

CMP: ₹ 1040

Target: ₹ 1295(25%)

Target Period: 12 months

BUY

August 26, 2024

Performance steady under the new ownership; outlook upbeat...

About the 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. GLS caters to over 700 customers in more than 75 countries with a product basket of +150 products. Glenmark Pharmaceuticals (GPL) is the largest customer which accounts for ~33% of the overall sales.

The company is also 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.

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

Investment Rationale:

- Q1FY25 – YoY numbers muted but sequential recovery solid:** Revenues grew 5%/11% on YoY/QoQ basis to ₹ 578 crore driven by non-GPL API sales which grew 10%/7% on YoY/QoQ basis to ₹ 339 crore. API sales to Glenmark Pharma on the other hand were flat on YoY basis but grew ~18% QoQ to ₹ 196 crore. CDMO sales de-grew 5% YoY but grew ~20% QoQ to ₹ 42.5 crore on expected lines as the major deal traction is expected in H2. EBITDA de-grew ~18% YoY but grew ~13% QoQ to ₹ 160 crore. PAT de-grew 18% YoY but grew 14% QoQ to 112 ₹ crore. The numbers reflect a steady path under the new regime with most of the parameters improving sequentially. The only blot was GPM which were down on YoY as well as QoQ basis (even after considering the loss of PLI benefits).
- Future growth levers- capacity expansion, CDMO momentum, traction for differentiated products:** GLS has earmarked significant capacity addition (₹ 700 crore capex in two years) which is expected to take the overall reactor capacity to 1424 KL by FY25 and 2644 KL by FY27, including 400 KL for backward integration. This, we believe could be a significant ramp up for execution from FY26 onwards. While the non-GPL business is expected to grow at a faster pace, the GPL business could be in slower lane but remains stickier despite GPL's complete exit from the company. The CDMO business caters to 3 Projects currently and the company is confident to commercialize two more projects in H2FY25. The niche HP API portfolio now extends to 20 products with an addressable market of US\$ 40 billion.

Rating and Target price

- Our target price is ₹ 1295 based on 27x FY26E EPS of ₹ 47.9



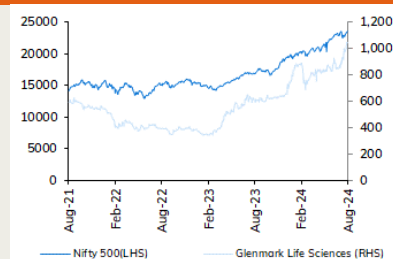
Particulars

Particular	Amount
Market Capitalisation	₹ 12743 crore
Debt (FY24)	₹ 17 crore
Cash (FY24)	₹ 301 crore
EV	₹ 12458 crore
52 week H/L	1063/610
Equity capital	₹ 24.5 crore
Face value	₹ 2

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	82.9	82.9	82.9	82.9
DII's	0.6	0.7	1.4	1.6
FII's	4.4	4.6	5.0	4.8
Other	12.1	11.8	10.7	10.8

Price Chart



Key risks

- Regulatory concerns (3 USFDA approved facilities)
- Volatility in GPL business

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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	2480.1	2802.0	10.8
EBITDA	472.0	591.1	616.1	642.3	674.3	9.3	729.9	844.2	11.9
EBITDA Margins (%)	30.7	31.4	29.0	29.7	29.5		29.4	30.1	
Net Profit	313.1	351.6	418.7	467.0	471.0	10.7	516.9	586.7	11.6
Adjusted EPS(₹)	319.5	358.7	34.2	38.1	38.4		42.2	47.9	
PE (x)	3.3	2.9	30.4	27.3	27.1		24.7	21.7	
EV/EBITDA (x)	27.0	21.4	19.9	19.4	18.5		17.1	14.8	
RoCE (%)	108.7	72.1	28.4	28.6	26.2		25.0	24.6	
RoE (%)	77.9	46.7	20.4	21.8	20.2		19.2	18.9	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Net Sales	495.4	462.6	519.2	553.7	512.0	502.5	469.1	484.3	507.8	586.7	550.6	568.1	546.0	520.0	577.9	5.0	11.1
Other Operating Income	4.8	4.6	5.7	8.1	10.5	11.6	20.8	25.1	32.9	34.6	27.9	27.3	26.8	16.6	10.7	-61.6	-35.4
Total Operating Income	500.2	467.2	524.9	561.8	522.5	514.1	489.9	509.4	540.7	621.3	578.5	595.4	572.8	536.6	588.6	1.7	9.7
Variable Cost of Sales	243.6	192.5	259.4	271.2	257.2	255.1	228.9	240.0	264.8	280.4	248.0	273.1	242.2	238.7	287.8	16.0	20.6
% of Revenue	48.7	41.2	49.4	48.3	49.2	49.6	46.7	47.1	49.0	45.1	42.9	45.9	42.3	44.5	48.9	602 bps	441 bps
Gross Profit	256.6	274.7	265.5	290.5	265.3	258.9	261.0	269.4	275.9	340.9	330.5	322.3	330.6	297.9	300.8	-9.0	1.0
Gross Profit Margin (%)	51.3	58.8	50.6	51.7	50.8	50.4	53.3	52.9	51.0	54.9	57.1	54.1	57.7	55.5	51.1	-602 bps	-441 bps
Employee Expenses	37.6	37.5	36.9	48.6	44.1	39.1	40.5	47.4	48.5	43.8	48.1	66.7	71.1	72.3	56.8	18.1	-21.3
% of Revenue	7.5	8.0	7.0	8.6	8.4	7.6	8.3	9.3	9.0	7.1	8.3	11.2	12.4	13.5	9.7	134 bps	-381 bps
Other Expenditure	64.1	67.3	68.1	74.6	75.1	77.6	73.7	78.3	81.9	90.7	89.1	88.5	87.0	84.2	84.5	-5.2	0.4
% of Revenue	12.8	14.4	13.0	13.3	14.4	15.1	15.1	15.4	15.1	14.6	15.4	14.9	15.2	15.7	14.4	-105 bps	-134 bps
Total Expenditure	345.4	297.3	364.4	394.4	376.4	371.8	343.1	365.7	395.3	414.9	385.3	428.3	400.2	395.2	429.1	11.4	8.6
% of Revenue	69.0	63.6	69.4	70.2	72.0	72.3	70.0	71.8	73.1	66.8	66.6	71.9	69.9	73.6	72.9	630 bps	-74 bps
EBITDA	154.8	169.9	160.5	167.3	146.1	142.2	146.8	143.7	145.5	206.4	193.2	167.1	172.6	141.4	159.5	-17.5	12.8
EBITDA Margin (%)	31.0	36.4	30.6	29.8	28.0	27.7	30.0	28.2	26.9	33.2	33.4	28.1	30.1	26.4	27.1	-630 bps	74 bps
Depreciation	8.4	8.4	8.9	9.7	9.7	9.6	9.9	9.9	10.8	11.5	12.6	13.1	13.2	14.5	14.4	14.1	-1.0
Interest	21.7	21.2	20.6	7.2	0.1	0.1	0.1	0.1	0.2	0.1	0.4	0.4	0.4	0.4	0.4	-10.9	-3.0
Other Income	0.4	0.3	4.0	2.1	3.5	5.1	9.5	10.0	6.6	2.8	1.9	5.4	1.7	3.1	5.5	196.8	75.4
PBT	141.2	156.8	144.8	167.7	152.2	146.5	147.0	143.5	149.5	215.0	203.6	174.5	183.7	152.5	168.0	-17.5	10.2
Total Tax	31.8	35.9	34.1	37.3	36.1	38.7	37.5	36.7	36.1	51.3	46.6	40.2	41.9	31.7	38.8	-16.8	22.1
Tax rate (%)	22.5	22.9	23.5	22.3	23.7	26.4	25.5	25.6	24.2	23.8	22.9	23.0	22.8	20.8	23.1	20 bps	225 bps
PAT	93.4	104.7	100.9	115.2	103.7	98.9	108.7	107.0	105.0	146.4	135.5	118.8	118.8	97.9	111.5	-17.7	13.8
PAT Margin (%)	18.7	22.4	19.2	20.5	19.8	19.2	22.2	21.0	19.4	23.6	23.4	19.9	20.7	18.3	18.9	-448 bps	69 bps

Q1FY25 Results / Conference updates

- Europe faced some challenge on the demand outlook, hence moderate growth is anticipated for the rest of the world, with a slight improvement is expected from January.
- Japan is recovering after bottoming out last year.
- CDMO segment to pick up from Q3FY25 onwards.
- Total DMF and CEP filings have crossed 532 with cardiovascular and central nervous system disorder therapies seeing the highest filings to the tune of 251.
- Three high-potency API and two synthetic small molecules added this quarter.
- The first phase of Solapur should complete by 18 to 20 months.
- CDMO commercial supplies for 4th project should start in Q3, but it could spill over into Q4 as well. Also 5th project to kick in by late Q3, early Q4 again.
- Company is witnessing good interest from US speciality side.
- The current year capex plan is going to be in the range of ₹300 crore to ₹350 crore in FY25 and will be on similar lines for FY26.
- For 65 molecules which GLS supplies to GPL, GLS enjoys around 90% wallet share with GPL.
- In CDMO, the company expects incremental ₹100 crore business by mid next year.
- Working capital will inch up to some extent going forward.
- On 24th July the Ankleshwar facility of GLS received closure notice from GPCB which was subsequently revoked on 14th August.

Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)/ (₹ crore)	FY23	FY24	FY25E	FY26E	
Total Operating Income	2,161.2	2,283.3	2,480.1	2,802.0	
Growth (%)	1.8	5.6	8.6	13.0	
Raw Material Expenses	1,014.1	1,002.0	1,164.4	1,274.9	
Gross Profit	1,147.1	1,281.3	1,315.7	1,527.2	
Gross Profit Margins (%)	53.1	56.1	53.1	54.5	
Employee Expenses	180.2	258.2	227.1	262.6	
Other Expenditure	324.7	348.8	358.8	420.3	
Total Operating Expenditure	1,518.9	1,609.0	1,750.3	1,957.8	
EBITDA	642.3	674.3	729.9	844.2	
Growth (%)	4.3	5.0	8.2	15.7	
Interest	0.5	1.5	1.5	2.3	
Depreciation	42.1	53.5	53.5	75.2	
Other Income	29.0	12.0	23.1	26.1	
PBT before Exceptional Items	628.6	631.4	698.0	792.9	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	628.6	631.4	698.0	792.9	
Total Tax	161.6	160.4	181.2	206.2	
PAT before MI	467.0	471.0	516.9	586.7	
PAT	467.0	471.0	516.9	586.7	
Growth (%)	11.5	0.9	9.7	13.5	
EPS (Adjusted)	38.1	38.4	42.2	47.9	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)/ (₹ crore)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	475.0	468.3	516.9	586.7	
Add: Depreciation & Amortization	42.1	53.5	53.5	75.2	
Net Increase in Current Assets	-295.1	-100.0	-122.8	-145.6	
Net Increase in Current Liabilities	98.2	-34.1	15.5	37.7	
Others	-6.8	25.8	1.5	2.3	
CF from Operating activities	313.4	413.5	464.5	556.3	
Investments	0.1	0.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-170.0	-128.5	-340.0	-350.0	
Others	15.8	12.0	0.8	0.8	
CF from Investing activities	-154.1	-116.5	-339.2	-349.2	
(inc)/Dec in Loan	-1.6	-3.7	20.0	20.0	
Dividend & Dividend tax	-385.9	-275.7	-155.1	-176.0	
Other	0.0	0.0	-1.5	-2.3	
CF from Financing activities	-387.6	-279.4	-136.5	-158.3	
Net Cash Flow	-228.3	17.6	-11.2	48.8	
Cash and Cash Equivalent	512.2	283.8	301.4	290.3	
Cash	283.8	301.4	290.3	339.1	
Free Cash Flow	143.4	285.0	124.5	206.3	

Source: Company, ICICI Direct Research

Exhibit 5: 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	2,669.6	3,080.3	
Total Shareholders funds	2,138.2	2,332.3	2,694.1	3,104.8	
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	2,797.1	3,229.2	
Gross Block - Fixed Assets	974.1	1,052.0	1,292.0	1,492.0	
Accumulated Depreciation	193.5	246.9	300.5	375.6	
Net Block	780.6	805.1	991.5	1,116.4	
Capital WIP	61.6	106.0	206.0	356.0	
Fixed Assets	842.2	911.1	1,197.5	1,472.3	
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	701.8	733.5	
Debtors	806.8	765.4	849.4	959.6	
Other Current Assets	155.6	182.6	186.2	189.9	
Cash	283.8	301.4	290.3	339.1	
Total Current Assets	1,850.3	1,916.0	2,027.7	2,222.1	
Creditors	396.6	368.7	382.8	419.1	
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	451.9	489.6	
Net Current Assets	1,348.2	1,479.6	1,575.8	1,732.5	
Application of Funds	2,200.0	2,414.0	2,797.1	3,229.2	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	38.1	38.4	42.2	47.9
Cash EPS	17.1	19.2	29.5	33.5
BV per share	174.5	190.4	219.9	253.4
Cash per Share	23.2	24.6	23.7	27.7
Dividend per share	21.0	19.2	12.7	14.4
Operating Ratios (%)				
Gross Profit Margins	53.1	56.1	53.1	54.5
EBITDA margins	29.7	29.5	29.4	30.1
PAT Margins	21.6	20.6	20.8	20.9
Cash Conversion Cycle	211.0	230.9	225.0	215.0
Fixed Asset Turnover	2.6	2.5	2.1	1.9
EBITDA conversion Rate	48.8	61.3	63.6	65.9
Return Ratios (%)				
RoE	21.8	20.2	19.2	18.9
RoCE	28.6	26.2	25.0	24.6
RoC	32.4	30.9	29.4	30.3
Valuation Ratios (x)				
P/E	27.3	27.1	24.7	21.7
EV / EBITDA	19.4	18.5	17.1	14.8
EV / Net Sales	5.8	5.5	5.0	4.4
Market Cap / Sales	5.9	5.6	5.1	4.5
Price to Book Value	6.0	5.5	4.7	4.1
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.1	3.7	3.8	3.8
Quick Ratio				
Inventory days	217	243	220	210
Debtor days	136	122	125	125
Creditor days	143	134	120	120

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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