



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Glenmark Life Sciences (GLS) Q4FY24 consolidated revenues came in at ₹537 Cr, down -13.64% YoY and down -6.28% QoQ.
- Op Profit for Q4FY24 stood at ₹141 Cr, down -31.55% YoY and down -18.49% QoQ.
- Op margins for Q4FY24 came at 26.25%, -692 bps YoY and -394 bps QoQ.
- PAT for Q4FY24 stood at ₹98 Cr, down -32.87% YoY and down -17.64% QoQ.

2. MANAGEMENT COMMENTARY:

- Management expects low to mid-teens growth in Revenue in FY25.
- EBITDA Margins are expected to be around 28-30%.
- Facing challenges due to ongoing red sea crisis related to high freight cost.

3. SEGMENTAL ANALYSIS:

- Generic API revenue in Q4FY24 decreased by -8.6% YoY and by -5.1% QoQ.
- CDMO revenue in Q4FY24 decreased by -37.67% YoY and flat QoQ.

4. CONCALL SUMMARY

- GLS has completed a deal with Nirma Limited wherein Nirma Limited joins in as the new promoter group of the company.
- Company secured business with Glenmark Pharma through a master supply agreement for a period of five years.
- Business is facing challenges due to the ongoing red sea crisis resulting in high freight cost and shipment delay.
- CDMO segment is showing good strength with the fourth product is expected to be commercialized in second half of FY25.
- Employee cost for Q4FY24 came higher due to one-time bonus.
- Company is increasing capacities in Ankleshwar and Dahej from Q1FY25.
- Management is expecting INR 340 cr capex for FY25 for Greenfield site in Solapur and completing brownfield projects.
- Management is setting target to reach at INR 1,000 cr revenue in CDMO segment.

5. OTHER DEVELOPMENTS:

- Promoter group Glenmark Pharmaceuticals Limited proposes to sell its entire remaining stake of 7.85% in the company via an OFS.

6. VALUATION AND OUTLOOK:

- Glenmark Life Sciences is one of the leading manufacturers of high-value and complex APIs. Further company is expanding into CDMO space.
- We believe that API prices have bottomed out and are stable now. It should aid in improved realizations and margins going ahead.
- Also, the CDMO space is on a recovery mode with normalizing channel inventories, lower fuel cost and improving biotech funding environment.
- However the ongoing Geo-political tensions in the Red sea remains a key risk for the business in short to medium term.
- We estimate the Revenue/EBITDA/PAT to grow at 14%/15%/15% CAGR over FY24-26 period.
- GLS is currently trading at 22 times its FY24 earnings which we believe is attractive and there is a significant scope of multiple rerating given the size of its business, industry leading return ratios, strong balance sheet, and future growth potential

We assign a "BUY" rating on the stock and value the stock at 19.5 times the FY26 estimated EPS of 50.6 to arrive at a Target price of 987.

RECOMMENDATION - BUY

CMP – 850

TARGET – 987 (16%)

Industry	Pharmaceuticals
NSE CODE	GLS
BSE CODE	543322
Market Cap (₹ Cr)	10,406
Shares Outstanding (in Cr)	12.25
52 wk High/Low (₹)	972/581.1
P/E	22.10
P/BV	4.46
Face Value (₹)	2.00
Book Value (₹)	190.35
EPS (FY23) (₹)	38.11
Dividend Yield (%)	2.6%
Debt / Equity	0.00
Interest Coverage	408

SHAREHOLDING PATTERN

	Sep 23	Dec 23	Mar 24
Promoters	82.85%	82.85%	82.85%
MF/ DII	0.64%	0.74%	1.41%
FII/FPI	4.39%	4.57%	5.01%
Retail & Others	12.13%	11.84%	10.73%
Promoter Pledging	9.47%	9.47%	9.47%

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2024A	2025E	2026E
Crore			
Sales	2,283	2,603	2,967
Sales Gr. (%)	5.6%	14.0%	14.0%
EBITDA	674	729	890
EBITDA %	30.0%	28.0%	30.0%
PAT	471	504	618
EPS (₹)	38.6	41.3	50.6
EPS Gr. (%)	0.9%	7.0%	22.6%
Ratios			
RoE (%)	20.2%	20.1%	21.1%
RoCE (%)	26.4%	26.1%	26.4%
Valuation			
P/E (x)	22.0	20.6	16.8

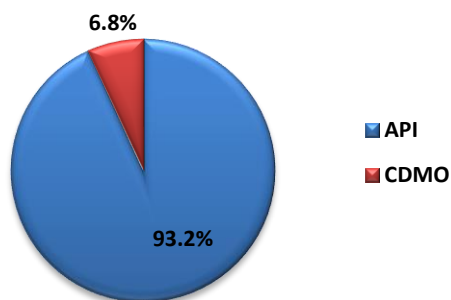
Historical & Industrial Val Ratios

Historical P/E	22.10
Industry P/E	43.90
Historical P/B	4.46
Industry P/B	6.18

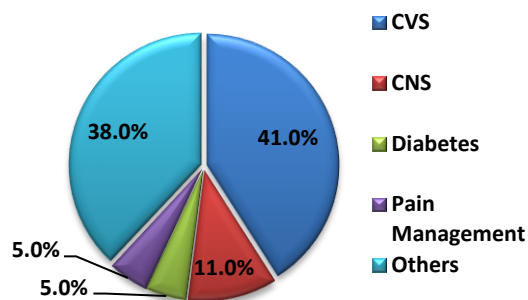


REVENUE SPLIT (Q4 FY24)

Business Mix (Q4FY24)



Therapeutic Area Mix (Q4FY24)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23				FY24				FY24	FY25E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1FY25E*		
Net sales	509	541	621	578	595	573	537	659	2,283	2,603
YoY change (%)	-9.34%	6.29%	14.79%	-6.92%	2.94%	-3.70%	-6.28%	14%	5.64%	14%
Total Expenditures	366	395	415	385	428	400	395	474	1,609	1,874
EBITDA	144	145	206	193	167	173	141	185	674	729
Margins (%)	28%	27%	33%	33%	28%	30%	26%	28%	30%	28%
Other income	10	7	3	2	5	2	3	2	12	9
Interest	0	0	0	0	0	0	0	0	2	1.5
Depreciation	10	11	12	13	13	13	15	16	53	65
PBT	144	141	198	182	159	161	130	171	631	672
Rate (%)	26%	26%	26%	26%	25%	26%	24%	25%	25%	25%
Adjusted PAT	107	105	146	135	119	119	98	128	471	504
EPS in Rs	8.7	8.6	12.0	11.1	9.69	9.7	7.9	10.5	38.43	41.3

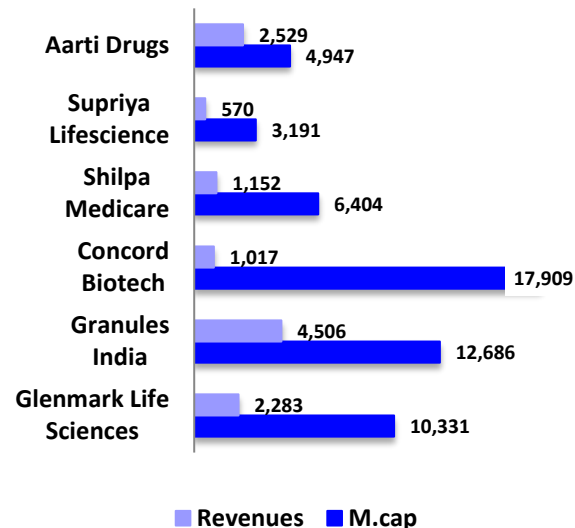
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- Active Pharmaceutical Ingredients (APIs) are the essential components in medications that produce the intended therapeutic effects.
- India is one of the leading global producers of APIs. The sector is expanding rapidly, driven by increasing demand for generic medications and global healthcare needs.
- India is a significant exporter of APIs to the USA, Europe, and other developed regions. The industry heavily relies on importing raw materials, particularly from China.
- Government Initiatives are in place to reduce reliance on imports and promote domestic API production.
- The industry is expected to continue growing due to the global need for affordable medications.
- There will be a stronger focus on reducing import dependency through increased domestic production.
- Dependence on imported raw materials, stringent regulatory requirements, environmental concerns.
- GLS is also expanding in the CDMO space
- The Indian CDMO industry is experiencing significant growth driven by the "China+1" strategy, which results in global companies diversifying supply chains from China due to concentration risks and geo-political concerns. Additionally, India's abundance of US FDA-approved manufacturing plants and cost-effective manufacturing capabilities compared to western countries strengthens its case.
- The future outlook of the Indian CDMO industry remains extremely positive given India's cost-effective production, China+1 working in India's favor, superior production quality and good track record as far as regulatory inspections are concerned.

KEY PLAYERS in API Manufacturing



PEER PERFORMANCE

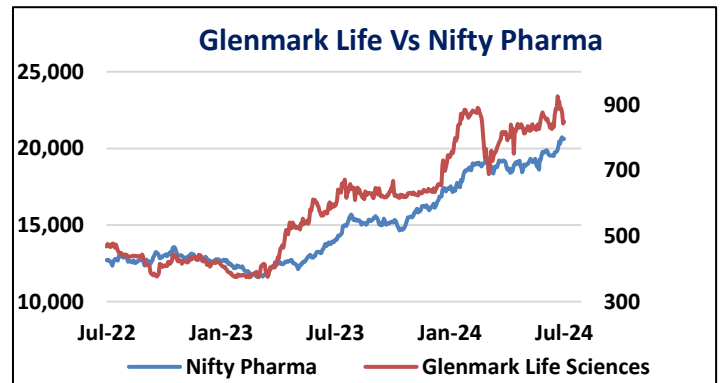
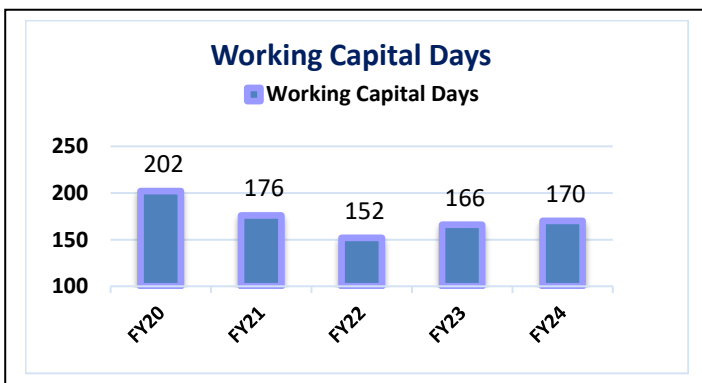
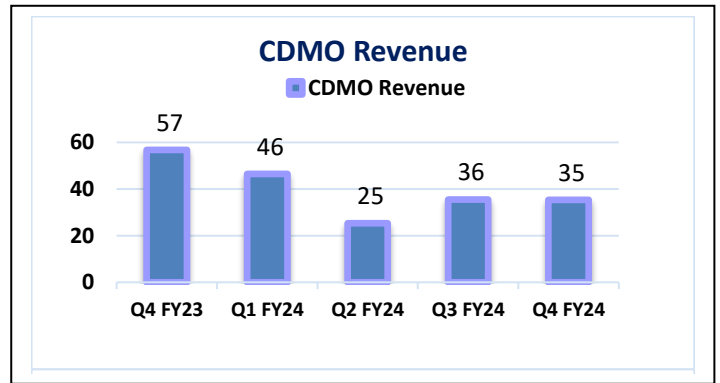
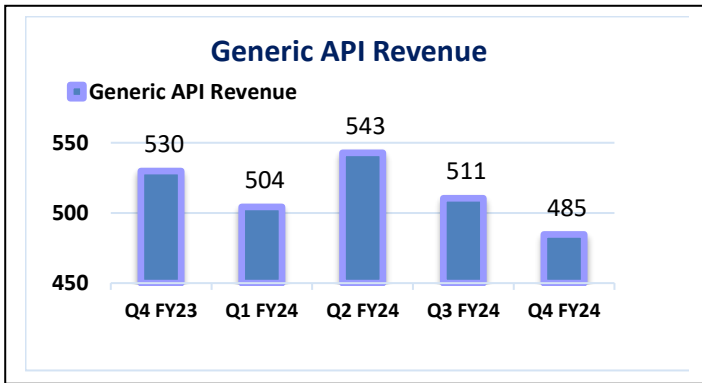
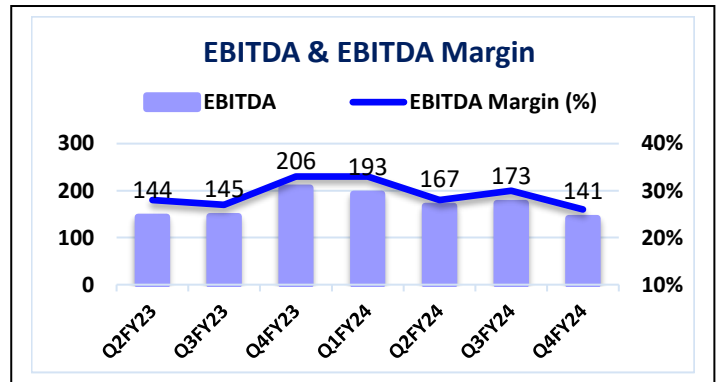
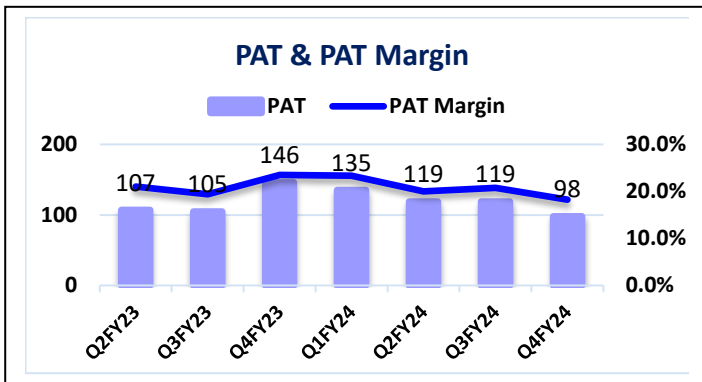
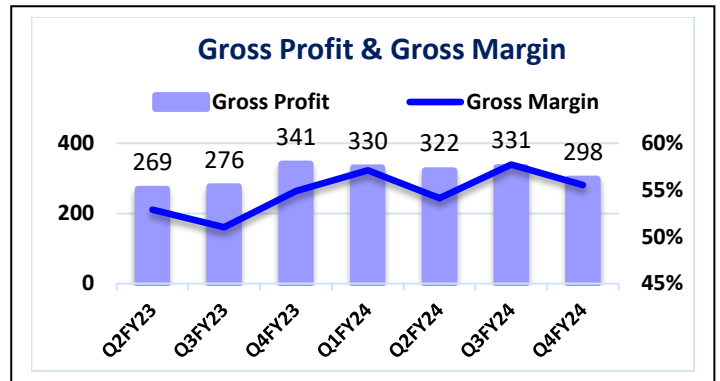
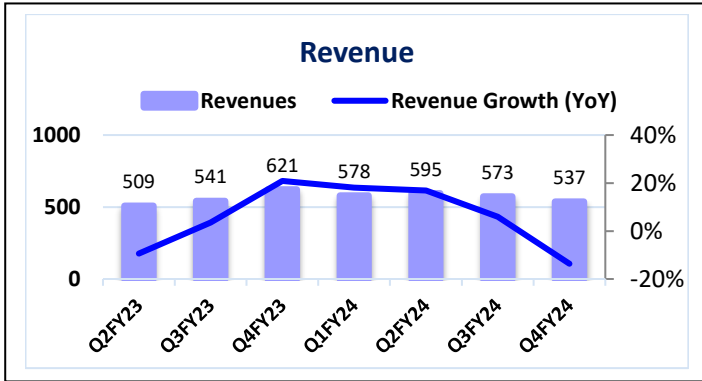
(₹ Cr)

Particulars	Glenmark Lifesciences	Granules India	Shilpa Medicare	Supriya Lifesciences	Aarti Drugs
Market Cap	10319.84	12664.99	6383.33	3194.33	4954.87
Net Sales	2283.21	4506.37	1151.6	570.37	2528.58
EBITDA	674.25	855.98	239.72	172.97	316.47
PAT	470.89	405.31	30.85	119.11	171.42
EPS(₹)	38.43	16.72	3.67	14.8	18.65
EBITDA MARGIN %	29.53	18.99	20.82	30.33	12.52
PAT MARGIN %	20.62	8.99	2.69	20.88	6.79
ROCE %	28.08	15.34	5.27	21.75	14.75
ROE %	21.07	13.38	1.72	15.73	13.86
P/E TTM	21.9	31.31	206.86	26.8	28.9
P/B TTM	4.4	3.96	3.16	3.88	3.83
EV/EBITDA	14.62	15.8	29.41	17.02	17.19
Dividend Yield %	2.7	0.28	0	0.14	0.19
M Cap/ Sales TTM	4.52	2.81	5.54	5.6	1.96

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Glenmark Life Sciences Limited is one of the leading manufacturers of complex high-value APIs. It is also expanding into CDMO space now. We believe that API prices were under pressure for the last few years however now the pricing seems to be bottomed out and it should witness good sequential recovery going ahead.
- GLS has established a strong foothold in the API market, leveraging its extensive product portfolio and long-standing relationships with major global pharmaceutical companies.
- The company's focus on complex and niche APIs, which have high entry barriers, ensures a competitive advantage, sustainable growth, and high margins.
- GLS invests significantly in R&D to develop new and complex APIs, ensuring a steady pipeline of high-value products.
- We believe GLS is adding capacities in the CDMO space at the right time. This will benefit the company in reaping the benefits of high growth in the Industry given its superior chemistry capabilities, vast experience, and strong balance sheet.
- Indian CDMO industry is expected to witness strong growth in coming years due to normalizing channel inventories, lower fuel cost and the ongoing reallocation of business from countries like China to other Asian markets such as India.
- We estimate the Revenue/EBITDA/PAT to grow at 14%/15%/15% CAGR over FY24-26 period.
- GLS is currently trading at 22 times its FY24 earnings which we believe is attractive and there is a significant scope of multiple rerating given the size of its business, industry leading return ratios, strong balance sheet, and future growth potential.

RISK / NEGATIVE FACTORS:

- The ongoing Geo-political crisis in the Red sea is a major risk. It resulted in high freight cost and delay in shipments.
- Slower than expected recovery in pricing may result in earnings downgrade in future.
- Pharmaceuticals is a highly regulated sector wherein companies are required to adhere to highest standards of quality and care, any violations of the regulations may have severe implications for the business.
- The API market is highly competitive, featuring both local and global competitors. Maintaining market share and profitability necessitates ongoing innovation and cost-effectiveness.

COMPANY RECAP

- Glenmark Life Sciences Limited is a prominent Indian manufacturer and developer of Active Pharmaceutical Ingredients (APIs).
- The company offers a diverse range of APIs covering therapeutic areas such as cardiovascular, central nervous system, dermatology, oncology, and anti-infective.
- GLS has established a strong foothold in the API market, leveraging its extensive product portfolio and long-standing relationships with major global pharmaceutical companies.
- They also provide contract development and manufacturing (CDMO) services to global pharmaceutical companies.
- The company has a robust presence in both domestic and international markets, exporting APIs to over 65 countries.
- In 2023, the Nirma Group acquired a controlling stake in Glenmark Life Sciences from Glenmark Pharmaceuticals Ltd.
- The Nirma Group's extensive experience in chemicals and manufacturing is anticipated to complement Glenmark Life Sciences' existing capabilities and expand its market reach.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	(₹ Cr)						
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Revenue from operations	1,537	1,885	2,123	2,161	2,283	2,603	2,967
Growth YoY (%)	73.4%	22.6%	12.6%	1.8%	5.6%	14%	14%
Total Expenditure	1,064	1,294	1,506	1,518	1,609	1,874	2,077
(%) of sales	69.2%	68.6%	70.9%	70.2%	70.5%	72.0%	70.0%
EBITDA	473	592	617	643	674	729	890
EBITDA Growth (%)	NA	25.2%	4.2%	4.2%	4.8%	8.16%	22%
EBITDA Margin (%)	31.0%	31.0%	29.0%	30.0%	30.0%	28%	30%
Depreciation	29	33	38	42	53	65	74
EBIT	444	559	579	601	621	664	816
EBIT Growth (%)	NA	25.9%	3.6%	3.8%	3.3%	6.9%	23.1%
Net Interest Expenses	34	88	28	1	2	1.5	2.5
Other Income	11	0	14	28	12	9	10
Earnings before Taxes	421	471	565	629	631	672	824
EBT Margin (%)	27.4%	25.0%	26.6%	29.1%	27.6%	25.8%	27.8%
Tax-Total	108	119	146	162	160	168	206
Rate of tax (%)	26.0%	25.0%	26.0%	26.0%	25.0%	25%	25%
Net Profit	313	352	419	467	471	504	618
PAT Growth (%)	NA	12.5%	19.0%	11.5%	0.9%	7.0%	22.6%
PAT Margin (%)	20.4%	18.7%	19.7%	21.6%	20.6%	19.4%	20.8%
Minority Interest	0	0	0	0	0	0	0
Adjusted PAT	313	352	419	467	471	504	618
EPS	25.7	28.9	34.3	38.3	38.6	41.3	50.6
EPS Growth (%)	NA	12.5%	19.0%	11.5%	0.9%	7.0%	22.6%

Balance Sheet

Y/E March	2020	2021	2022	2023	2024
Equity Capital	2	2	25	25	25
Reserves	400	751	2,030	2,114	2,308
Preference Capital	0	0	0	0	0
Borrowings	0	0	3	19	17
Other Liabilities	1,324	1,244	414	545	501
Total Liabilities & Equity	1,726	1,997	2,471	2,702	2,850
Fixed Assets	546	573	590	781	810
CWIP	11	14	97	62	101
Investments	0	0	0	0	0
Other Assets	1,169	1,410	1,784	1,860	1,939
Total Assets	1,726	1,997	2,471	2,702	2,850

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2020	2021	2022	2023	2024
Profitability and return ratios					
Net profit margin (%)	20.34	18.6	19.7	21.49	20.63
EBITDA margin (%)	31.44	31.32	29.67	30.89	29.52
EBIT margin (%)	29.53	29.55	27.89	28.96	27.20
ROE (%)	127.84	60.91	29.87	22.33	20.18
ROCE (%)	185.6	96.75	42.24	30.01	26.42
Working Capital & liquidity ratios					
Payables (Days)	111	92	110	147	134
Inventory (Days)	227	214	185	224	243
Receivables (Days)	152	120	116	136	122
Current Ratio (x)	0.89	1.12	2.85	2.32	4.37
Valuations Ratios					
EV/sales (x)	0.26	0.34	0.73	0.86	0.90
EV/EBITDA (x)	0.83	1.08	2.51	2.88	3.04
P/E (x)	NA	NA	13.36	10.25	21.89
P/BV (x)	NA	NA	2.72	2.24	4.42
Dividend Yield (%)	0	0	4.58	5.36	2.7
Leverage Ratio					
Debt/Equity (x)	0	0	0	0	0

Cash Flow Statement					
Y/E March	2020	2021	2022	2023	2024
CF from Operating activities (A)	195	388	598	313	414
CF from Investing Activities (B)	-51	-69	-122	-154	-116
CF from Financing Activities (C)	-137	-214	-79	-388	-279
Net Cash Flow	8	106	397	-228	18
Add: Opening Bal.	2.06	10	116	512	309
Closing Balance	10	116	512	309	302

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
16 July 2024	Buy	987

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Name of the Research Analyst: **Akshat Vijay**

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SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.