

GLS v2- Redefining growth under the new ownership ...

About stock: Glenmark Life Sciences Limited (GLS) is a leading developer and manufacturer of APIs (~93% of FY24 revenues) with major focus in chronic therapeutic areas such as cardiovascular disease, central nervous system disease, pain management and diabetes. The company is also expanding into CDMO services (~7% of FY24 revenues) catering to a range of multinational and specialty pharmaceutical companies. It owns a **total reactor capacity of ~1198 KL** with manufacturing facilities at Ankaleshwar, Dahej in Gujarat and Mohol, Kurkumbh in Maharashtra.

GLS's portfolio consists of around **150+ APIs** across therapeutic segments like Cardiovascular (CVS) disease, Central Nervous System (CNS) disorders, pain management, anti-diabetics among others. GLS caters to **over 700 customers** in more than **75 countries**.

In 2023 Nirma acquired 75% stake in GLS from Glenmark Pharmaceuticals Limited.

Investment Rationale

- Seasoned API player, significant presence in chronic therapies:** With 20+ years of experience in catering to leading global generic players, GLS has established good relationship especially in the areas of CVS (Sartans in particular), CNS, Pain management and Anti-diabetics. CVS and CNS together account for ~60% of the API portfolio. The company is also developing niche, oncology focused high potency APIs. Overall, it has filed over 520 drug master filings/certificates of suitability/dossiers across various markets, mainly in the US, Europe, Brazil, Canada, Japan, Russia and others.
- Change of ownership could expedite capex:** Although structurally and strategically the business remains same, we believe the change of ownership is likely provide more autonomy in terms of growth capex. The company needs to augment capacities as the average capacity utilisation has reached to ~85% at most of the facilities. The company is looking for brownfield expansion at Ankleshwar and Dahej as well as greenfield expansion at a new site at Solapur.
- CDMO business shaping up well:** CDMO business remains marginal (and at times volatile). But the management is determined to accelerate the tempo with consistent deal wins and execution. At present GLS has around 3 CDMO Projects on hand whereas company targets to double its CDMO business by 2027 via leveraging its existing partnerships and adding new projects. Strategically, being a standalone API player (no more intragroup formulation connection) augurs well to ramp up the CDMO business.

Rating and Target Price

- We have assigned **BUY** rating on GLS, on the back of proven execution capabilities, strong financials and long-term expansion plans in APIs and CDMO. We believe the change of ownership could be beneficial especially on the expansion front.
- We have assigned a **target price of ₹ 1,040 to GLS** based on FY26E EPS of ₹ 49.5.

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	FY24	CAGR FY20-24 (%)	FY25E	FY26E	CAGR FY24-26E (%)
Revenues	1537.3	1885.2	2123.2	2161.2	2283.3	10.4	2522.6	2849.5	11.7
EBITDA	472.0	591.1	616.1	642.3	674.3	9.3	775.7	887.0	14.7
EBITDA Margins (%)	30.7	31.4	29.0	29.7	29.5		30.7	31.1	
Net Profit	313.1	351.6	418.7	467.0	471.0	10.7	531.6	606.3	13.5
Adjusted EPS(₹)	319.5	358.7	34.2	38.1	38.4		43.4	49.5	
PE (x)	2.5	2.2	23.6	21.1	21.0		18.6	16.3	
EV/EBITDA (x)	20.9	16.5	15.2	15.0	14.2		12.3	10.7	
RoCE (%)	108.7	72.1	28.4	28.6	26.2		26.1	26.2	
RoE (%)	77.9	46.7	20.4	21.8	20.2		20.1	20.1	

Source: Company, ICICI Direct Research



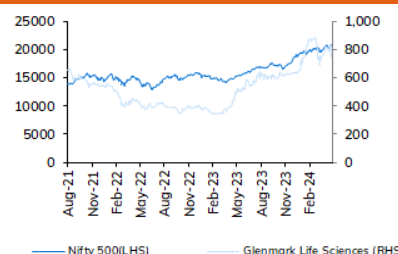
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Particular	Amount
Market Capitalisation	₹ 9872 crore
Debt (FY24)	₹ 17 crore
Cash (FY24)	₹ 301 crore
EV	₹ 9588 crore
52 week H/L	906/456
Equity capital	₹ 24.5 crore
Face value	₹ 2

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	82.9	82.9	82.9	82.9
DIs	0.6	0.6	0.7	1.4
FIs	3.3	4.4	4.6	5.0
Other	13.3	12.1	11.8	10.7

Price Chart



Key risks

- Regulatory concerns (3 USFDA approved facilities)
- Volatility in CDMO Business

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Company Background

Glenmark Pharmaceuticals Limited, the erstwhile parent of GLS, forayed into API manufacturing business by setting up a manufacturing facility in Kurkumbh, Maharashtra in 2001-02. In 2019, the API manufacturing business of Glenmark was sold and spun off into this Company as part of a broader reorganization designed to place Glenmark Pharmaceuticals on an accelerated trajectory to attain its objectives in three different verticals, with this Company (Glenmark Life Sciences) focusing on the API business. Following the Spin-off, Glenmark Life Science operated as an independent, professionally-managed global API business.

Acquisition of GLS by Nirma – unfolding new stories

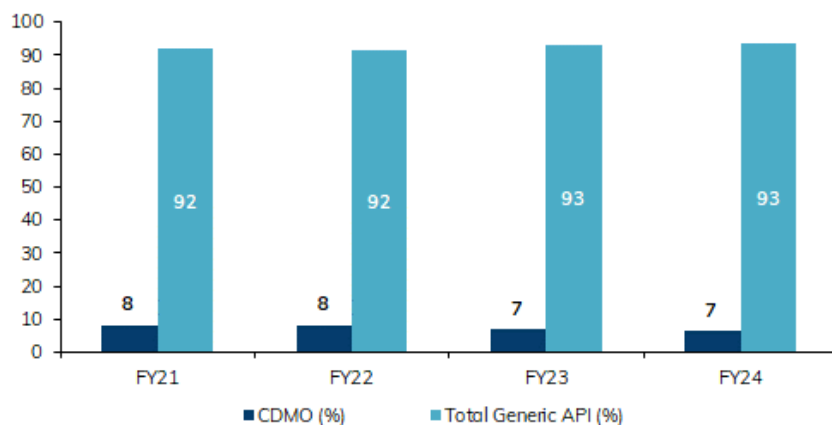
Nirma Limited on 12th march 2023 concluded the transaction for acquisition of 75% stake in Glenmark Life Sciences (GLS). Under the terms of the share purchase agreement, Nirma acquired 91.9 million equity shares at a price of ₹ 615 from Glenmark Pharmaceuticals, and hence making it the promoter of GLS.

Nirma is a chemical focused B2C and B2B group and the owner of legendry Nirma detergents brand. It clocked a turnover of ₹ 11350 crore EBITDA of ~2000 crore in FY23.

The transaction valued the company at approximately at ~₹ 7500 crore (3.5x FY23 Revenues and 11.7x FY23 EBITDA).

GLS now is a leading developer and manufacturer of **APIs** (~93% of FY23 revenue) in chronic therapeutic providing **CDMO** services (~7% of FY23 revenue) to areas such as cardiovascular disease, central nervous system disease, pain management and diabetes. The company is also increasingly a range of multinational and specialty pharmaceutical companies.

Exhibit 1: Segmental revenue mix



Source: Company, ICICI Direct Research

It has a diversified portfolio of around 150 molecules & supplies its products to customers in India, Europe, North America, Latin America, Japan and the rest of the world (ROW). The company's 4 manufacturing facilities are located in Ankleshwar, Dahej, Mohol and Kurkumbh with a total installed capacity of 1198 KL, which are regularly inspected by global regulators such as USFDA, PMDA (Japan) and EDQM (Europe).

GLS is further expanding its manufacturing capacity by setting up fresh plant in Solapur with target capacity of 800 KT which will be calibrated as per volume demand.

Q4FY24 Concall Key Takeaways

- Company would continue the current business direction along with searching for new initiatives to drive growth as increased growth capital would be available under new management.

- Business with Glenmark Pharma would be secured by Master Supply agreement with Glenmark Pharma for next 5 years.

- Company will be pushing harder on CDMO Business by opening new channels, Adopting Technology which can open High Value Portfolio.

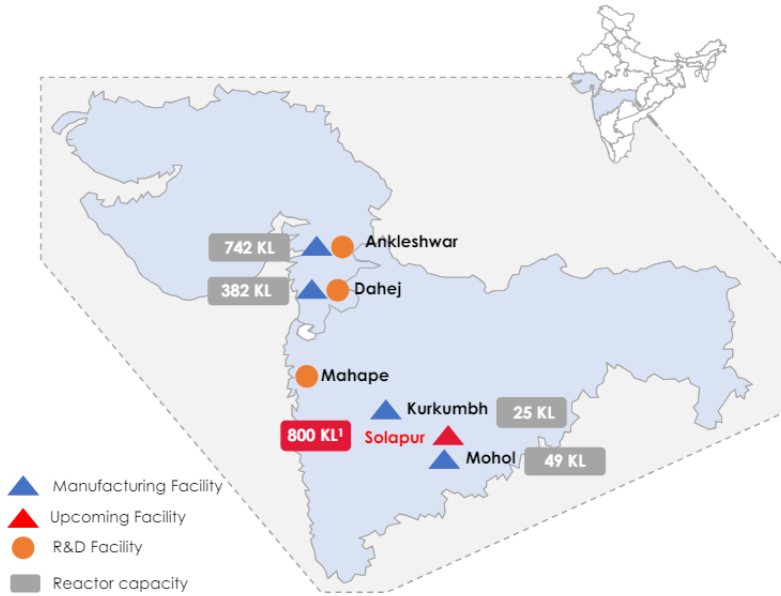
- Management expects external situations hindering business like geopolitical challenges and supply chain disruption should improve by H2FY25.

- The slowdown in External business for Q4FY24 was on account of red sea crisis along with weak performance of Japan due to inventory destocking. Revenues were also got impacted due to alignment to Nirma accounting policy. Overall impact of these two issues was ~Rs 45 crore

In FY24, CDMO was around 7% of total business. Management has guided significant traction in CDMO business in coming years.

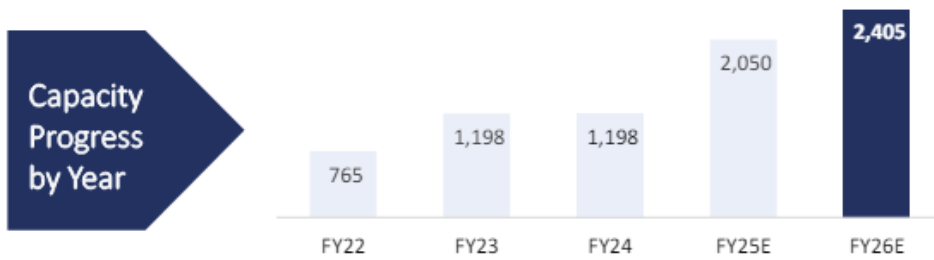
Exhibit 2: Manufacturing and R&D facilities

Multi-purpose Manufacturing Facilities



Source: Company, ICICI Direct Research

Exhibit 3: Reactor capacity plans (KL)

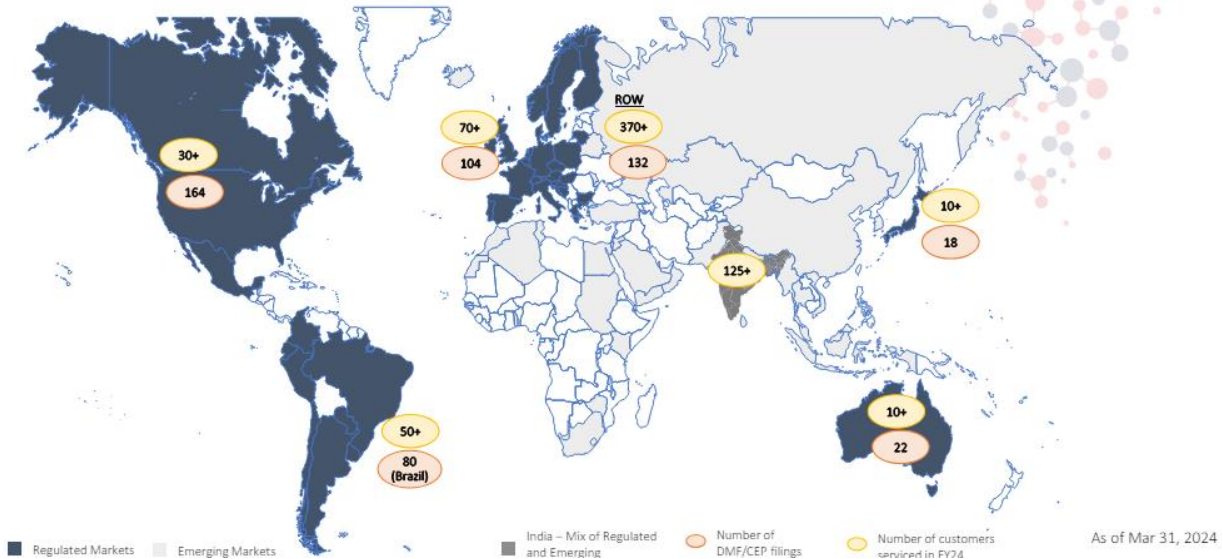


Source: Company, ICICI Direct Research

Presently, GLS had filed 520 drug master files (DMFs) and certificates of suitability to the monographs of the European Pharmacopoeia (CEPs). The company's R&D spent was 3.3% of FY24 revenues and it regularly works on developing 8 to 10 molecules each year. As of FY23, GLS has employed 312 personnel at R&D laboratories, which constituted ~17% of their total permanent employee strength and co-owned 77 granted patents.

Exhibit 4: DMFs and CEP filing status

• Filed 520 DMFs and CEPs across major markets; United States, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia



As of Mar 31, 2024

Source: Company, ICICI Direct Research

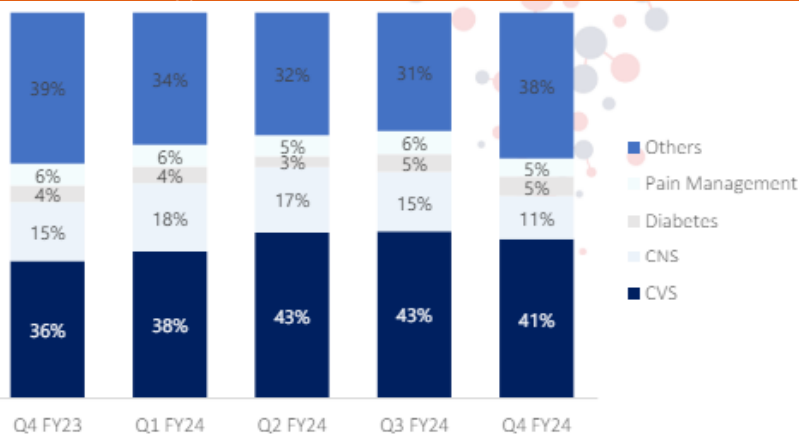
Exhibit 5: Cumulative filing status

Therapy	North America	Europe	Japan	Brazil	Australia	ROW	Total
CVS	38	33	4	21	10	35	141
CNS	38	25	8	13	2	17	103
Diabetes	10	5	-	8	-	13	36
Pain Management	1	2	-	4	1	9	17
Others	77	39	6	34	9	58	223
Total	164	104	18	80	22	132	520

Source: Company, ICICI Direct Research

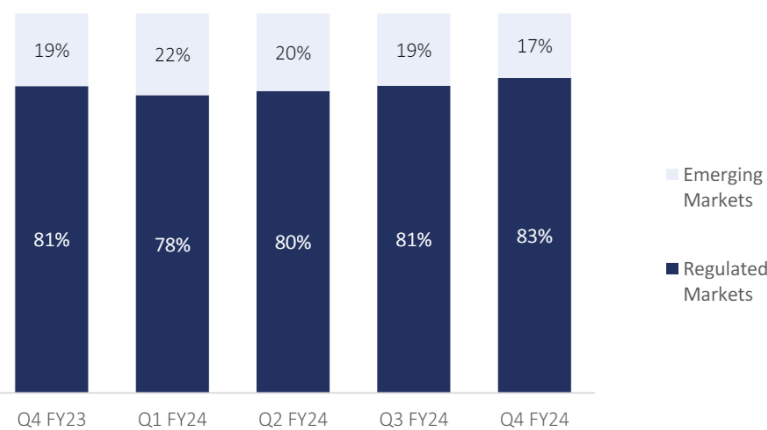
The API product portfolio spans across therapeutic areas including CVS, CNS, pain management, diabetes and others which are sold in both regulated markets and emerging markets.

Exhibit 6: Therapy Area Mix



Source: Company Q4FY24 Investors Presentation, ICICI Direct Research

Exhibit 7: Market Mix



Source: Company Q4FY24 Investors Presentation, ICICI Direct Research

CDMO Business -

GLS offers customised support to global Pharma Innovators from making regulatory filings, providing research and technological support to manufacturing specialty APIs. The work encompasses through a blend of product customisation and regulatory strategy to allow market access.

The specialty business offers higher business stability (with improved margins) due to the complex nature of the products thereby leading to high customer stickiness for GLS.

At present GLS has around 3 CDMO Project in hand whereas company targets to double its CDMO business by 2027 via leveraging its existing partnerships and adding new projects.

Investment Rationale

Strong API pedigree; focused presence in important therapeutic categories

GLS over the years has established good relationship with top 20 global generic players. This has helped the company to establish significant critical mass especially in the areas of CVS (Sartans in particular), CNS, Pain management and Anti-diabetics. CVS and CNS together account for ~60% of the API portfolio. Almost 65% of the API sales are from regulated markets.

The company has maintained dominant market share in some widely used APIs such as Perindopril, Telmisartan, Olmesartan (all CVS), Atovaquone (anti-parasitic), Teneiglipitin (anti-diabetes), Zonisamide (CNS) and Adapalene (dermatology) among others.

The company is now focusing on developing niche, oncology focused high potency APIs which enjoy better growth and margins profile.

GLS's portfolio currently consists of ~150 APIs including 17 High Potency APIs. More than ~30 APIs are in the pipeline including 4 High Potency APIs in advanced stages of development.

The present addressable market for API portfolio of GLS is estimated to be more around \$170B including 17 High Potency APIs with total addressable market of around \$37B.

Exhibit 8: Global Active Pharmaceutical Ingredients Market by Application 2020-2026 (US\$ billion)

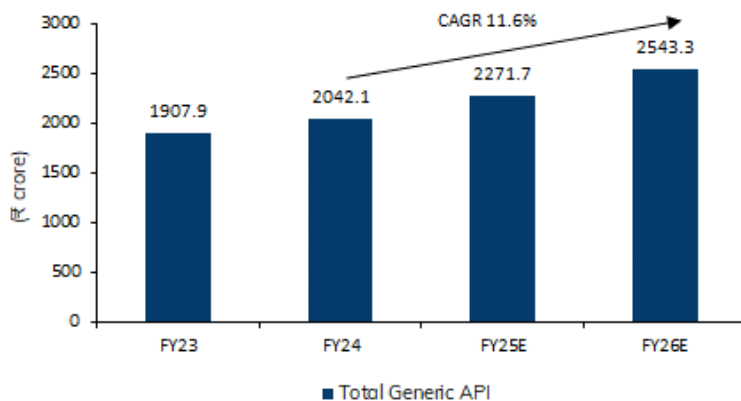
Application	2020	2026	CAGR
Oncology	48.30	75.61	7.75%
Cardiovascular Disease	28.62	41.17	6.24%
Anti-infectives	19.39	26.51	5.35%
CNS	17.77	25.36	6.11%
Respiratory Diseases	10.19	14.14	5.61%
Diabetes	8.16	11.25	5.51%
Pain Management	4.29	6.01	5.76%

Source: Company FY23 Annual Report, ICICI Direct Research

Our growth estimates back in the steady expansion of API portfolio, the current development pipeline and the global API industry growth rate for some key therapies which are expected to deliver steady growth between 5-7% going forward.

We expect generic APIs to grow at a CAGR of 12% during FY24-26E to be driven by external API sales which are expected to grow at a CAGR of 14% during the same period. Sales to Glenmark are expected to grow at a CAGR of ~8%.

Exhibit 9: Generic API business growth on the back of higher external sales traction



Source: Company, ICICI Direct Research

Capacity expansion plans likely to be on fast track under new ownership

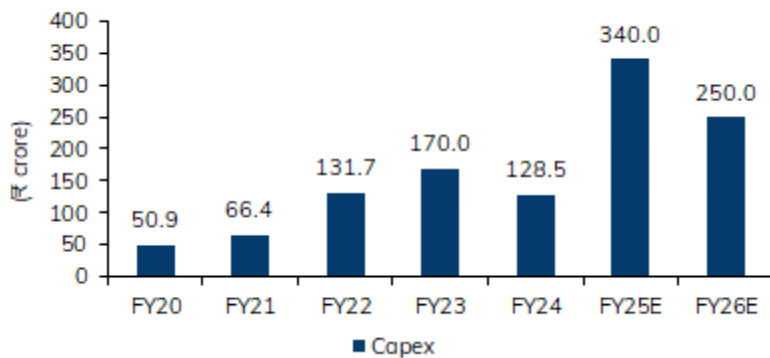
The company needs to augment capacities as the average capacity utilisation has reached to ~85% at most of the facilities. Capacity expansion was in slow lane with an overall spend of just ₹ 420 crore during FY20-23 despite operating cash flow generation of ₹ 1500 crore.

However, under the Nirma ownership, the management is expected to assume much needed autonomy. That is already visible with the capex guidance of ₹ 340-350 crore for FY25E.

The company is planning to expand its reactor capacity from 1198 KL at present to 2405KL in FY26E.

The company is looking for brownfield expansion at Ankleshwar and Dahej as well as greenfield expansion at a new site at Solapur.

Exhibit 10: Capex trend FY20-26E



Source: Company, ICICI Direct Research

CDMO business- shaping well; “hard push” expected under the new regime

Like other successful blended models (API + CRAMs / CDMO) the company is planning to add more bandwidth in the CDMO space which is stickier and more remunerative than the plain vanilla API model.

GLS has started working with innovator pharmaceutical companies in the area of CDMO over the last 5-6 years by leveraging on its capabilities in process chemistry research. By further developing its manufacturing and analytical research capabilities, the company is looking to tap Pharma innovators in a gradual manner.

Post Covid the global CDMO landscape has become more challenging with newly drawn assignments taking time to materialise due to paucity of funds and tighter execution schedules. However, the long-term story remains intact.

The CDMO global space remains highly fragmented with top ten players own less than 30% of the market, with the biggest player owning just 2-4% of the total market share. M&As are hotting up in the space. Global innovators are trying to balance the contacts with a fewer number of big and smaller suppliers in order to reduce costs and save time. This bodes well for smaller CDMOs to strengthen their competitiveness by extending their range of services offered or entering the market for another dosage form.

For GLS, CDMO segment currently accounts for around 7-8% of the sales. It is currently catering to three customers. Another two deal wins are expected in H2FY25.

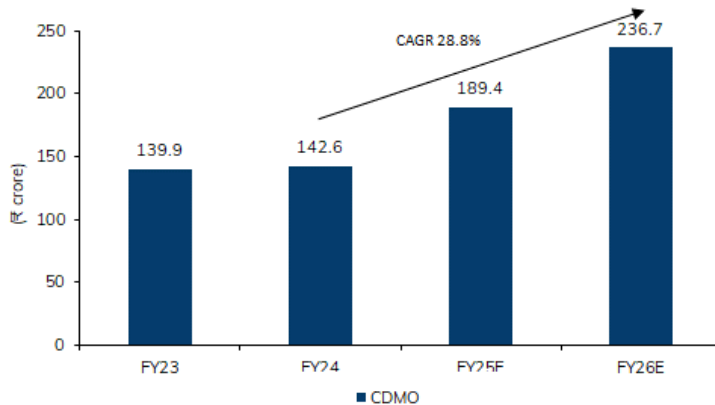
Aspirational target as per management is ₹ 600 crore over the next 4-5 Years.

As per management’s own assertion, the CDMO segment is expected to get much needed focus under the new ownership with autonomy for seeking new channels, adopting technology for Portfolio expansion.

Similarly, having a standalone status of API/ CDMO player without any intra-group formulations connection can also be an important consideration for some of the incremental client wins.

Incremental CDMO contribution is expected to improve margins profile as typically CDMO contracts fetch better margins. We expect CDMO to grow at a CAGR of ~29% during FY24-26E on the back of incremental deal wins and execution.

Exhibit 11: CDMO segment is expected to generate strong momentum post FY24



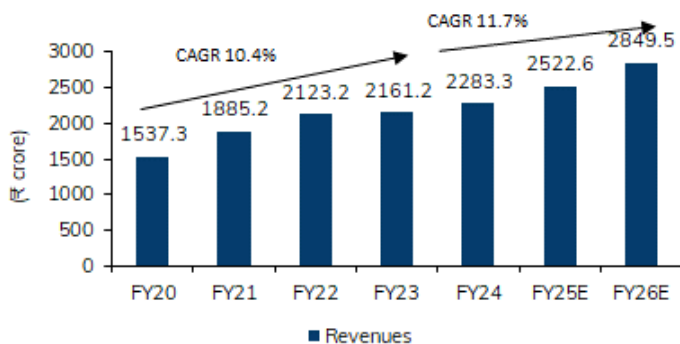
Source: Company, ICICI Direct Research

Key Financial Summary

Revenues likely to be more stable with external sales, CDMO to be the main drivers

Revenues grew at a CAGR of 12% during FY20-23, primarily driven by external API business which grew ~20% during the same period. Besides new launches the external business also had some Covid benefit. Sales to GPL grew just 3% tracking weak US generics. CDMO also had a negative growth in synch with the volatility in the global generics space during that period. We expect much more stability in future earnings on the back of incremental product launches driving external sales, relatively steady Glenmark business and good momentum in CDMO space. Our ~12% CAGR revenue growth projection during FY24-26E bakes in 1) External sales CAGR of ~14%, 2) CDMO CAGR of ~29%, 3) Glenmark Pharma CAGR of ~8%, and 4) lower operating income due to waning PLI benefits (available for Glenmark Pharma).

Exhibit 12: Revenues to grow at ~12% CAGR in FY24-26E



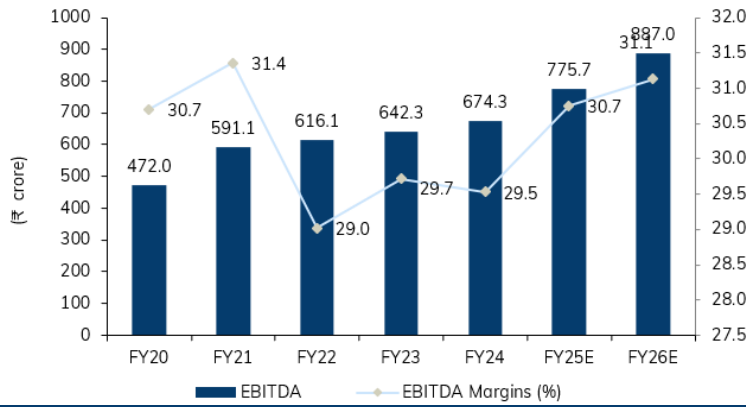
Source: Company, ICICI Direct Research

EBITDA growth to be driven by better product mix, firm GPMs

GLS enjoys one of the best margin profiles in among peers. Focus chronic therapies, higher sales to regulated markets are some of the key determinants among others. The margin profile has always remained strong as the focus remained on value game and not on volumes game. The EBITDA margins historically have remained in the 28-32% range during earlier years.

Going ahead, we expect EBITDA in absolute terms to grow at a CAGR of ~15% during FY24-26E to be driven by CDMO traction, niche launches including some high potency APIs and benefits stemming from investments in backward integration. The gross profit margins (GPMs) are also expected to remain firm even after considering ~100-150 bps tapering off effect due to waning PLI benefits.

Exhibit 13: EBITDA to grow at 15% CAGR in FY24-26E

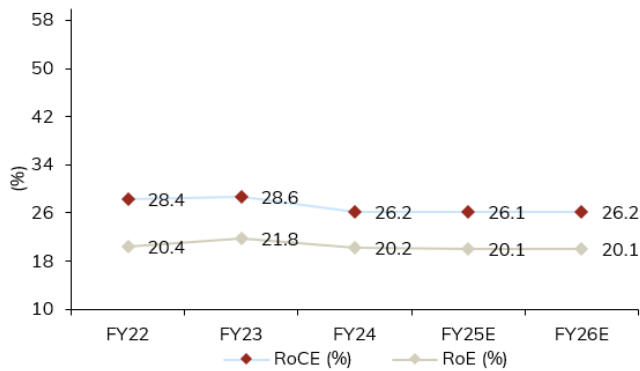


Source: Company, ICICI Direct Research

Return Ratios to come off slightly as the company accelerates capex

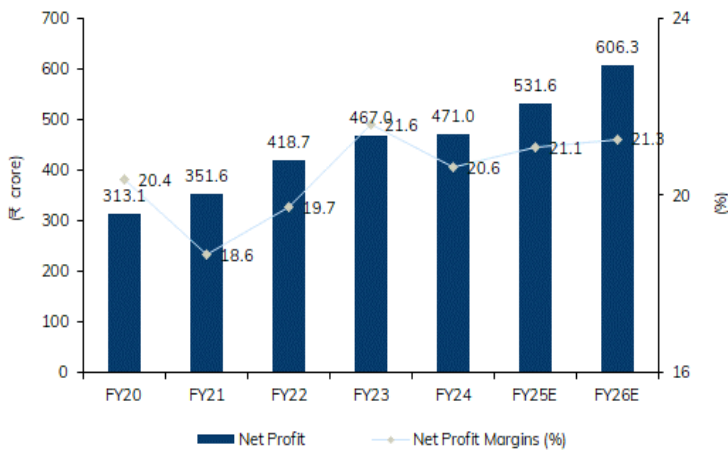
The company’s capex spend was way below optimum level despite having capabilities to expand. This is going to change as we expect close to ₹ 600 crore of capex spend during FY24-26E and significant part of the same would-be growth capex. This in turn is likely to put some pressure on the return ratios. Even then the ratios remain healthy and one of the best in the industry. We expect ROCE to come down to 26.2% from 28.6% in FY23.

Exhibit 14: ROCE & ROE trend- Capex effect to kick in



Source: Company, ICICI Direct Research

Exhibit 15: Net Profit Margins to remain stable



Source: Company, ICICI Direct Research

Valuation

- We believe GLS offers good risk-return profile and is trading at a significant discount to the industry peers despite possessing good pedigree in the API space. We believe the focus on remunerative segments and autonomy in capex decisions under the new ownership could be the main drivers for healthy FCF generation. We expect Rs 333 crore of FCF generation by FY26E.
- We value GLS at 21x FY26E EPS of ₹ 49.5 and arrive at a target price of ₹ 1040.

Key Risk and Concerns

Regulatory Risk: Although the hitherto track record in terms of USFDA inspection is unblemished, any adverse outcome in any of the facilities could lead to cascading negative implications.

Supply chain disruptions: Periodic uncertainty over the supply chain from China and other geographies due to geopolitical tensions may lead to volatility in earnings as the effect could be both on sales as well as raw material supplies. Q4FY24 weak earnings is a testimony to this risk.

Volatility in CDMO business: The company is relatively new in the dynamic and volatile global CDMO space. Current bandwidth is around ₹ 150 crore with three contracts in hand. Although the management is optimistic about two more contract wins, we have seen contacts getting postponed or even get terminated depending upon the client's requirement and urgency. Although the funding scenario in the world and especially in the US is crawling back to normal, loss of contract is not an uncommon phenomenon.

Financial Summary

Exhibit 16: Profit and loss statement				
₹ crore				
(Year-end March)/ (₹ crore)	FY23	FY24	FY25E	FY26E
Total Operating Income	2,161.2	2,283.3	2,522.6	2,849.5
Growth (%)	1.8	5.6	10.5	13.0
Raw Material Expenses	1,014.1	1,002.0	1,147.9	1,268.1
Gross Profit	1,147.1	1,281.3	1,374.7	1,581.4
Gross Profit Margins (%)	53.1	56.1	54.5	55.5
Employee Expenses	180.2	258.2	233.2	267.0
Other Expenditure	324.7	348.8	365.8	427.4
Total Operating Expenditure	1,518.9	1,609.0	1,746.9	1,962.6
EBITDA	642.3	674.3	775.7	887.0
Growth (%)	4.3	5.0	15.0	14.3
Interest	0.5	1.5	1.5	2.3
Depreciation	42.1	53.5	63.3	73.8
Other Income	29.0	12.0	7.4	8.4
PBT before Exceptional Items	628.6	631.4	718.4	819.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	628.6	631.4	718.4	819.3
Total Tax	161.6	160.4	186.8	213.0
PAT before MI	467.0	471.0	531.6	606.3
PAT	467.0	471.0	531.6	606.3
Growth (%)	11.5	0.9	12.9	14.0
EPS (Adjusted)	38.1	38.4	43.4	49.5

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
₹ crore				
(Year-end March)/ (₹ crore)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	475.0	468.3	531.6	606.3
Add: Depreciation & Amortization	42.1	53.5	63.3	73.8
Net Increase in Current Assets	-295.1	-100.0	-23.8	-140.0
Net Increase in Current Liabilities	98.2	-34.1	10.1	40.9
Others	-6.8	25.8	1.5	2.3
CF from Operating activities	313.4	413.5	582.7	583.3
Investments	0.1	0.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	-170.0	-128.5	-340.0	-250.0
Others	15.8	12.0	0.8	0.8
CF from Investing activities	-154.1	-116.5	-339.2	-249.2
(inc)/Dec in Loan	-1.6	-3.7	20.0	20.0
Dividend & Dividend tax	-385.9	-275.7	-212.6	-242.5
Other	0.0	0.0	-1.5	-2.3
CF from Financing activities	-387.6	-279.4	-194.1	-224.8
Net Cash Flow	-228.3	17.6	49.4	109.4
Cash and Cash Equivalent	512.2	283.8	301.4	350.8
Cash	283.8	301.4	350.8	460.2
Free Cash Flow	143.4	285.0	242.7	333.3

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
₹ crore				
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	24.5	24.5	24.5	24.5
Reserve and Surplus	2,113.7	2,307.8	2,626.8	2,990.5
Total Shareholders funds	2,138.2	2,332.3	2,651.3	3,015.0
Total Debt	19.4	17.1	37.1	57.1
Deferred Tax Liability	42.4	48.8	49.8	50.8
Long-Term Provisions	0.0	15.8	16.1	16.4
Other Non Current Liabilities	0.0	0.0	0.0	0.0
Source of Funds	2,200.0	2,414.0	2,754.3	3,139.3
Gross Block - Fixed Assets	974.1	1,052.0	1,292.0	1,442.0
Accumulated Depreciation	193.5	246.9	310.2	384.0
Net Block	780.6	805.1	981.8	1,058.0
Capital WIP	61.6	106.0	206.0	306.0
Fixed Assets	842.2	911.1	1,187.8	1,363.9
Investments	0.1	0.1	0.1	0.1
Other non-Current Assets	9.5	23.3	23.8	24.2
Inventory	604.2	666.6	691.9	729.6
Debtors	806.8	765.4	760.2	858.8
Other Current Assets	155.6	182.6	186.2	189.9
Cash	283.8	301.4	350.8	460.2
Total Current Assets	1,850.3	1,916.0	1,989.2	2,238.5
Creditors	396.6	368.7	377.4	416.9
Provisions	15.5	12.0	12.3	12.5
Other Current Liabilities	90.1	55.7	56.8	57.9
Total Current Liabilities	502.1	436.4	446.5	487.4
Net Current Assets	1,348.2	1,479.6	1,542.7	1,751.1
Application of Funds	2,200.0	2,414.0	2,754.3	3,139.3

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
₹ crore				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	38.1	38.4	43.4	49.5
Cash EPS	17.1	19.2	26.0	29.7
BV per share	174.5	190.4	216.4	246.1
Cash per Share	23.2	24.6	28.6	37.6
Dividend per share	21.0	19.2	17.4	19.8
Operating Ratios (%)				
Gross Profit Margins	53.1	56.1	54.5	55.5
EBITDA margins	29.7	29.5	30.7	31.1
PAT Margins	21.6	20.6	21.1	21.3
Cash Conversion Cycle	211.0	230.9	210.0	200.0
Fixed Asset Turnover	2.6	2.5	2.1	2.1
EBITDA conversion Rate	48.8	61.3	75.1	65.8
Return Ratios (%)				
RoE	21.8	20.2	20.1	20.1
RoCE	28.6	26.2	26.1	26.2
RoIC	32.4	30.9	32.4	34.3
Valuation Ratios (x)				
P/E	21.1	21.0	18.6	16.3
EV / EBITDA	15.0	14.2	12.3	10.7
EV / Net Sales	4.4	4.2	3.8	3.3
Market Cap / Sales	4.6	4.3	3.9	3.5
Price to Book Value	4.6	4.2	3.7	3.3
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.1	3.7	3.7	3.6
Quick Ratio				
Inventory days	217	243	220	210
Debtor days	136	122	110	110
Creditor days	143	134	120	120

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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