

## Pricing Pressure Enters Into Injectables

**Est. Vs. Actual for Q3FY23:** Revenue – **MISS**; EBITDA Margin – **INLINE**; PAT – **MISS**  
**Pharma–MISS**

### Changes in Estimates post Q3FY23

**FY23E/FY24E:** Revenue (4.6%)/6.7%; EBITDA Margins 31.5%/33.0% ; PAT (15.2%)/(15.3%)

### Recommendation Rationale

- Two large molecules Enoxaprin and Micafungin has lost volume due to entry of new players in US in last 2 quarters.
- Pricing Pressure has led to fall in realisations impacting the Gross Margins
- Higher input and logistics costs on account of supply-side challenges for core portfolio impacted sales conversion in India.

**Sector Outlook:** Neutral

**Company Outlook & Guidance:** Injectable companies (HIKMA, HOSIPORA, and Aurobindo) in the US market sales grew by ~4% YoY. We expect similar growth for GLAND in core markets over a longer period and high double-digit growth in India & RoW.

**Current Valuation:** PE 20x for FY25 earnings (Earlier Valuation: No Change, PE 20x)

**Current TP:** Rs 1,500/share (Earlier TP: Rs 2,100/share)

**Recommendation:** We recommend “HOLD” with TP of Rs 1,500.

### Financial Performance:

GLAND reported a weak set of results in Q3FY23 with consolidated revenue declining by 11.8% YOY due to weak performance in geographies such as US (-1.1% YoY), India (-58% YoY) and RoW (-4.0% YoY). The company's gross margins improved by 182bps due to fall in raw material prices. EBITDA margins at 30.9% was down 196bps led by higher employee costs and other expenses. Reported PAT fell by 15% YoY due to lower sales and low operating profitability. The company already had incurred the Capex of Rs 125 Cr in 9MFY23 and expect to incur additional Capex of Rs 100 Cr in H2FY23.

**Outlook:** Injectable companies (HIKMA, HOSIPORA, and Aurobindo) in the US market sales grew by ~4% YoY. We expect similar growth for GLAND in the core markets over a longer period and high double digits growth in India & RoW.

**Valuation & Recommendation:** FY23 seems to be flat revenue growth due to increased competition and moderation demand for GLAND. Therefore, **We recommend a HOLD rating on the stock with a TP of Rs 1,500/share.**

### Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	938	-10.2	-11.8	1,062	-11.6
EBITDA	290	-2.6	-17.0	324	-10.6
EBITDA Margin	30.9%	241	-196	30.5%	-36.8
Net Profit	232	-4.0	-14.9	256	-9.5
EPS (Rs)	14.1	-4.0	-14.9	15.6	-9.5

Source: Company, Axis Research

(CMP as of 23 Jan 2023)

CMP (Rs)	1,380
Upside /Downside (%)	5.0%
High/Low (Rs)	3,690 /1,381
Market cap (Cr)	22,838
Avg. daily vol. (6m)Shrs.	2,72,564
No. of shares (Cr)	16.4

### Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	57.9	57.9	57.9
FII	9.4	6.1	4.7
MFs / UTI	15.5	18.5	19.5
Banks / FI	17.2	17.6	18.0
Others	57.9	57.9	57.9

### Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	3,876	4,240	4,703
EBITDA	1,221	1,399	1,599
Net Profit	978	1,132	1,297
EPS (Rs)	59.6	68.9	79.1
PER (x)	23.2	20.0	17.4
P/BV (x)	15.1	12.6	10.4
EV/EBITDA (x)	2.8	2.4	2.1
ROE (%)	12.0	12.2	12.3

### Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	3,876	4,240	4,703
EBITDA	1,221	1,399	1,599
PAT	978	1,132	1,297

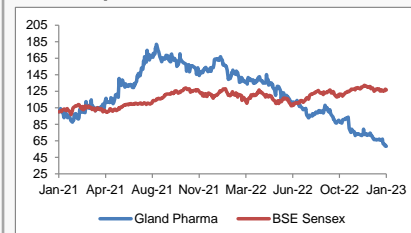
### ESG disclosure Score\*\*

Environmental	N.A.
Social Disclosure Score	N.A.
Governance Disclosure	N.A.
Total ESG Disclosure	N.A.

Source: Bloomberg, Scale: 0.1-100

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

### Relative performance



Source: Capitaline, Axis Securities

Research Analyst

Email: @axissecurities.in

## Key Highlights

- **The pricing trend is at elevated levels for the top 3 molecules:** GLAND's top 5 molecules contributed 44% of revenue while Enoxaparin Sodium and Heparin Sodium prices are, 24k (USD/kg) vs. 26k (USD/kg) QoQ and 20k (USD/kg) vs. 23k (USD/kg) Q0Q, corrected on a sequential basis. Micafungin Sodium prices have decreased from 100k (USD/kg) vs. 128K (USD/kg) QoQ. A fall in prices of Enoxaparin Sodium and Heparin Sodium prices may result in lower gross margins as completion has increased in injectable for the company in the last quarter.
- **In India, sales improved sequentially but were lower YoY as** (1) Insulin line modifications were completed and made product dispatches during the second half of Q2FY23, (2) Higher input and logistics costs due to supply-side challenges for core portfolio impacted sales conversion and (3) Higher Covid led base.

## Key Risks to our Estimates and TP

- USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressure in the injectable portfolio
- Delay in launching Biosimilars in the market

## Change in Estimates

	New			Old			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	3,876	4,240	4,703	4,061	4,543	5,125	-4.6%	-6.7%	-8.2%
EBITDA	1,221	1,399	1,599	<b>1,462</b>	<b>1,681</b>	<b>1,948</b>	-16.5%	-16.8%	-17.9%
PAT	978	1,132	1,297	<b>1,155</b>	<b>1,336</b>	<b>1,560</b>	-15.3%	-15.2%	-16.8%

Source: Company, Axis Securities

## Results Review

Particulars (INR Crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>1,063</b>	<b>1,103</b>	<b>857</b>	<b>1,044</b>	<b>938</b>	-11.8	-10.2
Growth (%)	23.7%	24.3%	-25.7%	-3.3%	-11.8%		
Total Expenditure	714	755	587	747	649	-9.2	-13.2
Raw Material Consumed	465	603	341	504	433		
Purchase of stock in trade	5	9	5	4	4		
Stock Adjustment	34	-66	28	11	-10		
<b>% of sales</b>	<b>47.3%</b>	<b>49.4%</b>	<b>43.6%</b>	<b>49.7%</b>	<b>45.5%</b>		
<b>Gross margins %</b>	<b>52.7%</b>	<b>50.6%</b>	<b>56.4%</b>	<b>50.3%</b>	<b>54.5%</b>	182	421
Employee Expenses	81	94	98	101	101	24.2	-0.1
% of sales	7.7%	8.5%	11.4%	9.7%	10.8%		
Other Expenses	105	90	81	95	91	-13.4	-3.6
% of sales	9.9%	8.2%	9.4%	9.1%	9.7%		
Power & Fuel	24	25	34	32	29		
% of sales	2.3%	2.3%	4.0%	3.1%	3.1%		
<b>EBITDA</b>	<b>349</b>	<b>349</b>	<b>270</b>	<b>297</b>	<b>290</b>	-17.0	-2.6
<b>EBITDAM (%)</b>	<b>32.8%</b>	<b>31.6%</b>	<b>31.5%</b>	<b>28.5%</b>	<b>30.9%</b>	-196	241
Interest	1	2	1	2	3		
Depreciation	28	31	35	37	38		
Other Income	45	65	74	66	62	36.7	-6.2
<b>PBT</b>	<b>365</b>	<b>381</b>	<b>309</b>	<b>325</b>	<b>311</b>	-14.9	-4.2
Tax	93	95	79	83	79	-14.7	-4.7
Tax (%)	25.3%	24.8%	25.7%	25.5%	25.4%		
<b>Reported PAT</b>	<b>273</b>	<b>286</b>	<b>229</b>	<b>242</b>	<b>232</b>	-14.9	-4.0

Source: Company, Axis Securities

## Geographical Breakup

Particulars (INR Crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
USA	665	711	706	748	663	-0.4	-11.4
India	195	202	51	73	81	-58.3	12.1
RoW	203	190	100	224	194	-4.3	-13.4

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
<b>Total Net Sales</b>	<b>4,401</b>	<b>3,876</b>	<b>4,240</b>	<b>4,703</b>
<b>Growth (%)</b>	<b>27.1%</b>	<b>-11.9%</b>	<b>9.4%</b>	<b>10.9%</b>
Total Expenditure	2,890	2,655	2,841	3,104
Raw Material Consumed	2,109	1,880	1,993	2,163
Gross margins %	52.1%	51.5%	53.0%	54.0%
Employee Expenses	339	411	449	499
% of sales	7.7%	10.6%	10.6%	10.6%
Other Expenses	443	364	399	442
% of sales	10.1%	9.4%	9.4%	9.4%
<b>EBIDTA</b>	<b>1,511</b>	<b>1,221</b>	<b>1,399</b>	<b>1,599</b>
<b>EBITDAM (%)</b>	<b>34.3%</b>	<b>31.5%</b>	<b>33.0%</b>	<b>34.0%</b>
Interest	5	0	0	0
<b>EBIT</b>	<b>1,505</b>	<b>1,221</b>	<b>1,399</b>	<b>1,599</b>
<b>EBITM (%)</b>	<b>34.2%</b>	<b>31.5%</b>	<b>33.0%</b>	<b>34.0%</b>
Depreciation	110	116	127	140
Other Income	224	200	235	266
Share of profit/ (loss) of joint venture and associate, net	0	0	0	0
Exceptional items, net	0	0	0	0
<b>PBT</b>	<b>1,619</b>	<b>1,305</b>	<b>1,508</b>	<b>1,725</b>
Tax Rate (%)	25.1%	25.0%	24.9%	24.8%
Tax	407	326	375	428
<b>Reported PAT</b>	<b>1,212</b>	<b>978</b>	<b>1,132</b>	<b>1,297</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Share Capital	16.4	16.4	16.4	16.4
Reserves & Surplus	7,142	8,120	9,252	10,552
Shareholders Fund	7,158	8,137	9,268	10,568
Total Debt	4	4	4	4
Deferred Tax Liab. (Net)	88	88	88	88
Provisions	0	0	0	0
Trade Payables	463	425	465	515
Other Liabilities	122	119	130	143
<b>Total Liabilities</b>	<b>7,834</b>	<b>8,772</b>	<b>9,954</b>	<b>11,319</b>
<b>Gross Block</b>	<b>2,085</b>	<b>2,235</b>	<b>2,435</b>	<b>2,685</b>
Depreciation	586	702	829	969
Fixed Assets (incl. CWIP)	1,680	1,714	1,787	1,898
Inventories	1,186	1,062	1,162	1,288
Trade Receivables	1,199	1,062	1,162	1,288
Cash & Cash Equivalents	3,086	4,197	5,053	5,982
Other Current Assets	529	581	636	705
<b>Total Current Assets</b>	<b>5,844</b>	<b>6,864</b>	<b>7,956</b>	<b>9,184</b>
<b>TOTAL ASSETS</b>	<b>7,834</b>	<b>8,772</b>	<b>9,955</b>	<b>11,317</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
PBT	1,619	1,305	1,508	1,725
Add: depreciation	110	116	127	140
Add: Interest	5	0	0	0
Cash flow from operations	1,734	1,421	1,634	1,865
Change in working capital	646	-167	203	258
Taxes	407	326	375	428
Miscellaneous expenses	0	0	0	0
Net cash from operations	682	1,262	1,056	1,179
Capital expenditure	-499	-150	-200	-250
Change in Investments	-155	0	0	0
Net cash from investing	-653	-150	-200	-250
Increase/Decrease in debt	-0	-0	0	0
Dividends	0	0	0	0
Proceedings from equity	0	0	0	0
Interest	-5	-0	-0	-0
Others	57	0	0	-0
Net cash from financing	51	-0	-0	-0
Net Inc./(Dec.) in Cash	80	1,112	856	929
Opening cash balance	3,006	3,086	4,197	5,053
Closing cash balance	3,086	4,197	5,053	5,982

Source: Company, Axis Securities

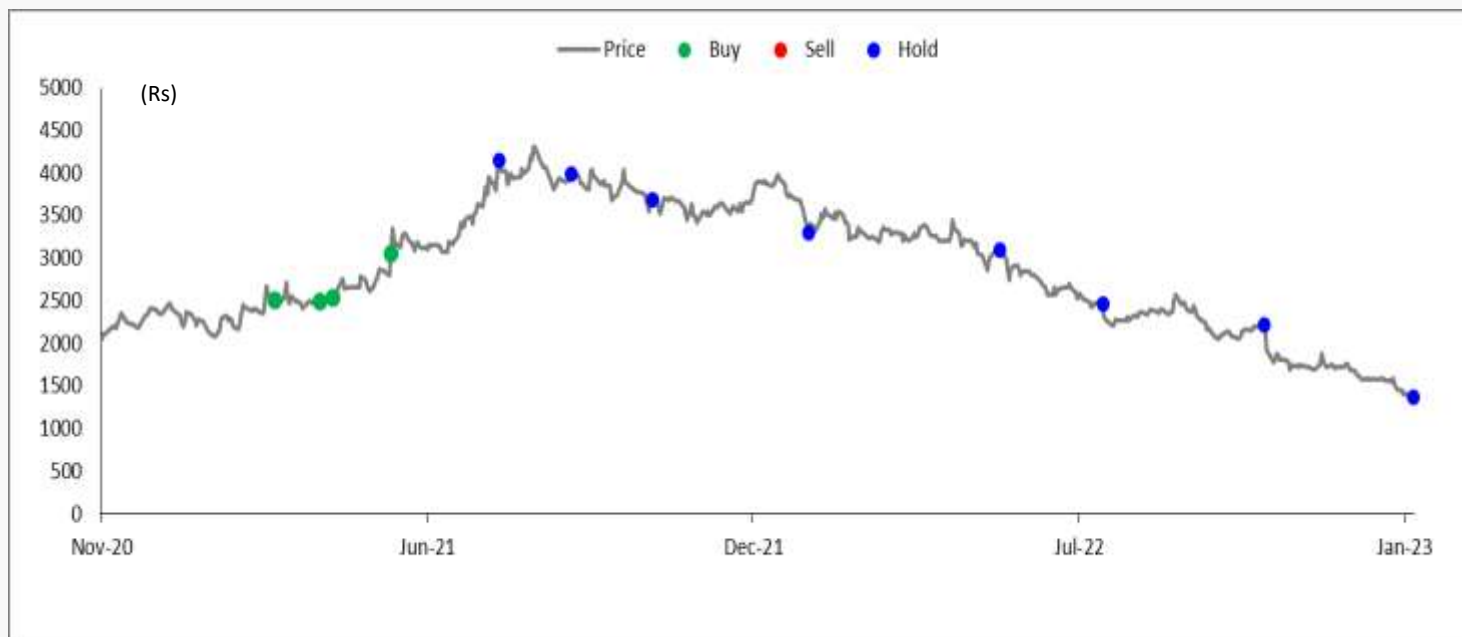
**Ratio Analysis**

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
<b>Sales growth</b>	<b>27.1</b>	<b>(11.9)</b>	<b>9.4</b>	<b>10.9</b>
<b>OPM</b>	<b>34.3</b>	<b>31.5</b>	<b>33.0</b>	<b>34.0</b>
Oper. profit growth	16.0	(19.2)	14.6	14.3
COGS / Net sales	47.9	48.5	47.0	46.0
Overheads/Net sales				
Depreciation / G. block	5.3	5.2	5.2	5.2
Effective interest rate	25.1	25.0	24.9	24.8
Net wkg.cap / Net sales				
Net sales / Gr block (x)	2.1	1.7	1.7	1.8
<b>RoCE</b>	<b>31.7</b>	<b>26.7</b>	<b>28.5</b>	<b>30.0</b>
Debt / equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	25.1	25.0	24.9	24.8
<b>RoE</b>	<b>16.9</b>	<b>12.0</b>	<b>12.2</b>	<b>12.3</b>
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
<b>EPS (Rs.)</b>	<b>73.8</b>	<b>59.6</b>	<b>68.9</b>	<b>79.1</b>
EPS Growth	21.6	(19.3)	15.6	14.9
CEPS (Rs.)	17.1	20.7	18.0	15.7
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

## Gland Pharma Price Chart and Recommendation History



Date	Reco	TP	Research
09-Mar-21	BUY	2,900	Initiating Coverage
05-Apr-21	BUY	2,900	Pick of the week
13-Apr-21	BUY	2,900	Event Update
18-May-21	BUY	3,200	Result Update
22-Jul-21	HOLD	4,100	Result Update
06-Sep-21	HOLD	4,100	AAA
25-Oct-21	HOLD	4,000	Result Update
24-Jan-22	HOLD	3,570	Result Update
20-May-22	HOLD	3,300	Event Update
21-Jul-22	HOLD	2,700	Result Update
27-Oct-22	HOLD	2,100	Result Update
24-Jan-23	HOLD	1,500	Result Update

Source: Axis Securities

**About the analyst**

**Analyst:** Ankush Mahajan

**Contact Details:** ankush.mahajan@axissecures.in

**Sector:** Midcaps/ Pharma Sector

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

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