

Company Overview

Incorporated in 2011, Glenmark Life Sciences is the leading manufacturer of Active Pharmaceutical Ingredients (APIs). The company develops, manufactures, and supplies high-quality APIs for cardiovascular disease (CVS), central nervous system disease (CNS), pain management, and diabetes, gastrointestinal disorders, anti-infectives, and other therapeutic areas. It further operates in Contract Development and manufacturing operations (CDMO) to offer services to specialty Pharmaceutical companies. Its products are being sold in India and also exported to multiple countries i.e. Europe, North America, Latin America, Japan, etc. Currently, it has 4 manufacturing facilities at Ankleshwar and Dahej in Gujarat and Mohol and Kurkumbh in Maharashtra State with an aggregate annual installed capacity of 725.8 KL as of December 31, 2020.

Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ To make payment of outstanding purchase consideration to the promoter for the spin-off of the API business from the promoter into the company.
- ⇒ To finance capital expenditure requirements.
- ⇒ To meet general corporate purposes.

Investment Rationale

Dominant position in selected high value non-commercial APIs in the field of chronic treatment

Glenmark Life Sciences Ltd. is a leading developer and manufacturer of selected high-value APIs. The company's API product portfolio includes specialized and profitable products, including niche and technically complex molecules, reflecting its ability to expand to other high-value products. Through the economies of scale in its manufacturing operations and the accumulation of 's portfolio that enables them to serve new markets and explore new products and service offerings for its customers, the company has gradually established scale and scope in its API products. They work towards developing 8 to 10 molecules each year, which include both high value and high volume APIs. Further, APIs are sold domestically as well as offered as exports in multiple countries in Europe, North America, Latin America, and Japan among other countries.

Strong relationships with global leading general companies

The company's key customers are Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, and Krka. Approximately 69% of the customers were period-on-period repeat customers for the last three fiscals. GLS has established strong relationships with the world's leading generic drug companies and has helped them expand their product offering and geographic coverage. Due to their strong brand equity, high-quality products, R&D skills, understanding of the regulatory environment of the market in which they offer products, and a history of API production at different scales, they have been able to build and strengthen relationships with them. Their facilities have been inspected / audited by India and major global regulatory agencies such as the US Food and Drug Administration, MHRA, Health Canada, and PMDA Japan.

Valuation and Outlook

Glenmark Life Sciences Limited ("GLS") is a leading developer and manufacturer of select high value, noncommoditized active pharmaceutical ingredients ("APIs") in chronic therapeutic areas, including cardiovascular disease ("CVS"), central nervous system disease ("CNS"), pain management and diabetes. Further, the company's exports to Europe, Latin America, North America, Japan and so on; proven track record of strong financial performance and high quality manufacturing with R&D infrastructure provide for further growth visibility. On the valuation front, at the upper price band, the company is valued at 25.1x P/E considering the diluted equity shares and FY21 annualized earnings, which is at a discount compared to its listed industry peers. Taking into account the factors such as their integrated business model, financial growth & operational efficiencies and further expansion plans, we give a "SUBSCRIBE" rating on this issue for the long term.

Issue Details	
Offer Period	27 July - 29th July, 2021
Price Band	INR.695 to INR.720
Bid Lot	20
Listing	BSE&NSE
Issue Size (no. of shares in mn)	21
Issue Size (INR. in bn)	15.14
Face Value	2

Issue Structure	
QIB	50%
Retail	35%
NIB	15%
BRLM	DAM Capital,, BOB Capital Markets, SBI Capital Markets
Registrar	KFIN Technologies Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	100	82.84
Public	-	17.16
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY19	FY20	FY21
Revenue			
Revenue From Operations	8,864	15,373	18,852
Total Revenue	8,864	15,373	18,852
Expenses			
Raw Material Consumed	6,539	6,951	9,762
Changes in Inventories of Finished Goods and Work-In-Progress	(3,016)	(46)	(707)
Employee Benefit Expenses	1,063	1,423	1,491
Other Expenses	1,801	2,326	2,395
Total Operating Expenses	6,387	10,654	12,941
EBITDA	2,477	4,719	5,911
Depreciation and Amortisation Expense	193	294	334
Other Income	4	120	8
EBIT	2,289	4,546	5,585
Finance Costs	6	335	875
Exceptional Item	-	-	-
Share in Profit/(Loss) of Joint Ventures	-	-	-
PBT	2,283	4,211	4,710
Current Tax	259	985	1,128
Deferred Tax Charge	68	94	66
Total Tax	327	1,079	1,194
PAT	1,956	3,131	3,516
Diluted EPS	16.0	25.6	28.7

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash flow from operating activities	104	1,950	3,881
Cash flow from investing activities	(89)	(505)	(687)
Cash flow from financing activities	5	(1,366)	(2,138)
Net increase/(decrease) in cash and cash equivalents	20	79	1,056
Cash and cash equivalents at the beginning of the period	0	21	100
Cash and cash equivalents at the end of the period	20	100	1,156

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
Liabilities			
Share Capital	20	20	20
Other Equity	862	3,997	7,508
Net Worth	881	4,017	7,527
Lease Liabilities	-	-	-
Deferred Tax Liabilities	-	-	-
Long-Term Provisions	-	-	-
Other Non Current Liabilities	69	164	229
Total Non Current Liabilities	69	164	229
Trade Payables	1,829	2,011	2,213
Current Tax Liability	24	84	137
Borrowings			
Other Financial Liabilities	11,763	10,737	9,551
Lease Liabilities			
Other Current Liabilities	48	104	115
Short Term Provisions	140	140	199
Total Current Liabilities	13,804	13,075	12,214
Total Equity & Liabilities	14,754	17,256	19,971
Assets			
Property, Plant & Equipment	4,500	5,391	5,649
Capital Work in Progress	803	107	141
Goodwill	63	72	79
Other Intangible Assets	1	-	-
Equity Accounted Investment	1	1	1
Financial Assets	-	-	-
Other Tax Assets	-	-	12
Deferred Tax Assets (net)			
Other Non-Current Assets	79	84	99
Total Non current assets	5,447	5,655	5,980
Investment			
Trade Receivables	4,481	6,386	6,195
Cash and Cash Equivalents	21	100	1,156
Other Current Assets	739	779	1,229
Bank Balances	-	-	-
Other Financial Assets	58	208	276
Inventories	4,008	4,128	5,134
Total Current Asset	9,307	11,601	13,990
Net Current Assets	(4,497)	(1,473)	1,776
Total Assets	14,754	17,256	19,970

Source: RHP, BP Equities Research

Key Risks

- ⇒ *The business is dependent on the sale of products to key customers, and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for products could adversely affect their business, results of operations, financial condition and cash flows.*
- ⇒ *The manufacturing and R&D facilities are located in the Indian states of Gujarat and Maharashtra. A slowdown or shutdown in the manufacturing operations could have an adverse effect on their business, results of operations, financial condition and cash flows.*
- ⇒ *Pricing pressure from customers may affect their gross margin, profitability and ability to increase prices, which in turn may materially adversely affect the business, results of operations and financial condition.*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392