Research

Gland Pharma Ltd.

SSIS IPO GRADE 5/5 (Subscribe)
6th September, 2020

Rating Overview

Incorporated on March 20, 1978 and promoted by Fosun Singapore and Shanghai Fosun Pharma, Gland Pharma Limited is one of the fastest growing generic injectables-focused companies by revenue in the United States from 2014 to 2019. Gland Pharma sells its products primarily under a business to business model in over 60 countries as of June 30, 2020, including the United States, Europe, Canada, Australia, India and the Rest of the world. The company has an extensive track record in complex injectables development, manufacturing and marketing and a close understanding of the related sophisticated scientific, technical and regulatory processes.

Gland Pharma is increasingly engaged in R&D programs to develop innovative product delivery systems and manufacturing methods. Its centralised R&D laboratory is located at its manufacturing facility at Dundigal, Hyderabad with supporting personnel based at each of its manufacturing facilities. The centralised R&D laboratory has an in-house team of nearly 250 scientists.

Gland Pharma follows a unique diversified B2B-led model across markets, which is complemented by a targeted B2C model in India. Their revenue base is diversified by business model as well as by key customers and markets.

At the upper end of the price band of Rs 1,500 and on an expanded equity base, the company is being valued at a market cap of Rs 24,492 crore. Hence, the issue is demanding a market cap to sales (FY20) of 6.7 times, which looks on the higher side. Although the business model of the company is not comparable with any currently listed pharma company, other pharma companies of comparable revenue are available at less than five times market cap to sales. When it comes to PE, the offer is demanding a PE ratio of 31.69 times of its FY20 EPS. Nonetheless, if we annualise EPS (20.24*4) of Q1FY21, the offer is available at a PE of 19.5x. It will be naïve to assume that the company will be able to replicate its growth in the first quarter for the entire year. Assuming a tempered growth of 40 per cent, EPS for FY21 comes at Rs 66, which discounts the offer price at 22 times.

Our overall fundamental rating of Gland Pharma is excellent and the offer price is fair. We recommend this investment for medium and long term benefits.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

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Business Overview

Gland Pharma Ltd, the Hyderabad-based company is one of the fastest-growing generic injectable companies. It manufactures a diversified range of high-quality complex injectables. The company offers products like sterile injectables, oncology, and ophthalmics, complex injectables (peptides, suspensions, hormonal products, long-acting injectables), NCE-1s, First-to-File products, etc.

The company follows a B2B model to sell its products in more than 60 countries including the US, Canada, Australia, India, Europe, etc. Leading pharma companies i.e. Sagent Pharmaceuticals, Apotex Inc. Athnex Pharmaceutical Division, LLC, Fresenius Kabi USA, LLC, etc. are some of the key customers.

It has 7 robust manufacturing units in India comprising 4 finished formulations facilities, 22 production lines, and 3 APIs.

As we know not only the Government of India, but even countries like the US, UK, Germany, Japan have started cutting their business deals with China. As this process has been aggravated since April/May 2020, it would be of major concern for the future outlook of this pharma company. According to market circles, unless some big Indian or other multinational stakeholder jumps in to acquire the stake, it will be very difficult to presume the fate of this company in the near term.

Fundamental Profile

On the financial performance front, on a consolidated basis, GPL has posted total income/net profits of Rs. 1671.68 cr. / Rs. 321.05 cr. (FY18), Rs. 2129.77 cr. / Rs. 451.86 cr. (FY19) and Rs. 2772.41 cr. / Rs. 772.86 cr. (FY20). For Q1 of FY21, it has posted a net profit of Rs. 313.90 cr. on a total income of Rs. 916.29 cr. Currently, around 67% revenue comes from exports to the US, and as known about US-China trade war imbroglio, added tension following Corona pandemic, it is difficult to assume the sustainability of this export business.

For the last three fiscals, GPL has posted an average EPS of Rs. 38.11 and an average RoNW of 18.08%. The issue is priced at a P/BV of 5.86 based on its NAV of Rs. 255.79 as on June 30, 2020, and at a P/BV of 4.70 based on post issue NAV of Rs. 319.29. (Based on upper price band).

GPL has posted CAGR of 27.38% in revenue, EBITDA of 36.90%, restated profits of 55.15% from fiscal 2018 to 2020. Its debt-equity ratio was 0.001 as on June 30, 2020.

For the last three fiscals, GPL has not declared any dividend payouts. (Refer page 185 of RHP).

If we attribute the latest earnings on a fully diluted equity post issue, then asking price is at a P/E of around 19.5. Based on FY20 performance, the asking price is at a P/E of 31.7. Thus prima facie issue is fully priced. The prime concern is the sustainability of Q1 performance in the present context of opposing China connected goods/technology/tie-ups/investments.

Summary of Recent Financials

Particulars	For the year/period ended (Rs in million)			
	30-June-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	46,912.65	40,860.39	35,235.49	29,294.68
Total Revenue	9,162.89	27,724.08	21,297.67	16,716.82
Profit After Tax	3,135.90	7,728.58	4,518.56	3,210.51

ISSUE DETAILS

To finance its needs of working capital (Rs. 769.50 cr.), capital Expenditure (Rs. 168.00 cr.), general corpus fund (SHALL NOT EXCEED 25% OF THE NET ISSUE PROCEEDS) GPL is coming out with a maiden IPO of combo offer of fresh equity issue (Rs. 1250.00 cr.) and offer for sale (Rs. xx cr.). It consists fresh equity issue of approx 8333335 shares of Re. 1 each (at the upper price band) and offer for sale of 34863635 shares. Thus the overall issue will be for approx. 43196970 equity shares. The issue opens for subscription on November 09, 2020, and will close on November 11, 2020. The company has fixed the price band of Rs. 1490 - Rs. 1500 per share. Minimum application is to be made for 10 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. GPL mulls mobilizing Rs. 6436.35 cr. - Rs. 6479.55 cr. (Based on lower and upper price bands) through this IPO. The issue constitutes 26.46% of the post issue paid-up capital of the company.

Having issued/converted initial equity at par, the company raised further equity in the price range of Rs. 2.50 to Rs. 48.69 between January 1996 and December 2007. The company also bought back shares in the price range of Rs. 139.81 - Rs. 344.81 between July 2014 and October 2017. It has also issued bonus shares in the ratio of 1 for 1 in February 1994, 1 for 2 in October 1994. (Based on FV of Re. 1 per share).

The average cost of acquisition of shares by the promoters/ other selling stakeholders is Rs. NIL, Rs. 30.12 and 605.12 per share. Post issue, GPL's current paid-up equity capital of Rs. 15.50 cr. will stand enhanced to Rs. 16.33 cr. With this issue, the company is looking for a market cap of Rs. 24492.42 cr.

The issue is jointly lead managed by Kotak Mahindra Capital Co. Ltd., Citigroup Global Markets India Pvt. Ltd., Haitong Securities India Pvt. Ltd. and Nomura Financial Advisory & Securities (India) Pvt. Ltd., while Link Intime India Pvt. Ltd. is the registrar to the issue.

Application Dates	**Nov 9, 2020 – Nov 11,2020**
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹1490 to ₹1500 per equity share
Market Lot	10 Shares
Listing At	BSE, NSE
Issue Size	Eq Shares of ₹1 (about ₹6,479.55 Cr)

Issue Timeline

IPO Open Date	**Nov 9, 2020**
IPO Close Date	Nov 11, 2020
Basis of Allotment Date	Nov 17, 2020
Initiation of Refunds	Nov 18, 2020
Credit of Shares to Demat Account	Nov 19, 2020
IPO Listing Date	Nov 20, 2020

Investment Strategy

No doubt that currently, the pharma sector is attracting investors following COVID-19 pandemic and the search of remedies for it globally. This company has posted good performance for the last three fiscals and spectacular numbers for Q1 of FY21, but will it sustain going forward is a major concern in the present context of negative sentiment for China connections globally. Based on P/BV and P/E parameters, the issue appears fully priced. Considering all these, though it sounds lucrative bet for the long term, risk savvy, cash surplus investors may consider investment at their own risk in this China connected IPO.

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