit 35: A number of products are part of Gland's portfolio which are currently in shortage

Key Product Portfolio	Product (specific dosage form) in shortage	# of players approved (excl. innovator)
Heparin Sodium	Yes	11
Dexrazoxane Hydrochloride	Yes	4
Ondansetron	Yes	11
Dexamethasone Sodium Phosphate	Yes	5
Midazolam HCL	Yes	5
Dexmedetomidine HCL	Yes	18
Etomidate	Yes	7
Ketorolac Tromethamine	Yes	10
Cisatracurium Besylate	Yes	10
Vecuronium Bromide	Yes	9

Source: USFDA, Company, Ambit Capital research

Lucrative commercials to aid contract manufacturers

Hikma generated healthy operating margins over the last couple of years, with even the generics business excluding injectables generating 15% operating margin. In the injectable generics segment, the company has clocked 7% sales CAGR in 2017-19 with EBITDA margin in the range of 36-41%. We believe that the company has achieved this on the back of a robust infrastructure, especially on the USFDA compliance front. Despite a high USD894mn injectable sales base, the company underwent 5 USFDA inspections in 2019 without any critical observations. Additionally, Hikma generates such high operating margins without any plants in India. The company operates 11 plants in total, with seven in the MENA region, three in Europe and one in the US. In our view, Hikma's robust financial health establishes capital deployment credibility into complex generics by CDMO players.

Exhibit 36: Hikma's injectable margins are quite healthy, offering attractive commercials for CDMO players to thrive

Hikma	2014	2015	2016	2017	2018	2019
Injectables - generics						
Sales (USD mn)	713	710	781	776	826	894
- % growth	33%	0%	10%	-1%	6%	8%
Gross profit %	60%	63%	65%	62%	60%	59%
EBITA margin %	37%	44%	44%	41%	41%	36%
Generics - others						
Sales (USD mn)	216	151	604	615	692	719
- % growth	-19%	-30%	300%	2%	13%	4%
Gross profit %	69%	59%	32%	36%	40%	45%
EBITA margin %	52%	30%	6%	4%	13%	15%
Total						
Sales (USD mn)	1489	1440	1950	1936	2070	2207
% growth	9%	-3%	35%	-1%	7%	7%
Gross profit %	57%	57%	51%	50%	51%	52%
EBITA (USD mn)	441	417	391	1321	465	431
EBITA margin %	30%	29%	20%	68%	22%	20%
RoIC %	31%	27%	15%	14%	21%	20%
CFO/sales %	26%	22%	12%	20%	18%	20%

Source: Bloomberg, Company, Ambit Capital research

Superior RoCE + growth => perfect combo

The injectables space is highly concentrated, with top 3 accounting for >56% of the market. Aurobindo is the only Indian generic major that is part of top 10 suppliers. Gland has carved a niche for itself in the injectables contract manufacturing space. Almost 40% of products launched prior to 2019 by Gland have <5 players, which is proof of the limited competition nature of its portfolio. Gland recorded 21% revenue CAGR in FY17-20, with growth momentum sustenance highly likely owing to: (i) perennial shortages potentially benefitting high quality players; (ii) room for generic penetration to grow from current 56% levels; and (iii) Gland's aims to foray into pens, cartridges and hormones. Our DCF-based TP computes to ₹2,109 per share, implying 28x exit FY22 P/E. This is in-line with our large-cap top picks (Cipla, Dr. Reddy's, Lupin) as we factor superior complex products execution and manufacturing compliance, though the positive narrative gets partly countered by lack of B2C presence.

Growth sustenance highly likely owing to:

(i) perennial shortages potentially benefitting high quality players

(ii) room for generic penetration to grow from current 56% levels;

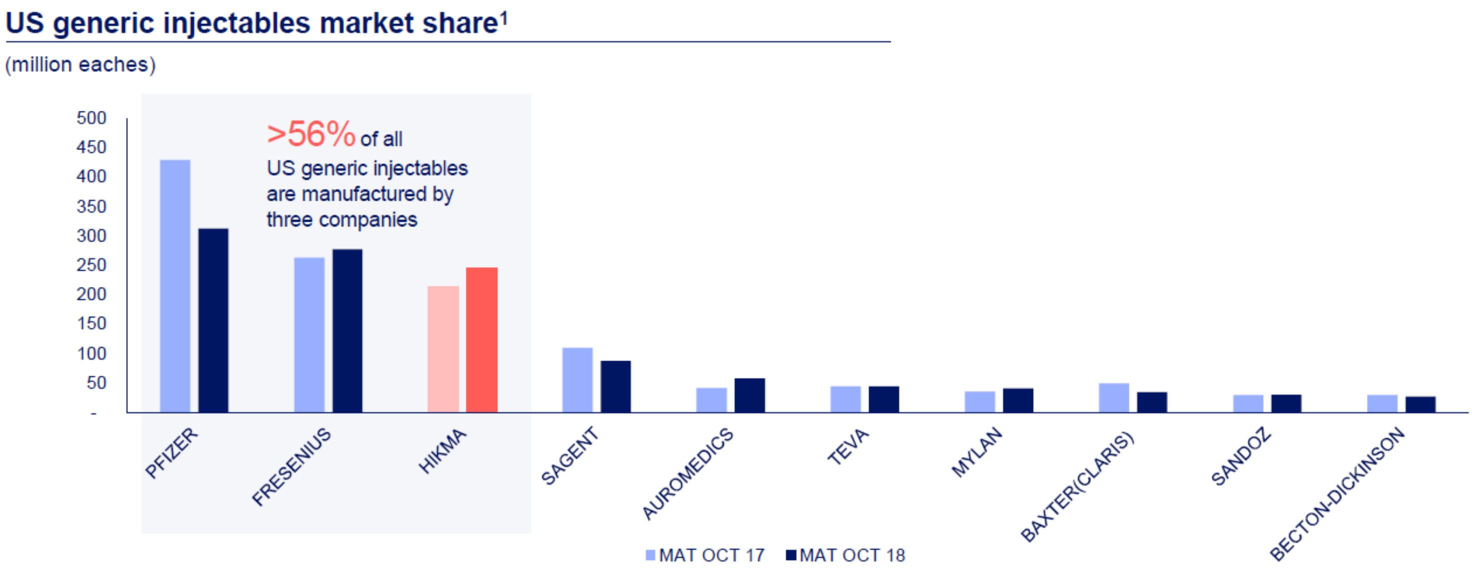
(iii) Gland's aims to foray into pens, cartridges and hormones

Indian generic majors missing from top list

Indian generic manufacturers have not yet been able to penetrate the injectables market in the US, which is in contrast to market share levels attained in oral solids. Aurobindo is the only company that is part of top 10 suppliers in the US, though USD300mn Spectrum Pharma acquisition in 2019 helped the company leap frog in terms of scale. This is despite the market offering ample opportunity in the form of shortages as highlighted in preceding sections, while low generic penetration of 57% by prescriptions offers a long growth runway in North America. Hence, entry barriers in the segment are visible from the market construct that injectables in the US is a very consolidated space as top three account for >56% of the market. Also, scale-up for these players at times has been driven by acquisitions, as is evident from Hikma's initiatives over the last two decades.

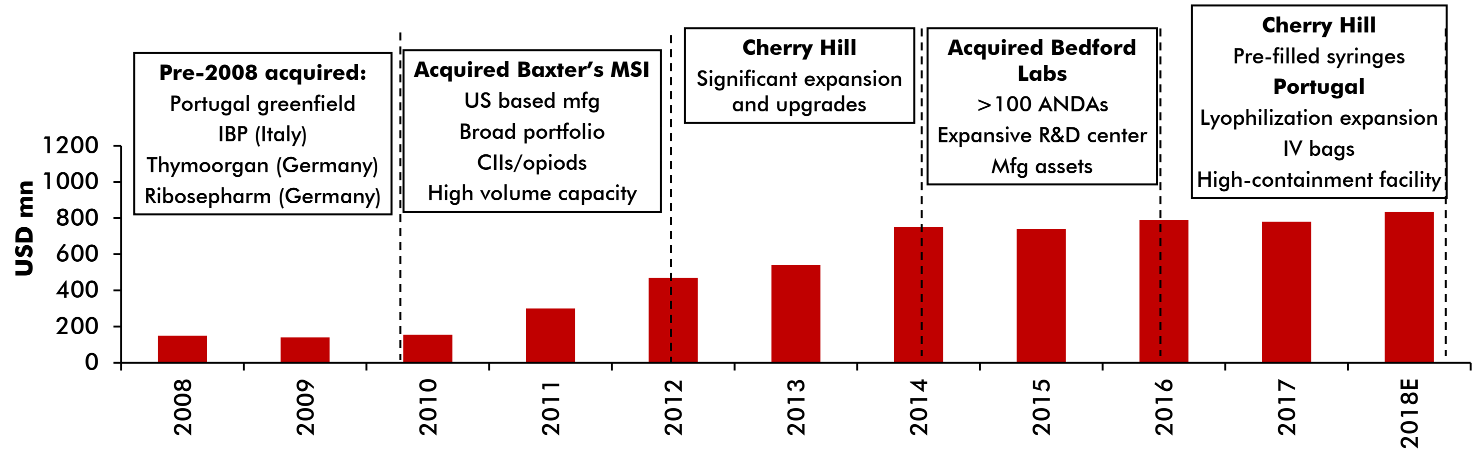
Injectables space is highly consolidated with top three accounting for >56% of the market

Exhibit 37: Top three represent >56% of the US injectables market, indicating high entry barriers; Aurobindo is the only Indian generic major that is part of top 10 suppliers to the US



Source: Company, Ambit Capital research

Exhibit 38: Hikma is amongst top 3 generic players in the US and the company has had to rely on a number of acquisitions over the years to boost its scale



Source: Company, Ambit Capital research

US injectables market can also be characterized by various delivery systems that exist. We see that Hikma's injectable filings are representative of a quintessential portfolio, with manual delivery systems like liquid vials, lyophilized powder and ampules representing bulk of the filings (65-70%). However, we expect the market to record rise in penetration of ready-to-administer products like pre-filled syringes, IV bags and pens. Such dosage platforms offer: (i) improved efficiency in hospitals as product administration steps are minimized; (ii) reduction in medication error risks; and (iii) lower need for in-house or external compounding services. Hence, there are white spaces in the market that companies like Gland can target for growth.

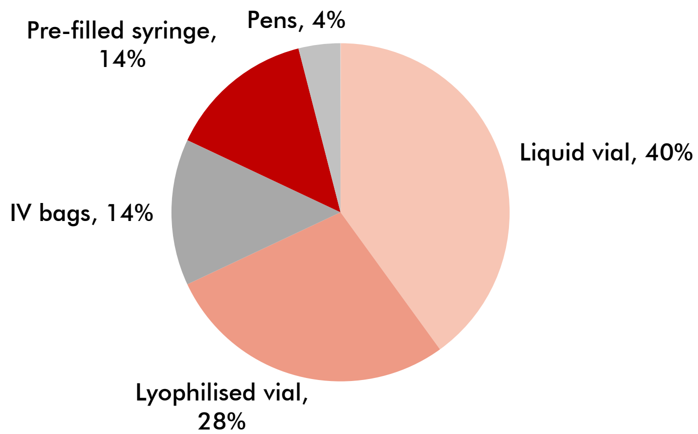
Exhibit 39: Typical injectable pipeline entails products like liquid and lyophilized vials...

Source: Company, Ambit Capital research

Exhibit 40: ...but we note a large proportion of pipeline now dedicated to ready to administer products

Source: Company, Ambit Capital research

Exhibit 41: A number of Hikma's filings are now dedicated towards ready to administer platforms like pre-filled syringes, IV bags and pens



Source: Company, Ambit Capital research

DCF-based fair value of ₹2,109 per share

Glands recorded 21% revenue CAGR over FY17-20 and we expect 15% compounding in the next 3 years as well. General industry-wide tailwinds include scope for generics penetration to increase, but we also see certain company-specific factors that would ensure sustained growth momentum:

- **Expanding injectables capabilities in newer areas:** Gland is looking to develop its capabilities in more complex areas like peptides, long-acting injectables, suspensions and hormonal products. Additionally, expanding into new delivery systems such as pens and cartridges is also on top of the agenda.
- **Commensurate to the above strategy, manufacturing capabilities are being enhanced:** Gland has established a facility in Pashamylaram (Hyderabad) in addition to the flagship Dundigal (Hyderabad) manufacturing unit. Manufacturing capacity at the Pashamylaram facility has been enhanced over the years, while the company is in the process of commissioning additional capacity for suspensions, cartridges and hormonal products. Expansion is underway at the oncology unit as well, with the company having plans to set up a new R&D building at Pashamylaram. Total formulations capacity has risen from 670 mn units to 755 mn units over FY18-20, implying 6% CAGR.
- **Growth pursuits extend to markets like China and India:** Gland aims to strategically benefit from its parent Shanghai Fosun in the Chinese market. It aims to launch products from the existing portfolio in other markets and did six filings in China in FY20. In India, the company has strong presence in cardiac and pain management therapeutic areas, but the company is expanding into new areas like infertility.

Gland's company-wide utilization is currently ~60%

Exhibit 42: We estimate higher EBITDA margin vs FY19/20 levels as we expect utilization levels to improve materially from current 60%

Gland consolidated (₹ mn)	FY19	FY20	FY21E	FY22E	FY23E	Comments
Revenue	**20,442**	**26,332**	**32,184**	**34,803**	**39,823**	Growth in FY21 owing to Covid-19 hospitalization led heparin/enoxaparin uptake; this would taper in FY22, though 8-10 annual launches will aid growth
- % growth (yoy)		29%	22%	8%	14%	
COGS	(8,570)	(11,020)	(12,230)	(13,573)	(15,531)	
Gross profit	**11,872**	**15,312**	**19,954**	**21,230**	**24,292**	1QFY21 GM stood at 64%; we are expecting more normalized 61% levels in FY22/23
- margin %	58%	58%	62%	61%	61%	
Employee expenses	(2,229)	(2,777)	(2,999)	(3,359)	(3,862)	Steady 12% rise being factored, assuming inflation level wage hike (6-7%) and new employee additions to pursue growth
- % of sales	11%	11%	9%	10%	10%	
Other expenses (incl power/fuel)	(2,577)	(2,981)	(3,379)	(3,480)	(3,982)	FY20-23 CAGR is 10%, incorporating higher utilization levels led operating leverage benefits
- % of sales	13%	11%	11%	10%	10%	
EBITDA (underlying)	**7,065**	**9,555**	**13,576**	**14,391**	**16,448**	
- margin %	35%	36%	42%	41%	41%	
D&A	(821)	(946)	(1,048)	(1,118)	(1,188)	
- % of gross block	7%	7%	7%	7%	7%	Assuming a stable rate
Other income	856	1,392	1,325	3,290	4,616	
Interest exp.	(37)	(72)	(72)	(72)	(72)	
Tax	(2,344)	(2,200)	(3,445)	(4,123)	(4,951)	
Effective tax rate (%)	34%	22%	25%	25%	25%	Tax rate being modelled in-line with FY21/1QFY21 levels
PAT (underlying)	**4,944**	**7,729**	**10,336**	**12,369**	**14,853**	
Other assumptions						
Working capital days	234	238	241	236	230	Gland's working capital cycle is stretched vs other Indian generic manufacturers
Capex	(1,357)	(1,947)	(1,500)	(1,000)	(1,000)	
- % of sales	7%	7%	5%	3%	3%	
Net debt	(7,548)	(13,280)	(32,930)	(46,187)	(57,112)	`1,250mn capital raise would boost net cash position

Source: Company, Ambit Capital research

Exhibit 43: We expect gross block turns to improve materially over the coming years given scope to significantly increase utilization

Parameter	FY20-24E	FY24-29E	FY29-34E	FY17-20	Remarks
Sales CAGR	15%	15%	12%	21%	Injectables is an under penetrated segment still and we do not see competition accentuating steeply in the next 5 years owing to stringent compliance requirements
EBITDA margin (average)	40%	40%	43%	37%	End-market injectable margins are robust (40-45%), while compliant manufacturing setup in India offers Gland cost leadership vs other CDMO names like Recipharm
Capex/sales (average)	4%	3%	2%	7%	Current utilization levels are low at 60%, due to which capex need vs sales progression would taper
Pre-tax CFO/EBITDA (average)	90%	90%	94%	81%	Working capital cycle is elevated at 238 days in FY20, partly due to the company being in a high growth phase; we do not expect material deterioration as it is already quite stretched vs other generic majors
Gross block turns (average)	2.3	3.0	3.7	1.8	Capex requirements would taper, while we expect utilization levels to ramp-up considerably from current 61% levels
WACC	13%				
Terminal growth	6.0%				Higher than 5% we assume for generic majors owing to CDMO opportunity being quite vast and the company's sales base would still be low at the end of the explicit time horizon
- Cost of equity	0%				
- Target ND/E	0%				
Implied valuations	**FY20**	**FY21E**	**FY22E**	**FY23E**	
EV/sales	11.1	18.1	14.3	11.1	
EV/EBITDA	30.6	21.6	20.3	17.8	
P/E	44.6	33.3	27.8	23.2	
P/B	8.0	4.9	4.1	3.4	

Source: Company, Ambit Capital research

Exhibit 44: Our DCF-based fair value computes to ₹2,109 per share

Particulars	₹ mn
Total EV	**292,699**
- Explicit period	122,229
- Terminal period	170,470
Net debt	(51,649)
Adjustments	
WACC	13%
Equity value	**344,348**
No. of shares o/s (mn)	163
Fair value/share (₹)	**2,109**

Source: Company, Ambit Capital research

Sustained premium valuations possibility?

We see Recipharm as the closest peer to Gland in order to draw a comparison. While growth has been quite robust for Recipharm in 2018 and 2019, we see EBITDA margins as quite low vs Gland. We see certain other companies as well like Baxter and Lonza that qualify to be possible peers of Gland. Baxter is an injectables player, though more on the B2C end. Lonza is one of the largest CDMO players globally, with contract manufacturing for biologics representing 47% of 2019 sales. Above companies along with Recipharm are trading in the range 23x-44x on a 1-year forward basis. Gland's superior revenue growth, pre-tax RoCE and superior cash conversion are reasons we believe that 28x exit multiple on FY22 earnings is justified.

Exhibit 45: Gland's 37% average EBITDA margin over the last 4 years is considerably ahead of Recipharm's steriles/inhalation CDMO segmental margin

Recipharm's segmental data	Steriles & inhalation		Solids & others	
	2018	**2019**	**2018**	**2019**
Sales (SEK mn)	2,556	3,363	2,680	2,873
EBITDA (SEK mn)	497	650	435	483
EBITDA margin %	19.4%	19.3%	16.2%	16.8%
Sales growth %	20%	32%	21%	7%

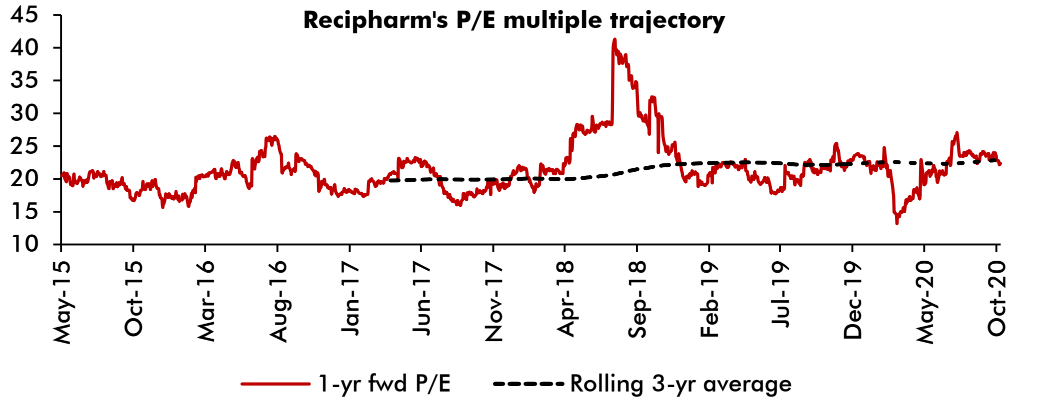
Source: Company, Ambit Capital research

Exhibit 46: Listed names that can be compared to Gland are only a few; we see degree of overlap with Recipharm to a certain extent as the latter generates 46% of sales from complex steriles & inhalation areas

Business details	Divis	Lonza	Recipharm
Segmental breakup	Generic APIs: 51% Custom Synthesis: 41% Nutraceuticals: 8%	Biologics: 47% Capsules/health ingredients: 27% Small molecules: 16% Cell/gene therapy, bioscience: 10%	Steriles & inhalation: 46% Solids & others: 39% Development & technology: 15%
Degree of comparability with Gland	**Medium**	**Low**	**High**
- Remarks	Comparison is to the extent that Gland is a CDMO player and Divis generates 41% sales from custom synthesis	Lonza is a global CDMO player, but the company generates a large proportion of sales from biologics	We see merit in Gland's comparison with Gland as Recipharm generates a considerable proportion of sales from steriles/inhalation B2B manufacturing
Financial parameters (last 4 years)			
Sales CAGR	9%	11%	18%
EBITDA CAGR	6%	19%	23%
Avg. pre-tax RoCE	28%	12%	4%
Cumulative CFO/EBITDA	66%	72%	74%
Cumulative FCF/sales	10%	-7%	-11%
Op. working capital days	177	109	97

Source: Company, Ambit Capital research

Exhibit 47: Recipharm has traded in the range 20-22x on rolling 3-year average basis; Gland's operating metrics are materially superior to Recipharm



Source: Bloomberg, Company, Ambit Capital research

Gland has inherent strengths vs Indian generic majors

We see strengths in Gland's B2B model vs frontline B2C formulators…

Some of the advantages of a B2B model, especially with injectables expertise include:

- **Predictable cash flows**: Given the high quality setup that players like Gland command, long-term supply contracts ranging from three to five years are offered by marketing partners. This ensures assured and better cash flow visibility vs a pure-play B2C model.
- **Lower R&D litigation risks**: Risk of an adverse litigation outcome is mitigated in a B2B model as companies can enter into R&D/litigation risk-sharing agreements for product development.
- **Higher economies of scale**: B2B players usually enter into non-exclusive contracts which enable companies to widen their customer base for the same products. Thereby, companies like Gland are able to garner dominant market share and subsequently generate considerable operating leverage benefits.
- **Earnings sensitivity to adverse raw material price movement is low:** B2B companies generate revenue from transfer pricing and profit share agreement with marketers in an IP-led model. Transfer pricing is established through mark-ups over raw material prices, which ensures low volatility in revenues/profit margins of B2B companies.
- **Lower working capital requirement:** Inventory management and payables are planned better along with clear visibility on receivables.

However, we do see certain weaknesses and believe that lack of branding capabilities could potentially hamper growth to a certain extent. Gland does generate 16% sales from India, but we suspect a large part of this revenue is generated from hospital-based contracts. Thereby, we see a sub-par branding setup vs frontline generic majors like Sun and Cipla. Also, the company has limited presence in the specialty space in the US vs names like Sun. B2C companies are deploying capital in maintaining a robust domestic presence and pursuing specialty opportunities in regulated markets. These initiatives along with biosimilars pursuit would ensure growth longevity as generic penetration in synthetic molecules would eventually attain saturation levels. Currently, we do not see Gland poised to tap opportunities in areas other than B2B generic manufacturing.

Exhibit 48: Strong complex products execution track record and clean manufacturing compliance ensure that Gland ranks just a notch below Dr. Reddy's on our competitive framework

Parameter	Aurobindo	Cadila	Cipla	Dr. Reddy's	Gland	Glenmark	Lupin	Sun	Remarks
Complex products execution	●	◑	◑	●	●	◑	◕	◕	Share of injectables/respiratory in the portfolio
Branding capabilities	◔	◕	●	◑	◔	◕	◕	●	Presence in India and specialty areas
API development capabilities	●	◑	◕	●	◔	◔	◕	●	No of DMFs filed in the US and level of 3rd party sales
Manufacturing compliance	◑	◑	◕	●	●	◕	◔	◕	USFDA compliance track record
Overall score	◑	◑	◕	●	◕	◑	◑	◕	

Source: Company, Ambit Capital research; Note: Total score has been computed by assigning weights: Complex products execution – 25%, Branding capabilities – 30%, API development capabilities – 15%, manufacturing compliance – 30% Note: ● - Strong; ◕- Relatively Strong; ◑- Average; ◔- Relatively weak

Exhibit 49: Gland's is currently trading at 24x FY22 P/E, with 15% premium to median pharma valuation factoring superior execution track record in complex products

Companies	Mcap	Ambit's Stance	TP	Upside	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY20-23E)			Net Debt/ EBITDA (x)
	US$ mn	BUY/ SELL	₹	%	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	Sales	EBITDA	EPS	FY20
Sun	16,288	NR	-	-	23	21	19	15	13	12	11%	12%	12%	8%	13%	21%	(0.4)
Dr. Reddy's*	10,477	BUY	5,925	23%	28	23	21	16	13	12	18%	19%	18%	12%	23%	26%	(0.1)
Cipla*	8,049	BUY	940	27%	23	20	18	13	12	11	15%	15%	15%	10%	19%	28%	0.2
Aurobindo	6,587	NR	-	-	15	14	13	9	9	8	17%	16%	15%	8%	9%	11%	0.6
Torrent*	5,958	SELL	2,288	-13%	37	33	28	20	19	17	23%	22%	22%	8%	9%	20%	2.4
Cadila*	5,880	UR	-	-	23	22	20	15	14	13	16%	16%	15%	9%	10%	24%	2.1
Lupin*	5,373	BUY	1,151	29%	40	22	18	17	12	10	8%	13%	15%	9%	22%	41%	0.6
Alkem*	4,321	SELL	2,806	6%	21	20	17	16	15	13	23%	20%	20%	11%	18%	18%	0.3
Ipca	3,659	NR	-	-	24	24	21	17	17	15	27%	22%	20%	17%	25%	26%	0.2
Alembic Pharma	2,574	NR	-	-	17	19	17	12	13	12	27%	19%	18%	14%	11%	9%	1.4
Laurus*	2,045	BUY	468	62%	17	15	12	12	10	8	41%	34%	32%	30%	52%	71%	2.0
Natco*	2,242	SELL	806	-11%	30	28	15	23	20	10	13%	13%	23%	27%	43%	34%	0.4
Glenmark	1,834	NR	-	-	15	14	12	8	7	7	14%	13%	13%	8%	12%	12%	2.4
Median					**23**	**21**	**18**	**15**	**13**	**12**	**17%**	**16%**	**18%**	**10%**	**18%**	**24%**	**0.6**

*Source: Bloomberg, Company, Ambit Capital research; Note: *Represents companies that are part of Ambit coverage; above exhibit is updated as per closing price on Nov 20, 2020*

...but names like Divis/Lonza bring unmatched capabilities to the table

Divis and Lonza trade at 41x and 38x 1-year forward P/E multiples, respectively. In Divis' case, the company generates 41% of sales from custom synthesis, which includes relationships with innovator companies for various late stage molecules. These relationships have been forged over time and act as considerable entry barriers for the company. Contrary to this, our understanding suggests that Gland's relationships are largely with generic marketers, in which pricing power for the end-product is elusive. Hence, we do not expect Gland to trade at Divis' multiple if the former does not hold growth potential materially higher than the latter. Meanwhile, Lonza generates 47% of sales from biologics, which is a considerably underpenetrated market with companies globally still on a learning curve with regards to developing manufacturing expertise. Gland does not hold capabilities in biologics, which in turn should result in a valuation discount to Lonza.

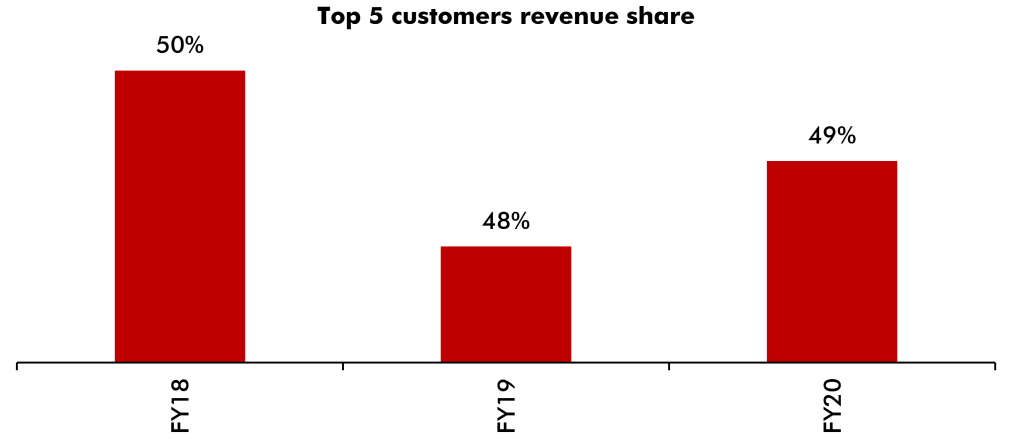
Truth on Gland's trading multiple lies somewhere in the middle

We believe that Gland possesses capabilities superior to frontline generic majors in the export markets, which along with a low revenue base should ensure a superior growth profile. Current 24x FY22 valuation is at a 12% premium to median 21x multiple of frontline generic majors, which we see as fair. Comparison with Aurobindo can also be reasonable to a certain extent given that it generates 20% of US sales from injectables and is predominantly export-oriented. Gland's considerable premium to Aurobindo factors higher growth trajectory over FY20-23 and a materially better compliance track record.

Risks

- **Partner tie-ups:** Termination of existing relationships or failure to foster new ones could hamper Gland's growth, given that 96% of revenue is B2B-driven. Additionally, sub-par commercialization efforts by the marketer could hamper Gland's success in products being developed.
- **India-China geopolitical risks:** Gland's parentage is Chinese, due to which we expect Chinese market opportunities to open, while Gland could also generate fruitful raw material sourcing relationships in China. However, political tensions between Indian and China could potentially pose operational challenges such as trade duty flip-flops.
- **Adverse USFDA compliance actions:** 70% of Gland's US filings are dedicated to injectables, and Indian companies have been repeatedly red flagged for compliance in this space. While Gland has not received any warning letter in the last 5 years, adverse compliance actions cannot be completely ruled out, especially due to the reason that majority of its filings are injectables.
- **Customer concentration:** Top 5 customers have accounted for 48-50% of Gland's sales, which we do not see as over-concentration. But any customer loss could jeopardize Gland's sales base materially.

Exhibit 50: Top customers have accounted for 48-50% of Gland's top line



Source: Company, Ambit Capital research

Catalysts

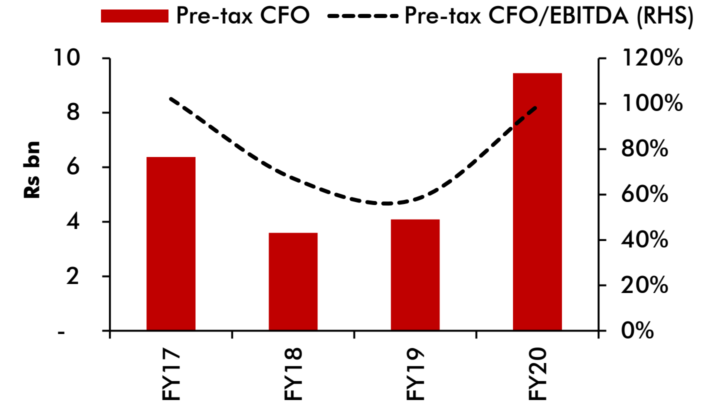
- **Sustained US launch momentum:** We note that pace of approvals for Gland in the US market has increased over the years as shown in exhibit 17. We see eight para IV products in the pipeline and expect 8-10 launches per year to materialize over FY20-23.
- **Utilization uptick translating into operating leverage benefits:** Gland currently operates at 61% utilization at an aggregate level. We expect low capex need and utilization levels to trend up, due to which we are expecting 41% EBITDA margin in FY22/23 vs 36% in FY20.

Forensic analysis

CFO generation got a boost in FY20

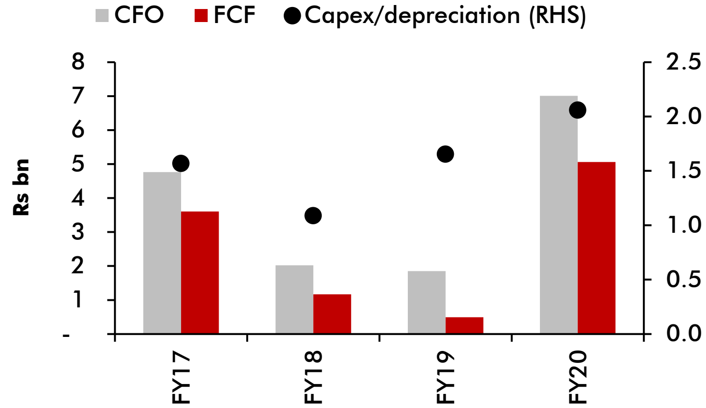
Cash flow to EBITDA improved in FY20 but higher capex partly countered the positive impact on FCF: Absolute pre-tax CFO increased 131% YoY to ₹9.5bn in FY20, owing to reduced working capital requirement. This led to significant jump in pre-tax CFO/EBITDA ratio to 99% in FY20 vs. 58% in FY19. Decline in FY19 primarily stemmed from increase in inventory, which was partly countered by increase in creditors. FY20 witnessed significant reduction in inventory levels, supporting pre-tax CFO to EBITDA ratio.

Exhibit 51: Lower incremental working capital resulted in higher cash conversion in FY20



Source: Company, Ambit Capital research

Exhibit 52: Higher capex intensity partly countered positive working capital impact on FY20 FCF



Source: Company, Ambit Capital research

Inventory days reduced significantly in FY20: Raw material and WIP inventory constituted 87% of total FY20 inventory (FY17-19 average: 90%). FY19 witnessed significant increase in these inventory items from ₹4.5bn in FY18 to ₹8.4bn in FY19. This reduced to ₹6.6bn in FY20, with major contraction emanating from lower raw material. Accordingly, inventory days for individual items have moved closer to pre-FY19 levels with total inventory days recorded at 105, implying improvement of 58 days YoY (FY18 inventory days – 116).

Exhibit 53: Raw material and WIP goods constitute majority of the inventory; the company maintains only 8-10 days of finished goods inventory

₹ mn	FY17	FY18	FY19	FY20
Raw materials and components	1,936	2,612	4,277	3,024
Packing materials	916	887	1,996	1,576
Finished goods	237	482	427	687
WIP	550	972	2,169	1,977
Stores and spares	148	176	251	299
Total inventory	**3,787**	**5,128**	**9,119**	**7,563**
Closing days				
Raw materials and components	48	59	76	42
Packing materials	23	20	36	22
Finished goods	6	11	8	10
WIP	14	22	39	27
Stores and spares	4	4	4	4
Total inventory days	**93**	**116**	**163**	**105**

Source: Company, Ambit Capital research; Note: inventory days calculated based on closing balances

Considerable decline in creditor days nullified the effect of reduced inventory days: Creditor days declined from 80 in FY19 to 35 in FY20, which implies ₹2.0bn reduction in absolute creditors to ₹2.5bn. This more than countered the positive impact of inventory release. Additionally, overall debtors increased by ₹1.0bn to ₹6bn in FY20, leading to ₹1.3bn increase in overall operating working capital. However, debtor days reduced by 7 days YoY to 83 in FY20.

Exhibit 54: Decline in inventory & debtor days over FY18-20 has been significantly countered by decline in creditor days

₹ mn	FY17	FY18	FY19	FY20
Debtors	4,179	4,752	5,061	6,018
-days (closing)	*103*	*107*	*90*	*83*
Inventory	3,787	5,128	9,119	7,563
-days (closing)	*93*	*116*	*163*	*105*
Creditors	1,893	2,918	4,462	2,491
-days (closing)	*47*	*66*	*80*	*35*
Operating WC	**6,073**	**6,962**	**9,718**	**11,090**
-days (closing)	***150***	***157***	***174***	***154***

Source: Company, Ambit Capital research

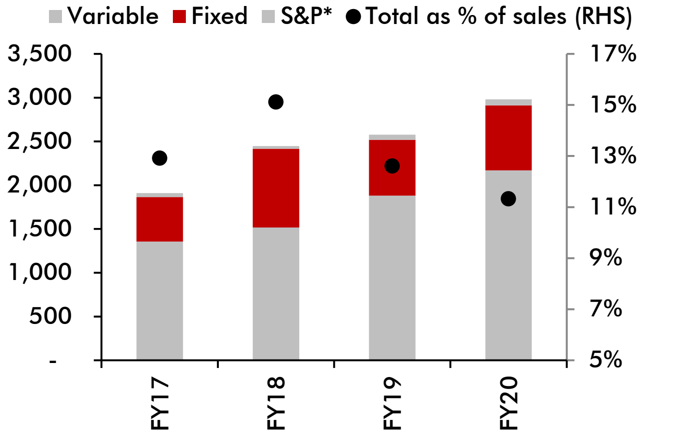
Exhibit 55: We note similar trend when calculated on average basis

₹ mn	FY17	FY18	FY19	FY20
Debtors	4,179	4,752	5,061	6,018
-days (avg.)		*101*	*88*	*77*
Inventory	3,787	5,128	9,119	7,563
-days (avg.)		*100*	*127*	*116*
Creditors	1,893	2,918	4,462	2,491
-days (avg.)		*54*	*66*	*48*
Operating WC	**6,073**	**6,962**	**9,718**	**11,090**
-days (avg.)		***147***	***149***	***144***

Source: Company, Ambit Capital research

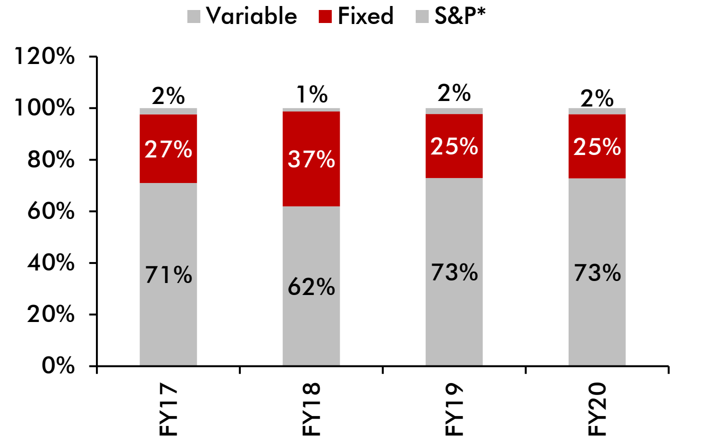
Other expense components: Fixed expenses increased in FY18 due to one-time ₹425mn legal & professional cost towards Fosun group's acquisition of 74% stake in the company. Thereafter, it reduced and was in the ₹640-740mn range. In terms of percentage of sales, it reduced by 32bps YoY to 2.8% in FY20. Variable costs reduced 95bps YoY to 8.2% in FY20, primarily due to lower power & fuel cost as percentage of sales. These two factors have been the key reasons behind 172bps YoY EBITDA margin expansion to 36% in FY20.

Exhibit 56: We see no untoward movement in costs in FY20



*Source: Company, Ambit Capital research; Note: *S&P is acronym for selling & promotional*

Exhibit 57: Selling and promotional expenses are minuscule given Gland's B2B model



*Source: Company, Ambit Capital research; Note: *S&P is acronym for selling & promotional*

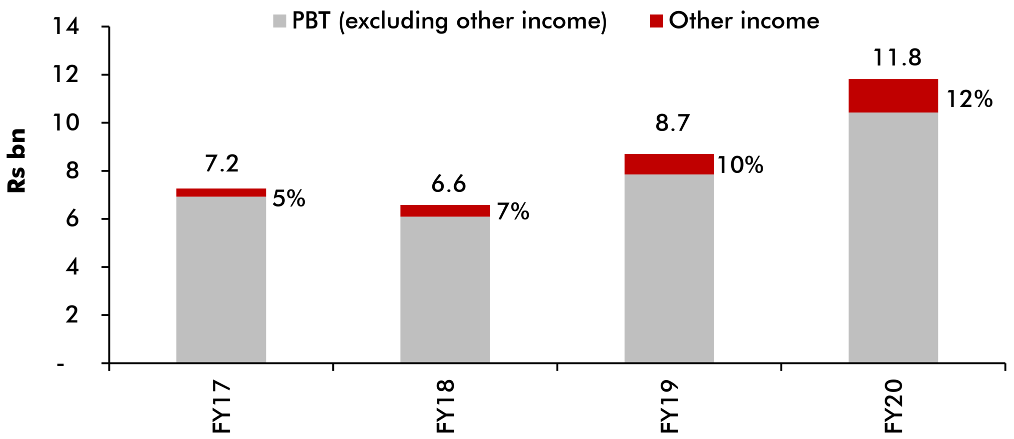
Exhibit 58: Fuel costs as percentage of sales trended down in FY20, while drastically lower professional fees resulted in fixed costs decline

Other expenses analysis	₹ mn			% of sales		
	FY18	FY19	FY20	FY18	FY19	FY20
Variable	**1,517**	**1,880**	**2,170**	**9.4%**	**9.2%**	**8.2%**
-Power & fuel	604	740	785	3.7%	3.6%	3.0%
-Rates and taxes	211	313	371	1.3%	1.5%	1.4%
-Quality control expenses	235	272	338	1.5%	1.3%	1.3%
-Stores consumed	207	263	343	1.3%	1.3%	1.3%
-Others	260	292	333	1.6%	1.4%	1.3%
Selling & promotional	**31**	**58**	**70**	**0.2%**	**0.3%**	**0.3%**
Fixed	**900**	**640**	**740**	**5.6%**	**3.1%**	**2.8%**
-Repairs & maintenance	245	320	341	1.5%	1.6%	1.3%
-Legal & professional	468	48	91	2.9%	0.2%	0.3%
-Miscellaneous expenses	41	52	67	0.3%	0.3%	0.3%
-Others	146	219	241	0.9%	1.1%	0.9%

Source: Company, Ambit Capital research; Note: FY18 legal & professional expenses include one-time spend of ₹425mn as transaction cost for acquisition of 74% stake by Fosun group in the Company.

Increased contribution of other income in PBT: Share of other income in total PBT has increased by 7ppt to 12% over FY17-20, primarily due to increase in investment income and rise in foreign exchange gains. Investment yield has largely remained within 4-6% range over FY18-20, but higher cash & bank balances has led to increase in absolute investment income.

Exhibit 59: Range-bound investment yields on increased cash & bank balances and increase in forex gains led to rise in share of non-operating income in overall PBT



Source: Company, Ambit Capital research; Note: absolute figures in the above chart represent respective year's total PBT, while percentage figure represents share of other income in total PBT

Exhibit 60: Share of forex gains in incremental PBT has been within 9-10% range over FY18-20

₹ mn	FY18	FY19	FY20
Incremental PBT	(681)	2,123	3,115
Forex (income)/loss in previous year	(152)	(213)	(416)
Forex income/(loss) in current year	213	416	693
Total forex fluctuation	**61**	**203**	**277**
% of incremental PBT	9%	10%	9%

Source: Company, Ambit Capital research

Exhibit 61: Investment income has increased due to increase in cash & bank balances as investment yield has largely remained within 4-6% range

₹ mn	FY17	FY18	FY19	FY20
Investment income	179	272	433	515
Investments & loans	5,390	6,774	7,604	13,329
Investment yield (%)		**4%**	**6%**	**5%**
Change in yield (bps)			156	(111)

Source: Company, Ambit Capital research

Balance sheet checks yields no red flags

Increase in CWIP/gross block ratio: Absolute CWIP increased to ₹1.9bn in FY20 vs ₹1.2bn YoY. This resulted in 4ppt YoY increase in CWIP/gross block ratio to 14% in FY20. However, current CWIP/gross block ratio is still lower than 16-19% recorded over FY17-18.

Exhibit 62: CWIP to gross block has increased owing to increased capex intensity, but still lower than historical levels; depreciation rate has largely remained stable

Fixed assets analysis (₹ mn)	FY17	FY18	FY19	FY20
CWIP/gross block (%)	16%	19%	10%	14%
CWIP	1,612	1,989	1,232	1,885
Gross block (all tangible)	10,055	10,545	12,196	13,467
Depreciation	741	784	821	946
-% of gross block		7.6%	7.2%	7.4%
Change in depreciation rate (bps)			(39)	15

Source: Company, Ambit Capital research

Average depreciation rate has largely remained stable: Depreciation rate increased marginally by 15bps YoY to 7.4% in FY20. Average depreciation rate has not been volatile and has clocked 7.2-7.6% levels over FY18-20. The company follows SLM policy for depreciation and we note no change in depreciation policy over FY17-20. The company does not have intangible assets in its books.

Composition of other assets and liabilities: Other assets constitute 6% of total assets and primarily comprise capital advances and receivables from the government in the form of incentives/balances due. Other liabilities constitute 42% of total liabilities and primarily comprise deferred tax liabilities, advances from customers, capital creditors and provisions. Provisions are largely related to employees' expenses.

Exhibit 63: Balances with govt. authorities, export incentives and capital advances constitute 75% of other assets

Other assets (₹ mn)	FY17	FY18	FY19	FY20
Non-current assets				
Capital advances	27	38	422	403
Balance government authorities	196	1,232	444	328
Security deposits	56	59	64	69
Others	231	218	203	31
Total other non-current assets	**510**	**1,547**	**1,132**	**832**
Current assets				
Balance with government authorities	-	-	1,205	664
Export incentives receivable	381	503	368	451
Advances to material suppliers	117	72	108	151
Interest accrued but not due	4	32	67	148
Prepaid expenses	56	104	85	91
Others	46	22	27	126
Total other current assets	**603**	**733**	**1,861**	**1,630**

Source: Company, Ambit Capital research

Exhibit 64: Deferred tax liabilities, customer advances and capital creditors constitute 68% of other liabilities

Other liabilities (₹ mn)	FY17	FY18	FY19	FY20
Non-current liabilities				
Deferred tax liability (net)	854	957	1,076	741
Refund liability	389	376	52	17
Lease liabilities	-	11	11	9
Others	-	-	100	-
Total other non-current liabilities	**1,243**	**1,344**	**1,238**	**767**
Current liabilities				
Advances from customers	422	536	389	342
Statutory dues	82	39	118	171
Provisions	22	21	29	175
Capital creditors	110	139	107	186
Current tax liabilities (net)	-	129	110	107
Others	4	6	107	109
Total other current liabilities	**640**	**870**	**860**	**1,090**

Source: Company, Ambit Capital research

Related-party transactions (RPTs): Key related-party transaction is purchase of goods from Gland Chemicals (Private) Ltd., which are done in the normal course of business. Total related-party purchases constitute 11-13% of COGS over FY18-20. Other related-party transactions are minuscule when compared to consolidated figures. However, sales of goods and services to Fosun Pharma USA in FY20 led to significant increase in related-party sales from ₹21mn in FY19 to ₹655mn in FY20 (2.5% of total sales).

Exhibit 65: RPTs are negligible barring related-party purchases, which constitute 11-13% of total COGS; we see no red flags

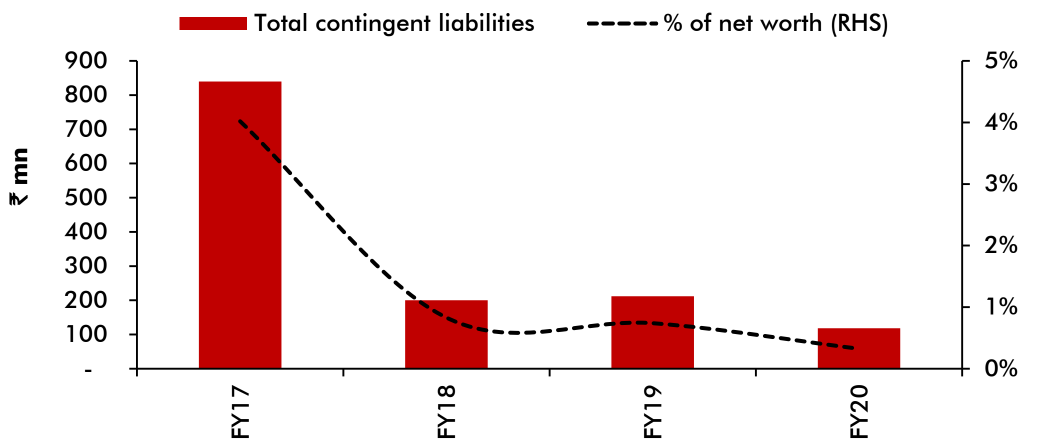
Related-party transactions	FY18	FY19	FY20
Sales	**85**	**21**	**655**
% of total sales	0.5%	0.1%	2.5%
-Fosun Pharma USA	-	-	609
-Gland Chemicals (Private)	85	7	1
-Others	-	13	45
Purchases	**858**	**910**	**1,269**
% of total COGS	13%	11%	12%
-Gland Chemicals (Private)	783	670	1,184
-Jiangsu Wanbang Biopharma	-	240	85
-Others	75	-	-
Receivables	**31**	**7**	**113**
% of net worth	0.1%	0.0%	0.3%
-Fosun Pharma USA	-	-	106
-Gland Chemicals (Private)	31	-	-
-Others	-	7	7
Payables	**356**	**288**	**272**
% of net worth	1.5%	1.0%	0.7%
-Gland Chemicals (Private)	237	16	165
-Dr. Ravi Penmetsa (ex-CEO)	54	270	100
-Others	65	2	7

Source: Company, Ambit Capital research

Analysis of off-balance-sheet items

Considerable decline in contingent liabilities over FY17-20: Contingent liabilities declined to ₹118mn in FY20, implying 0.3% of net worth vs. 0.7% in FY19. Major contributors include indirect tax demand and certain claims not acknowledged as debt. Over FY17-20, contingent liabilities have declined significantly from ₹840mn to ₹118mn owing to reduction in indirect tax demands.

Exhibit 66: Reduction in indirect tax demands has led to considerable decline in contingent liabilities



Source: Company, Ambit Capital research

Impact of foreign currency fluctuations has increased marginally: USD has the highest (>95%) impact on the company's financials vs. other currencies. We note marginal increase in impact of foreign currency fluctuations on PBT. 1% increase in USD results in 0.6% increase in PBT vs. 0.5% in FY19, implying rise in currency risk.

Exhibit 67: Net effect of foreign currency fluctuations has increased marginally YoY

Hedging impact	**FY17**	**FY18**	**FY19**	**FY20**
USD - 1% increase	32	41	34	56
-% of PBT	0.6%	0.8%	0.5%	0.6%
EUR - 1% increase	(1)	(2)	(3)	(1)
-% of PBT	0.0%	0.0%	0.0%	0.0%
Total impact	**31**	**39**	**31**	**55**
-% of PBT	0.5%	0.8%	0.5%	0.6%

Source: Company, Ambit Capital research

Exhibit 68: Fosun has significant control over the board through its five non-executive nominee directors

Board of Directors (Age)	Designation	Remuneration (₹ mn)	Education	Brief background
Yiu Kwan Stanley Lau (66+ years)	Chairman and Independent Director	5.0	B.Pharm - London University	a) Previously CEO of Amsino Medical Group, COO of Eddingpharm Investment and President of China Biologic Products; b) Has also worked with Merck Sharp & Dohme and Baxter Investment.
Srinivas Sadu (51+ years)	MD and CEO (since 25-Apr-2019)	27.4	B.Pharm - Gulbarga University, M.Sc. - Long Island University (NYC) and MBA - Baltimore University PG Fin. - London University	a) Joined Gland as GM – exports and has worked as senior GM (2002), Vice President (2003), Director (2005), and COO (2011); b) Has 21+ years of experience in business operations and management and has previously worked with Natco Pharma.
Qiyu Chen (48+ years)	Non-Executive Nominee Director	Nil	Bachelor's in Genetics from Fudan University and MBA from China Europe International Business School	a) Currently, global Partner at Fosun group b) Executive Director & Chairman of Shanghai Fosun Pharmaceutical; c) Executive Director and co-CEO of Fosun International (listed on Hong Kong exchange).
Dongming Li (51+ years)	Non-Executive Nominee Director	Nil	B.Sc. - Fudan University	a) Currently, senior Vice President of Shanghai Fosun Pharma since April 2017; b) Previously worked at Shanghai Pharmaceuticals (Group) and Shanghai Roche Pharmaceutical from May-08 to Nov-13.
Xiaohui Guan (49+ years)	Non-Executive Nominee Director	Nil	Master's degree in Professional Accountancy; Certified Accountant and member of Shanghai Institute of Certified Public Accountants	a) Joined Fosun group in May-00 and is senior Vice President and CFO of Shanghai Fosun Pharma b) Also serving as non-executive Director of Sinopharm Group; c) Previously associated with China National Accord Medicines as Supervisor.
Yiran Peng (43+ years)	Non-Executive Nominee Director	Nil	Bachelor's in economics - Jiangxi University of Finance; MBA - China Europe International Business School	a) Vice President of Shanghai Fosun (Group); b) Previously worked at GlaxoSmithKline China Investment.
Udo Johannes Vetter (65+ years)	Non-Executive Nominee Director	0.2	B.Sc. (Pharmacy) - Washington University	a) Associated with the Vetter/ Vetter Pharma group of companies since 1987, and is currently the Chairman of Vetter Pharma.
Moheb Ali Mohammed (76+ years)	Independent Director	2.1	Master's in history and international relations - Madras University	a) Previously worked with the Customs Excise and Service Tax Appellate Tribunal as a member (Technical).
Satyanarayana Murthy Chavali (53+ years)	Independent Director	2.2	B.Tech - IIT Madras; MBA - IIM-A	a) CEO of Aurigene Discovery Technologies Limited; b) Also associated with Balaji Amines as Director c) Previously worked at Dr. Reddy's Laboratories.

Source: Company, Ambit Capital research

Exhibit 69: Gland's management team includes experienced professionals, with majority of them being associated with the company for more than a decade; moreover, total managerial remuneration is less than 1% of PBT

Management team	With gland since	Designation	Remuneration (₹ mn)	Education	Brief background
Srinivas Sadu	2000	MD and CEO (since 25-Apr-2019)	27.4	B.Pharm - Gulbarga University, M.Sc. - Long Island University (NYC) and MBA - Baltimore University PG Fin. - London University	a) Has 21+ years of experience in business operations and management and has previously worked with Natco Pharma; b) Joined Gland as GM – exports and has worked as senior GM (2002), Vice President (2003), Director (2005), and COO (2011).
Ravi Shekhar Mitra	30-Sep-19	CFO	5.7	CA, CS, B.Com - Calcutta University	a) 20+ years of experience; b) Previously worked at Indian Oil. Vedanta-Sterlite Industries, Ranbaxy and Wockhardt.
K V G K Raju	1992	Chief Technology Officer (since 30-Apr-2011)	13.1	B. Sc. - Andhra University	a) 28+ years of experience in technology, quality control and development; b) Joined Gland as the Manager and has worked as Controller (Quality Assurance), General Manager (Quality Control) and Vice President (Technical).
Prakash Baliga	2016	Vice President SSPC (since 1-Jan-2020)	6.1	B.Pharma - Karnatak University, M.Pharma - Bangalore University	a) 24+ years of experience in pharma sector; b) Previously worked at Hospira Healthcare, AstraZeneca India, Recon, Bangalore Pharma and Dominion Chemical.
Ashish Adhikari	12-Aug-19	Vice President Operations	5.7	B.E. - Savitribai Phule Pune University M.E. - Lamar University, MBA - IIMB	a) 21+ years of experience in field of production planning, operations and engineering; b) Previously, worked at Cummins India, Enterprise Systems Partners (US), ABB Global, American Power, Gateway Terminals and GSK Pharma.
Dr. C S Venkatesan	1998	Senior Vice President - R&D (since 1-Jan-2020)	12.2	M.Sc. (Organic chemistry) - Annamalai University, Doctor of philosophy degree - Indian Institute of Science	a) 26+ years of experience in the field of pharmacy, R&D; b) Previously, worked at Sun Pharma c) Joined Gland as R&D chemist.
Dr. Surapanini Sridevi	2002	Senior Vice President – R&D (since 1-Jan-2020)	5.6	B.Pharm - Kakatiya Universitym, M.Pharm - Banaras Hindu University, Doctor of philosophy degree (Pharma) from Osmania University	a) 25+ years of experience in the field of pharmacy, R&D b) Previously, worked at the Council of Scientific & Industrial Research as senior Research Fellow and as lecturer in C.L. Baid Metha College of Pharmacy.
Sampath Kumar Pallerlamudi	2010	Company Secretary (since 17-Dec-2013)	3.5	LLB - Andhra University and PG (Diploma) - Institute of Public Enterprise, CS	a) 16+ years of experience in the field of corporate secretarial and finance; b) Previously, worked at Ahalada Rao & Associates, Tyche Peripheral Systems, Zen Technologies and HSBC - Electronic Data Processing (India); c) Joined Gland as Manager - Corporate Finance.
Shilpi Sahay	2014	Deputy General Manager HR (since 1-Apr-2018)	3.0	B.Sc. - Fergusson College, Pune University, MBA - XLRI, Jamshedpur	a) 12+ years of experience in human resource management; b) Previously, worked at Strategist HR Advisory, Matrix Laboratories, Satyam Computer and GVK Biosciences; c) Joined Gland as Assistant General Manager - HR.
Susheel Ogra	2017	Senior General Manager Sales & Marketing (since 1-Apr-2019)	3.1	B. Sc. - Maulana Azad Memorial College, University of Jammu	a) 16+ years of experience in sales and marketing; b) Prior to Gland, has worked at Sanzyme, Terma Medicare, Celon Laboratories, Troikaa Pharma, Serum Institute; c) Joined Gland Deputy General Manager – Sales & Marketing.

Source: Company, Ambit Capital research

Financials (Consolidated)

Profit & Loss

Year to March (₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	20,442	26,332	32,184	34,803	39,823
Gross profit	11,872	15,312	19,954	21,230	24,292
Power and fuel	(740)	(785)	(805)	(1,044)	(1,394)
Employee cost	(2,229)	(2,777)	(2,999)	(3,359)	(3,862)
Other expenses	(1,837)	(2,196)	(2,575)	(2,436)	(2,589)
EBITDA (underlying)	**7,065**	**9,555**	**13,576**	**14,391**	**16,448**
Depreciation	(821)	(946)	(1,048)	(1,118)	(1,188)
Interest cost	(37)	(72)	(72)	(72)	(72)
Other income	856	1,392	1,325	3,290	4,616
Tax provision	(2,344)	(2,200)	(3,445)	(4,123)	(4,951)
PAT (adjusted)	**4,519**	**7,729**	**10,336**	**12,369**	**14,853**

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY19	FY20	FY21E	FY22E	FY22E
No. of shares o/s (mn)	163	163	163	163	163
EPS (adjusted) basic	30	47	63	76	91
EPS (adjusted) diluted	30	47	63	76	91

Source: Company, Ambit Capital research

Balance sheet

Year to March (₹)	FY19	FY20	FY21E	FY22E	FY22E
Shareholder's funds	28,620	36,462	59,298	71,667	86,520
Borrowings	50	41	41	41	41
Trade payables	4,462	2,491	5,215	3,709	6,503
Other liabilities	2,104	1,866	1,866	1,866	1,866
Total equity & liabilities	**35,235**	**40,860**	**66,421**	**77,283**	**94,930**
Fixed assets	10,519	11,556	12,008	11,891	11,703
Right of use assets	10	10	10	10	10
Investments	64	69	69	69	69
Other non-current assets	1,068	763	763	763	763
Non-current assets	**11,661**	**12,397**	**12,850**	**12,732**	**12,544**
Inventories	9,119	7,563	10,950	9,596	13,381
Trade receivables	5,061	6,018	8,090	7,166	10,291
Cash and cash equivalents	7,533	13,252	32,901	46,159	57,083
Loans & advances and others	1,861	1,630	1,630	1,630	1,630
Current assets	**23,575**	**28,463**	**53,571**	**64,551**	**82,386**
Total assets	**35,235**	**40,860**	**66,421**	**77,283**	**94,930**

Source: Company, Ambit Capital research

Cash flow

Year to March (₹ mn)	FY19	FY20	FY21E	FY22E	FY22E
PBT	6,863	9,929	13,781	16,491	19,804
Depreciation	821	946	1,048	1,118	1,188
Others	(277)	(28)	(1,253)	(3,218)	(4,544)
WC (build)/release	(3,319)	(1,396)	(2,734)	771	(4,116)
Tax	(2,235)	(2,441)	(3,445)	(4,123)	(4,951)
Cash flow from operations	**1,853**	**7,009**	**7,396**	**11,039**	**7,380**
Capex (net)	(1,352)	(1,708)	(1,500)	(1,000)	(1,000)
Investments (increase)/decrease	(2,187)	(6,387)	-	-	-
Others income/(expenditure)	398	434	1,325	3,290	4,616
Cash flow from investments	**(3,141)**	**(7,661)**	**(175)**	**2,290**	**3,616**
Proceeds from borrowings	(4)	(5)	-	-	-
Issuance/buyback of equity	-	-	12,500	-	-
Interest paid	(25)	(62)	(72)	(72)	(72)
Dividend paid					
Others	(2)	(2)	-	-	-
Cash flow from financing	**(31)**	**(69)**	**12,428**	**(72)**	**(72)**
Net change in cash	(1,320)	(720)	19,649	13,258	10,924
FCF	**501**	**5,302**	**5,896**	**10,039**	**6,380**

Source: Company, Ambit Capital research

Ratios

Year to March	FY19	FY20	FY21E	FY22E	FY22E
Revenue growth (%)	26%	29%	22%	8%	14%
EBITDA margin (%)	33%	35%	36%	42%	41%
EBIT margin (%)	31%	35%	38%	43%	48%
PAT margin (%)	20%	22%	29%	32%	36%
Asset turnover (x)	0.6	0.7	0.6	0.5	0.5
RoCE pre-tax (%)	27%	31%	29%	25%	25%
RoIC pre-tax (%)	37%	45%	56%	64%	72%
RoE	17%	24%	22%	19%	19%
RoA	14%	20%	19%	17%	17%
Receivable days	101	88	77	80	80
Inventory days	246	303	276	276	276
Payable days	133	157	115	115	120
Cash conversion cycle	214	234	238	241	236
Pre-tax CFO/EBITDA (%)	58%	99%	80%	105%	75%
Net debt / Equity (x)	(0.3)	(0.4)	(0.6)	(0.6)	(0.7)

Source: Company, Ambit Capital research

Valuation

Year to March	FY19	FY20	FY21E	FY22E	FY22E
P/E (x)	65.8	38.5	28.8	24.0	20.0
P/B (x)	10.4	8.2	5.0	4.1	3.4
EV/EBITDA (x)	34.8	25.7	18.1	17.1	14.9
EV/EBIT (x)	34.6	24.6	17.7	14.8	12.4

Source: Company, Ambit Capital research

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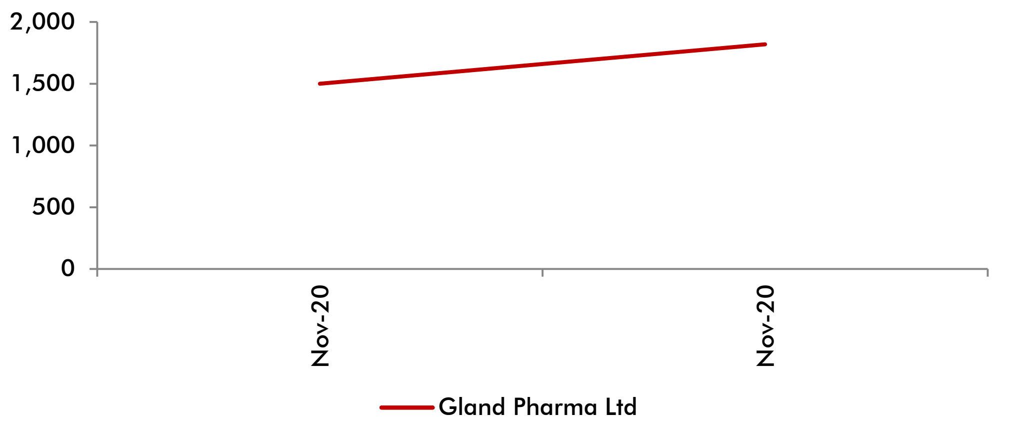

Source: Bloomberg, Ambit Capital research

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