

Margins Impacted by Cenexi Business; Maintain HOLD
Est. Vs. Actual for Q2FY25: Revenue – **INLINE** ; EBITDA Margin – **BEAT**; PAT – **BEAT**
Changes in Estimates Post Q2FY25
FY25E/FY26E: Revenue: -1.8%/-5.1%; EBITDA Abs: -6.4%/-6.1%; PAT: -7.7%/-7.7%

Recommendation Rationale

- GLAND (Ex-Cenexi) registered a muted revenue growth of 5.1% YoY due to the annual shutdown of planned maintenance, maintaining EBITDA margins of ~34.3%, which is in line with preceding quarters on a YoY basis.
- The acquired business Cenexi reported revenue of Rs 340 Cr (-5% YoY), EBITDA loss of -Rs 69 Cr, and EBITDA margins of -20%. However, the management indicates a positive EBITDA in Q4FY25 despite near-term headwinds and guided revenue of 200 Mn Euro for FY26.
- Maintaining an annual revenue growth rate of ~14-15% appears to be the company's target, taking into account the expanded base from recent initiatives.

Sector Outlook: Positive
Company Outlook & Guidance: Investing in capacity expansion through Capex reflects the company's commitment to meeting future demand, capturing new market opportunities, and enhancing customer services.

Current Valuation: PE 26x for FY26E earnings (**Earlier Valuation:** PE 26x)

Current TP: Rs 1,760/share (**Earlier TP:** Rs 2,000/share)

Recommendation: HOLD
Financial Performance

GLAND (Ex-Cenexi) registered muted revenue growth of 5.1% YoY due to the annual shutdown for planned maintenance, maintaining EBITDA margins of ~34.3%, which is in line with preceding quarters on a YoY basis. The acquired company, Cenexi, reported revenue of Rs 340 Cr (-5% YoY), an EBITDA loss of Rs 69 Cr, and negative EBITDA margins of -20%. The consolidated revenue stood at Rs 1,406 Cr, reflecting 2.4%/0.3% YoY/QoQ growth, while the company's consolidated EBITDA margins were at 21.1% (down by 246 bps YoY but up by 227 bps QoQ), largely impacted by Cenexi's gross margins. GLAND reported a PAT of Rs 164 Cr, which is not aligned on a YoY basis.

In Q2FY25, GLAND made significant strides to stabilize and regain lost market share in the USA. The company launched new molecules such as Cetrorelix Acetate, Ephedrine Sulfate, Tranexamic Acid, and Diazepam in the US market, strengthening its product portfolio. Maintaining an annual revenue growth rate of around 14% to 15% appears to be the target, given the expanded base from these recent initiatives. This reflects a balanced approach, emphasizing growth while ensuring stability and sustainability.

Outlook: Investing in capacity expansion through Capex reflects the company's commitment to meeting future demand and capturing new opportunities in the market. Overall, the company appears to be on a path of strategic improvement and is cautiously optimistic about its prospects.

Valuation & Recommendation: In light of positive growth and effective cost management, but with the negative impact of the Cenexi acquisition on consolidated margins and profitability, we maintain our HOLD rating with a target price of 1,760, implying an upside potential of ~9.4%, valuing the company at a PE of 26x for FY26.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	1,406	0.3	2.4	1,380	1.9
EBITDA	297	12.4	-8.3	273	8.9
EBITDA Margin	21.1%	227	-246	30.5%	-
Net Profit	164	13.7	-15.7	157	4.3
EPS (Rs)	9.9	13.7	-15.7	9.5	4.3

Source: Company, Axis Securities Research

 (CMP as of 04th November 2024)

CMP (Rs)	1609
Upside /Downside (%)	-9.4%
High/Low (Rs)	2,221/1486
Market cap (Cr)	34,870
Avg. daily vol. (6m) Shrs.	2,72,564
No. of shares (Cr)	16.5

Shareholding (%)

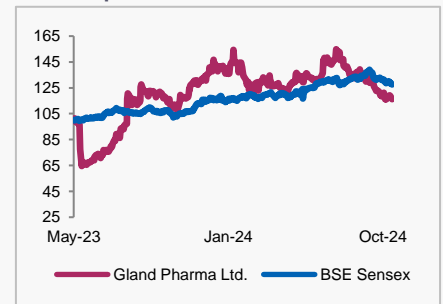
	Mar-24	Jun-24	Sep-24
Promoter	57.9	51.8	51.8
FII's	3.6	6.9	4.5
MFs / UTI	23.0	30.5	32.8
Banks / FI's	0.0	0.0	0.0
Others	15.5	10.8	10.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	5,665	6,030	6,662
EBITDA	1,334	1,339	1,712
Net Profit	772	845	1,100
EPS (Rs)	46.9	51.3	66.8
PER (x)	34.3	31.4	24.1
P/BV (x)	18.8	18.2	13.7
EV/EBITDA (x)	3.0	2.8	2.5
ROE (%)	8.8	8.8	10.3

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1.8%	-5.1%
EBITDA	-6.4%	-6.1%
PAT	-7.7%	-7.7%

Relative performance


Source: Ace Equity

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Key Concall Highlights

- **Guidance:** Management has maintained their mid-teens guidance for revenue growth, expecting to breach the threshold limit of €200 Mn in revenue for Cenexi, with positive EBITDA anticipated by the end of Q4FY25 onwards for Cenexi. Their complex products target an IQA market opportunity of \$7.3 billion.
- **Strategic Initiation:** Gland entered into a binding term sheet with Dr Reddy's Laboratories to establish strategic cooperation for the biologics CDMO business. This partnership will leverage the state-of-the-art biologics manufacturing facility at Genome Valley in Hyderabad. A total of 104 Cr was incurred during the quarter for Capex.
- **Base Business:** Excluding Cenexi, the base business achieved revenue of Rs 1,063 Cr, representing a 5% increase YoY. Gross margins remained stable and aligned with EBITDA margins.
- **Cenexi:** Recorded revenue of Rs 334 Cr with an EBITDA loss of 69 Cr caused by a lyophilizer breakdown at the Braine-l'Alleud site (Belgium). To resolve this issue, a new backup unit will be installed in the first half of 2025 to prevent future disruptions and increase capacity.
- **New Launches:** Four new molecules were launched in the US market, whereas four of the nine products in the plan for the China market are currently under development, and five have received approvals. In complex injectables, nine filings were completed in a targeted portfolio of 19 products. Six of these complex products have already been approved (six launched), with three more expected to secure approval in due course.
- **New Manufacturing Line:** The new manufacturing line at the Fontenay site (Paris) is on track and within budget. This line was commissioned during the summer shutdown period in August, with commercial production expected to begin in January 2025.
- **R&D:** R&D expenditure incurred was 49.3 Cr (4.6% of base business sales) in Q2FY25.

Key Risks to Our Estimates and TP`

- The potential USFDA inspections resulting in the issuance of Warning Letters (WL), Official Action Indicated (OAI) status, or 483 observations could potentially have an impact on the company's revenue growth.
- The entry of new competitors into the market might lead to heightened pricing pressures within the injectable portfolio.
- Any delays in launching Biosimilars in the market could also pose challenges to the company's operations and growth strategy.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	6,030	6,662	6,142	7,016	-1.8%	-5.1%
EBITDA	1,339	1,712	1,431	1,824	-6.4%	-6.1%
PAT	845	1,100	915	1,192	-7.7%	-7.7%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	1,373	1,545	1,537	1,402	1,406	2	0
Growth (%)	31.5%	64.7%	95.8%	16.0%	2.4%		
Total Expenditure	1,049	1,188	1,179	1,137	1,109	6	-3
Raw Material Consumed	518	464	575	462	486		
Purchase of stock in trade	6	6	7	7	3		
Stock Adjustment	-2	129	18	96	87		
% of sales	38.0%	38.8%	39.0%	40.2%	40.9%		
Gross margins %	62.0%	61.2%	61.0%	59.8%	59.1%	-294	-68
Employee Expenses	305	345	352	356	330	8	-7
% of sales	22.2%	22.3%	22.9%	25.4%	23.5%		
Other Expenses	165	180	170	171	158	-4	-8
% of sales	12.0%	11.7%	11.1%	12.2%	11.2%		
Power & Fuel	58	64	58	47	45		
% of sales	4.2%	4.1%	3.8%	3.3%	3.2%		
EBITDA	324	357	359	265	297	-8	12
EBITDAM (%)	23.6%	23.1%	23.3%	18.9%	21.1%	-246	227
Interest	6	5	10	6	6		
Depreciation	81	105	93	92	94		
Other Income	53	37	42	51	60		
PBT	290	284	299	219	257	-11	18
Tax	96	91	106	74	93		
Tax (%)	33.0%	32.2%	35.4%	34.1%	36.3%		
Reported PAT	194	192	193	144	164	-16	14

Source: Company, Axis Securities Research

Geographical Breakup

Particulars (INR Crore)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
USA	708	807	873	752	739	4	-2
India	88	76	53	53	87	-0	66
RoW	174	157	159	148	166	-5	12

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Sales	5,665	6,030	6,662	7,487
Growth (%)	56.3%	6.5%	10.5%	12.4%
Total Expenditure	4,331	4,692	4,950	5,480
Raw Material Consumed	2,173	2,382	2,465	2,725
Gross margins %	61.6%	60.5%	63.0%	63.6%
Employee Expenses	1,257	1,327	1,466	1,647
% of sales	22.2%	22.0%	22.0%	22.0%
Other Expenses	902	983	1,019	1,108
% of sales	15.9%	16.3%	15.3%	14.8%
EBIDTA	1,334	1,339	1,712	2,006
EBITDAM (%)	23.5%	22.2%	25.7%	26.8%
Interest	26	26	26	26
EBIT	1,307	1,313	1,686	1,980
EBITM (%)	23.1%	21.8%	25.3%	26.5%
Depreciation	345	376	406	436
Other Income	170	185	182	184
Share of profit/ (loss) of joint venture and associate, net	0	0	0	0
Exceptional items, net	0	0	0	0
PBT	1,133	1,122	1,462	1,729
Tax Rate (%)	31.8%	25.0%	25.0%	25.0%
Tax	360	281	366	432
Reported PAT	772	845	1,100	1,300

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Share Capital	16.5	16.5	16.5	16.5
Reserves & Surplus	8,707	9,552	10,652	11,951
Shareholders Fund	8,724	9,568	10,668	11,968
Total Debt	372	372	372	372
Deferred Tax Liab. (Net)	0	0	0	0
Provisions	398	398	398	398
Trade Payables	863	925	1,022	1,149
Other Liabilities	305	350	400	400
Total Liabilities	10,661	11,613	12,860	14,286
Gross Block	4,608	5,008	5,408	5,808
Depreciation	1,067	1,442	1,848	2,284
Fixed Assets (incl. CWIP)	4,184	4,208	4,203	4,167
Inventories	1,655	1,817	2,008	2,256
Trade Receivables	1,559	1,652	1,825	2,051
Cash & Cash Equivalents	1,839	2,485	3,353	4,155
Other Current Assets	1,423	1,447	1,466	1,647
Total Current Assets	5,645	6,558	7,985	9,362
TOTAL ASSETS	10,661	11,614	12,860	14,283

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	1,133	1,217	1,585	1,862
Add: Depreciation	345	376	406	436
Add: Interest	26	26	26	26
Cash flow from operations	1,504	1,618	2,017	2,324
Change in working capital	543	246	388	645
Taxes	360	304	396	466
Miscellaneous expenses	0	0	0	0
Net cash from operations	601	1,068	1,233	1,213
Capital expenditure	-2,781	-400	-400	-400
Change in Investments	0	0	0	0
Net cash from investing	-2,781	-400	-400	-400
Increase/Decrease in debt	368	0	0	0
Dividends	0	0	0	0
Proceedings from equity	0	0	0	0
Interest	-26	-26	-26	-26
Others	-91	0	0	0
Net cash from financing	250	-26	-26	-26
Net Inc./(Dec.) in Cash	-1,930	642	807	787
Opening cash balance	3,771	1,839	2,482	3,288
Closing cash balance	1,840	2,482	3,288	4,076

Source: Company, Axis Securities Research

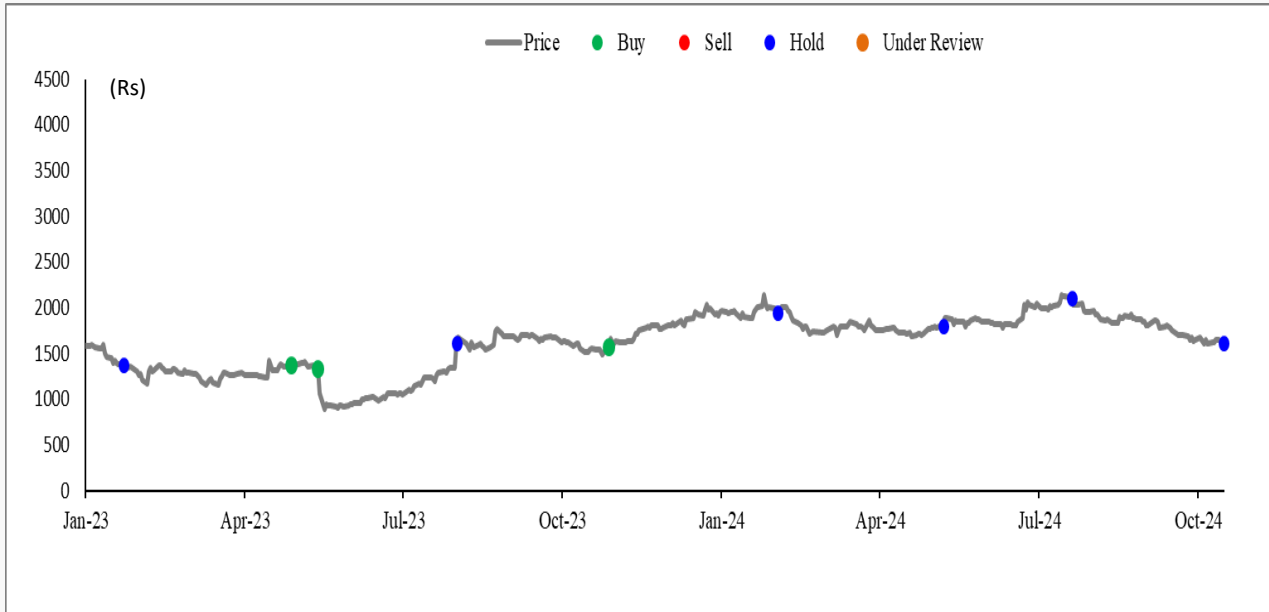
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	56.3	6.5	10.5	12.4
OPM	23.5	22.2	25.7	26.8
Oper. profit growth	30.1	0.4	27.9	17.2
COGS / Net sales	38.4	39.5	37.0	36.4
Overheads/Net sales				
Depreciation / G. block	7.5	7.5	7.5	7.5
Effective interest rate	31.8	25.0	25.0	25.0
Net kg.cap / Net sales				
Net sales / Gr block (x)	1.2	1.2	1.2	1.3
RoCE	14.8	14.4	17.7	19.5
Debt/equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	31.8	25.0	25.0	25.0
RoE	8.8	8.8	10.3	10.9
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	46.9	51.3	66.8	78.9
EPS Growth	(1.2)	9.4	30.2	18.2
CEPS (Rs.)	31.3	21.7	17.6	15.3
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities Research

Gland Pharma Price Chart and Recommendation History



Date	Reco	TP	Research
24-Jan-23	HOLD	1,500	Result Update
02-May-23	BUY	1,500	Result Update
18-May-23	BUY	1,400	Result Update
09-Aug-23	HOLD	1,620	Result Update
07-Nov-23	BUY	1,700	Result Update
14-Feb-24	HOLD	1,825	Result Update
22-May-24	HOLD	1,950	Result Update
07-Aug-24	HOLD	2,000	Result Update
05-Nov-24	HOLD	1,760	Result Update

Source: Axis Securities

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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