

Choice Institutional Equities & Research

GLENMARK LIFE SCIENCE – IPO UPDATE

July-2021

Glenmark Life Science IPO – A rich cash-flow company

- Glenmark Life Science Limited (GLS) is a leading developer and manufacturer of select high value, non-commoditized Active Pharmaceutical Ingredients (APIs) in chronic therapeutic areas such as Cardiovascular, CNS, diabetes, anti – infective and others.
- It has a portfolio of 120 molecules which is globally exported to North America, Latin America, Japan & ROW. As per IQVIA, the total market size of 120 molecules has grown at a CAGR of 4.4% during FY18-20 to \$140 bn. In FY20 from US\$ 129 Bn. and is expected to grow at 4.5% CAGR to US \$ 160 Bn. By FY23E.
- GLS has annual total installed Capacity of 725 kl as on 9MFY21 and intends to add 200 KL by FY23E.
- GLS filed 399 DMFs (Drug Master File) as on 9MFY21 and works with 16 out of 20 largest global generic companies.
- Geographically, GLS regulated market accounts for 71% of the total sales, Emerging market accounts for 26% of the total sales and the balance 3% is generated from other operating revenues.
- GLS top 5 clients contribution has increased to 57.2% of the sales in 9MFY21 from 56.7% in FY20 and 54.4% in FY19.
- GLS 84% of the sales is derived from the generic segment, 13% is derived from the CDMO and the balance 3% from the other operating revenue.

Utilization of the IPO proceeds

- Funding capital expenditure requirements - Rs. 1528 mn
- Payment of outstanding purchase consideration to the promoter for the spin-off of the API business - Rs. 8000 mn
- General corporate purposes - Rs. 1072 mn

IPO Note

Glenmark Life Science

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Issue Details

Issue Opens on	27 th July 2021
Issue Close on	29 th July 2021
Issue High Price	720
Issue Low Price	695
Bid Lot	20 shares & in multiples 2,15,51,798 –
No of Shares	2,10,22,222
FV	2
High Price MCAP	85520 Mn.
Low Price MCAP	88220 Mn.
BRLM	DAM, BOB, SBI, Kotak,GS

Category	No of shares at higher band	No of shares at lower band	% of Issue
QIB	10775898	10511110	50%
HNI	3232770	3153334	15%
Retail	7543130	7357778	30%

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoters	100%	82.84%
Public		17.16%

Strengths of Glenmark Life Science

1. Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas

GLS is a leading developer and manufacturer of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS and pain management and diabetes and continue to branch into other APIs. GLA has a portfolio of 120 molecules and its API portfolio comprises of specialized and profitable products, including niche and technically complex molecules, which reflects company's ability to branch into other high value products. As of March 31, 2021, GLS sold APIs in India and exported our APIs to multiple countries in Europe, North America, Latin America, Japan and ROW. The total market size in terms of sales for our portfolio of 120 molecules globally was estimated to be around US\$142 billion in 2020 and is expected to grow by about 6.8% over the next five years to reach to about US\$211 billion by 2026.

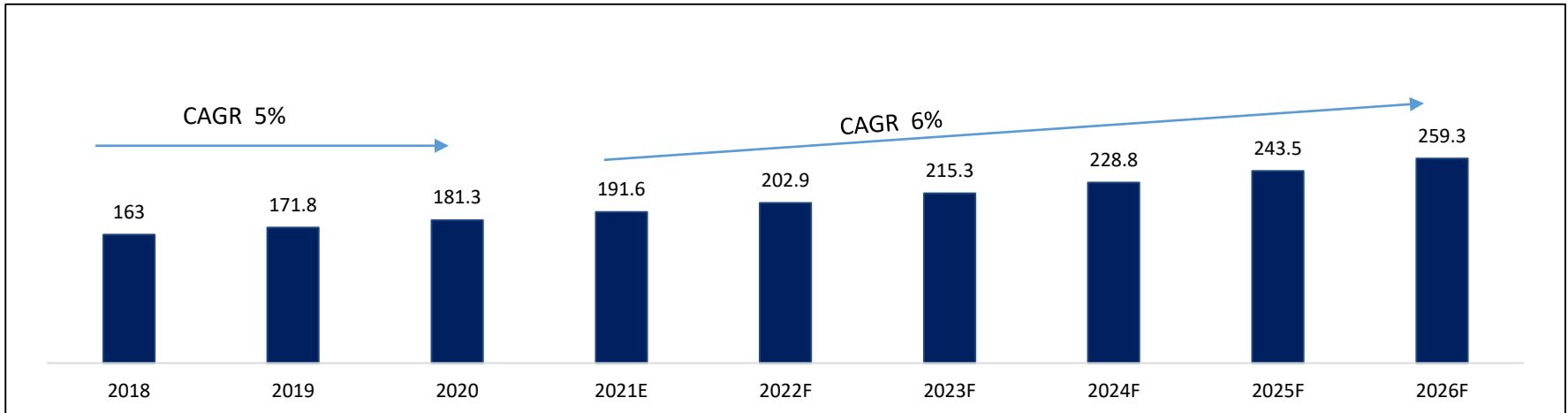
2. Strong Relationships with Leading Global Generic Companies

Over the years, GLS has established strong relationships with leading global generic pharmaceutical companies that has helped the company expand their product offerings and geographical reach. As of March 31, 2021, 16 of the 20 largest generic companies globally were customers of GLS. As on FY21, 69% of their customers were repeat customers and the company enjoys long standing position with many of our key customers, including Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, Krka and another company which is a global leader in generic pharmaceuticals and biosimilars.

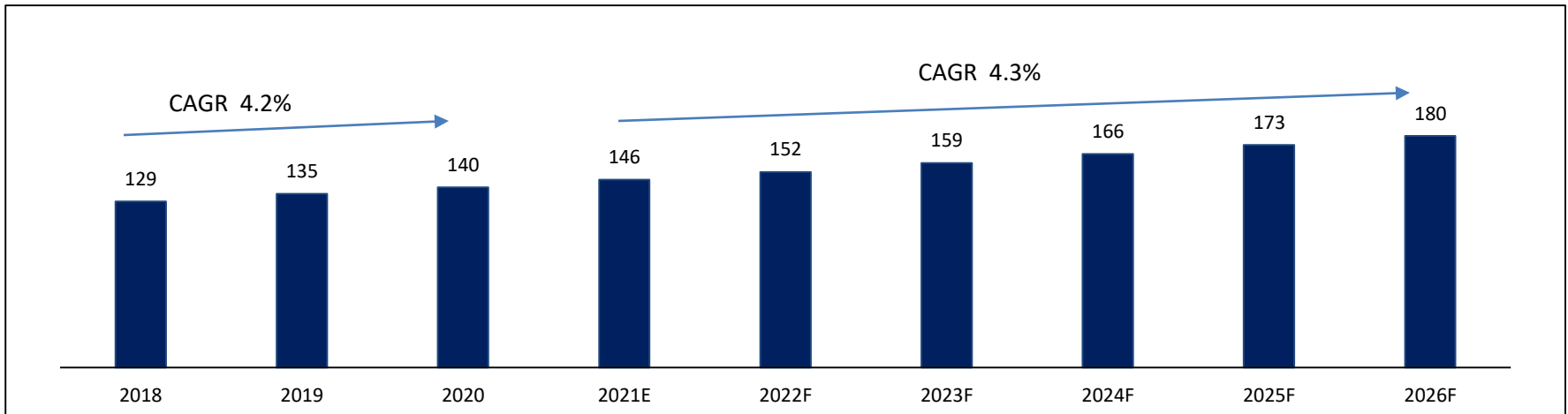
3. Cost Leadership across Products through Careful Monitoring and Continuous Effort

GLS enjoys cost leadership across many of their products through the careful application of operations initiatives, sourcing initiatives and R&D initiatives supported through a continuous effort by their Quality and Regulatory Affairs teams. Their long-term relationships with global generic companies has also helped them plan their capital expenditure, enhance ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower overall cost base, thereby maintaining a competitive cost structure to achieve sustainable growth and profitability.

API Market size by revenue



Market size by revenue of 120 molecules of GLS



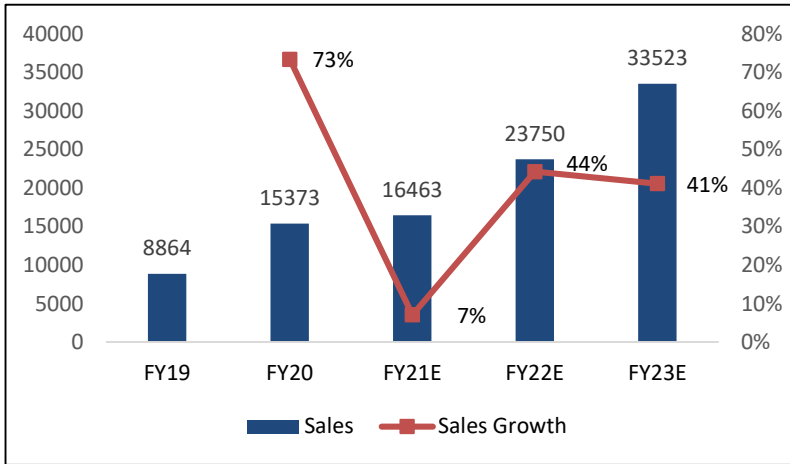
GLS is expected to sell above 85% of its produced quantity

Manufacturing Plants	Therapies	FY18	FY19	FY20	FY21E	FY22E	FY23E
Ankleshwar							
Annual Production Capacity (MT)	CVS , CNS	210	251	246	301	346	388
% change			20%	-2%	22%	15%	12%
Actual Production (MT)		174	206	214	259	294	326
% change			18%	4%	21%	14%	11%
Capacity Utilisation		83%	82%	87%	86%	85%	84%
Dahej							
Annual Production Capacity (MT)	CVS, Pain Management, Gastro	95	122	112	151	189	227
% change	Anti- Infectives , CVS		28%	-8%	36%	25%	20%
Actual Production (MT)		75	101	97	133	161	195
YoY			35%	-4%	37%	21%	21%
Capacity Utilisation		79%	83%	87%	88%	85%	86%
Mohol							
Annual Production Capacity (MT)	CVS , Diabetes	65	27	33	55	66	76
% change			-58%	22%	65%	20%	15%
Actual Production (MT)		61	21	28	47	57	65
% change			-65%	31%	70%	20%	15%
Capacity Utilisation (%)		95%	78%	83%	86%	86%	86%
Kurkhumbh							
Annual Production Capacity (MT)	Diabetes, Derma	41	43	43	56	72	90
% change			4%	1%	30%	28%	25%
Actual Production (MT)		31	32	32	38	48	59
% change			4%	3%	17%		
Capacity Utilisation		74%	74%	75%	68%	67%	66%
Total Production		410	443	434	563	672	780
Sales Volume		345	404	404	468	572	678
% sold of produced		84%	91%	93%	83%	85%	87%

Choice Institutional Equities Estimates

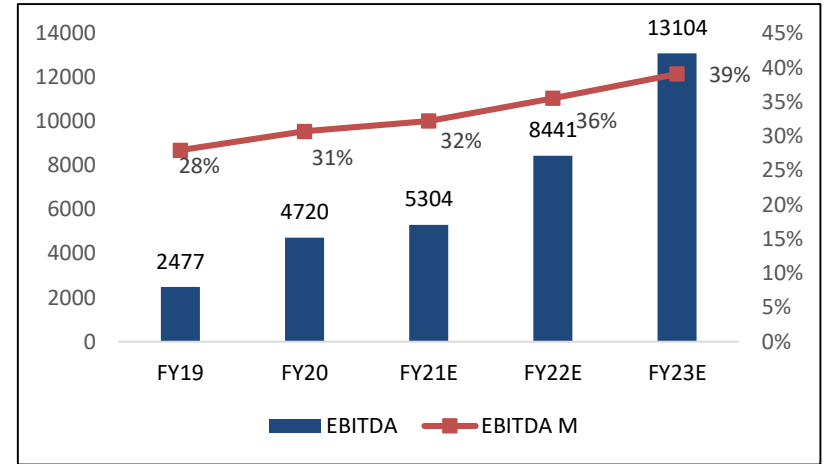
Company Financials

Sales to grow at a CAGR of 42% during FY21-23E



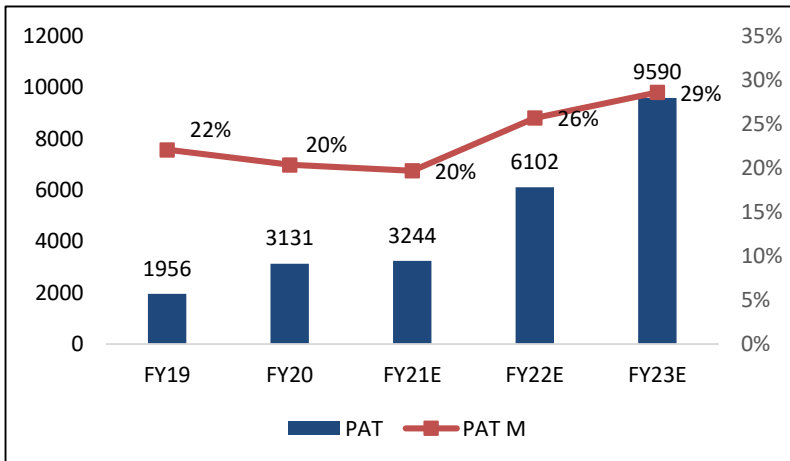
Choice Institutional Equities Estimates

EBITDA to grow at a CAGR of 57% during FY21-23E



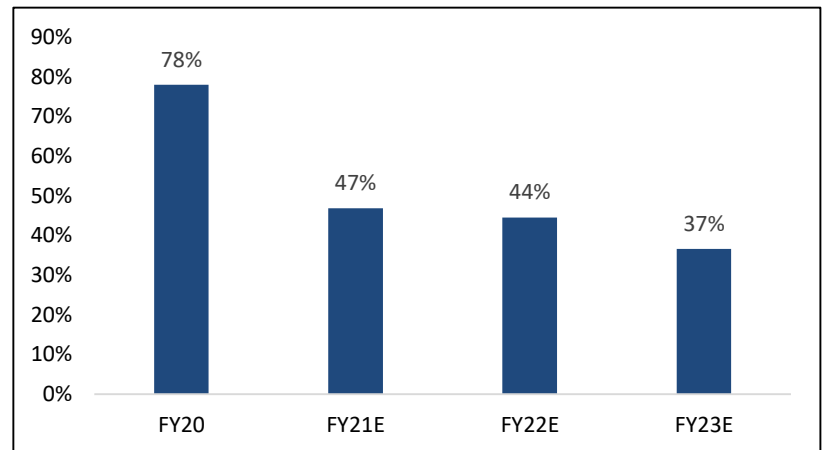
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PAT to grow at a CAGR of 72% during FY21-23E



Choice Institutional Equities Estimates

ROE to retain above 35%



Choice Institutional Equities Estimates

IPO Calculation

	Filing Range		
	Low	Midpoint	High
(Rs and shares in millions, except per share amounts)			
Offering price per share	₹ 695.00	₹ 707.50	₹ 720.00
Shares			
Shares offered			
Primary shares issued	107.805	107.805	107.805
Secondary shares sold	6.300	6.300	6.300
Fresh shares offered	14.722	14.982	15.252
Base deal shares issued/sold	128.827	129.087	129.357
Overallotment – primary shares	–	–	–
Overallotment – secondary shares	–	–	–
Total overallotment	–	–	–
Total shares issued/sold	128.827	129.087	129.357
Pro forma shares			
Existing Issuer FDSO	6.620	6.620	6.620
(+) Primary shares issued	107.805	107.805	107.805
(+) Fresh shares issued	14.722	14.982	15.252
Pro forma Issuer FDSO	129.148	129.408	129.677
Offering Size			
Base deal	₹ 89,534.88	₹ 91,329.25	₹ 93,136.86
(+) Overallotment	–	–	–
Total offering size	₹ 89,534.88	₹ 91,329.25	₹ 93,136.86

IPO Valuation

IPO Proceeds

Gross primary proceeds	₹ 74,924.44	₹ 76,272.00	₹ 77,619.56
(–) Underwriting discount	₹ 0.00	₹ 0.00	₹ 0.00
(–) Expenses	₹ 0.00	₹ 0.00	₹ 0.00
Net primary proceeds	₹ 74,924.44	₹ 76,272.00	₹ 77,619.56

Valuation

Market capitalization

IPO valuation	₹ 89,757.59	₹ 91,555.96	₹ 93,367.58
(+) IPO discount	₹ 13,463.64	₹ 13,733.39	₹ 14,005.14
Fully distributed ("FD") valuation	₹ 1,03,221.23	₹ 1,05,289.36	₹ 1,07,372.71

2022E earnings

	₹ 6,000.00	₹ 6,000.00	₹ 6,000.00
Implied 2022 IPO P/E multiple	15.0x	15.3x	15.6x
Implied 2022 FD P/E multiple	17.2x	17.5x	17.9x

2023E earnings

	₹ 7,825.00	₹ 7,825.00	₹ 7,825.00
Implied 2023 IPO P/E multiple	11.5x	11.7x	11.9x
Implied 2023 FD P/E multiple	13.2x	13.5x	13.7x

Income Statement (INR m)	FY19	FY20	FY21	FY22E	FY23E
Revenue	8864	15373	18860	24433	30730
Gross profit	5341	8469	9806	13412	16994
EBITDA	2477	4720	5921	8403	10848
Depreciation	193	294	334	371	425
EBIT	2285	4426	5587	8032	10423
Other income	4	120	8	10	10
Interest expense	6	335	875	0	0
PBT	2283	4211	4719	8042	10433
Tax	327	1080	1193	2010	2608
PAT	1956	3131	3526	6031	7825
EPS	18.28	29.26	32.96	46.40	60.19

Balance Sheet (INR m)	FY19	FY20	FY21	FY22E	FY23E
Net worth	881	4017	7527	13559	21383
Total debt	0	0	0	0	0
Trade Payables	1829	2011	2213	2477	2778
Provisions	140	140	199	220	246
Total Liabilities	14754	17256	19971	25295	32579
Gross Block	5354	5866	6421	7428	8499
Net Block	4499	5391	5648	6284	6929
Capital WIP	803	107	141	212	225
Investments	0.8	0.8	0.8	1.0	1.0
Cash & bank balance	21	100	1156	3717	8036
Total Assets	14753	17256	19970	25284	32558
Capital Employed	949	4181	7755	13777	21591
Invested Capital	902	4117	8683	17275	29420

Cash Flows (INR m)	FY19	FY20	FY21	FY22E	FY23E
Cash Flows from Operation	-4640	3056	4703	4704	6336
Capex	-93	-512	-679	-1007	-1070
Free Cash Flows	-4604	1230	3217	4396	5745
Cash Flows from Investing	-961	177	-720	-1078	-1084
Cash Flows from Financing	11620	-1517	-2131	-1066	-933

Ratios	FY19	FY20	FY21	FY22E	FY23E
Cash EPS	20.1	32.0	36.1	49.3	63.5
BVPS	90	410	768	1384	2182
Higher Band PE (x)	29.2	24.8	22.1	12.9	10.0
Lower Band PE (x)	28.2	23.9	21.3	12.5	9.6
Higher band P/BV (x)	8.0	1.8	0.9	0.5	0.3
Lower band P/BV (x)	7.7	1.7	0.9	0.5	0.3
Higher band P/Sales (x)	3.2	1.8	1.5	1.2	0.9
Lower band P/Sales (x)	3.1	1.8	1.4	1.1	0.9
Revenue growth (%)	NA	73.4	22.7	29.5	25.8
EBITDA growth (%)	NA	90.5	25.4	41.9	29.1
PAT growth (%)	NA	60.1	12.6	71.0	29.7
EBITDA Margin (%)	27.9	30.7	31.4	34.4	35.3
PAT Margin (%)	22.1	20.4	18.7	24.7	25.5
Inventory days	165	98	99	88	80
Receivable days	185	152	120	100	90
Creditor days	75	48	43	37	33
ROE (%)	99.3	77.9	46.8	44.5	36.6
ROCE (%)	240.7	105.8	72.0	58.3	48.3
ROIC (%)	217.0	79.9	48.1	34.9	26.6

Source: Choice Institutional Equities Estimates

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ADD	The security is expected to provide positive returns of >5% - <15% over a 1-Y horizon
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