Twitter Thread by ■■■s■ ■■■■■■

■■■s■ ■■■■■■
@AnishA_Moonka

Glenmark Life Sciences (GLS) IPO notes ■

Plans to take the capacity to 1762KL (currently 762KL) in the next 4 years.

Hit the 'retweet' & help us educate more investors

A thread ■■

#IPOwithJST

1/ About the company

Developer & manufacturer of high value, non- commoditized APIs (complex & low competition) in chronic therapeutic areas: CVS, CNS, pain management & diabetes, etc

Basic details about the IPO ■

Note: After paying off liabilities, 150crs remain for capex.

Issue Details

Fresh Issue of Equity Shares aggregating upto ₹ 1,060 Crore and Offer for sale of upto 6,300,000 Equity Shares

Issue size: ₹ 1,498 – 1,514 Cr
No. of shares: 21,551,798 - 21,022,222
Face value: ₹ 2/-

Price band : ₹ 695 – 720
Bid Lot: 20 Shares and in multiple thereof

Post Issue Implied Market Cap:
₹ 8,552 – 8,822 Cr

GCBRLMs: Kotak Mahindra Capital, BofA Securities India, Goldman Sachs (India)
BRLMs: DAM Capital,, BOB Capital Markets, SBI Capital Markets
Registrar: KFin Technologies Pvt. Ltd.

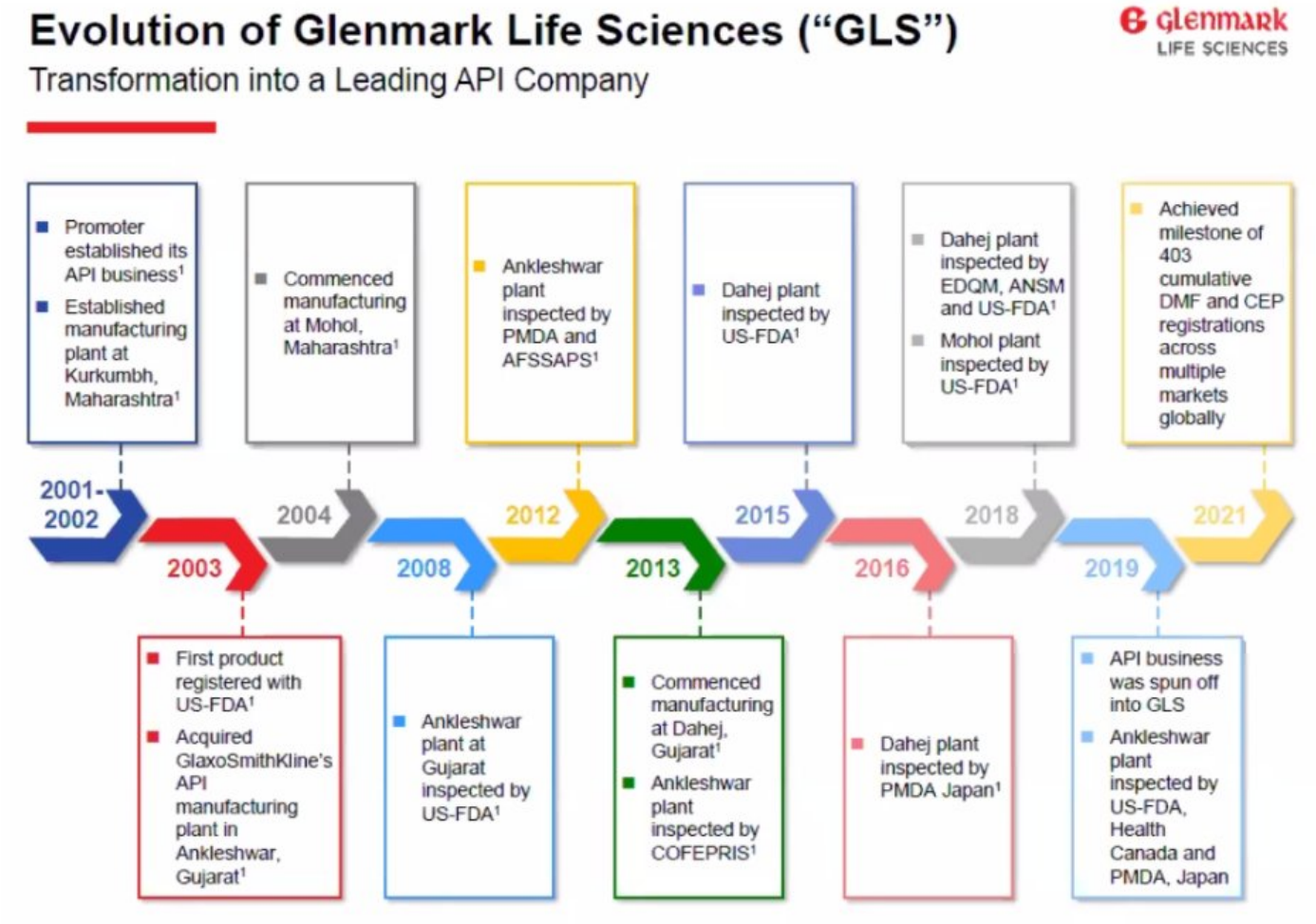
Issue opens on: Tuesday, **27th July, 2021**
Issue closes on: Thursday, **29th July, 2021**

2/ The Journey

Established the API business in FY02

Since 2015, Have not received any adverse reactions from regulators (USFDA, PMDA) in the total 38 audits & inspections & Have gone through 432 customer audits.

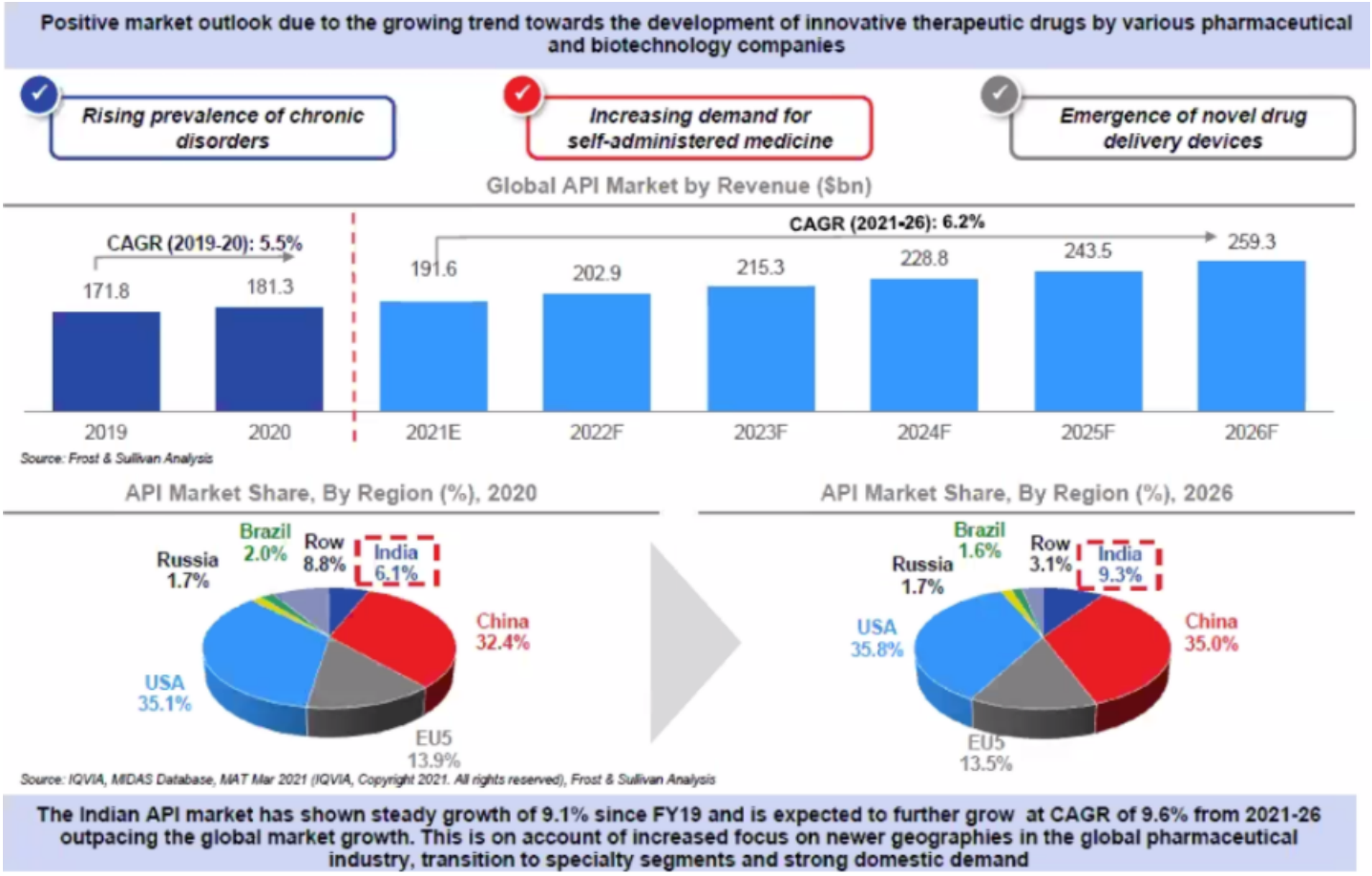
Filled 403 DMFs & CEP registration across markets globally.



3/ Trends that the company is betting on & what works for them

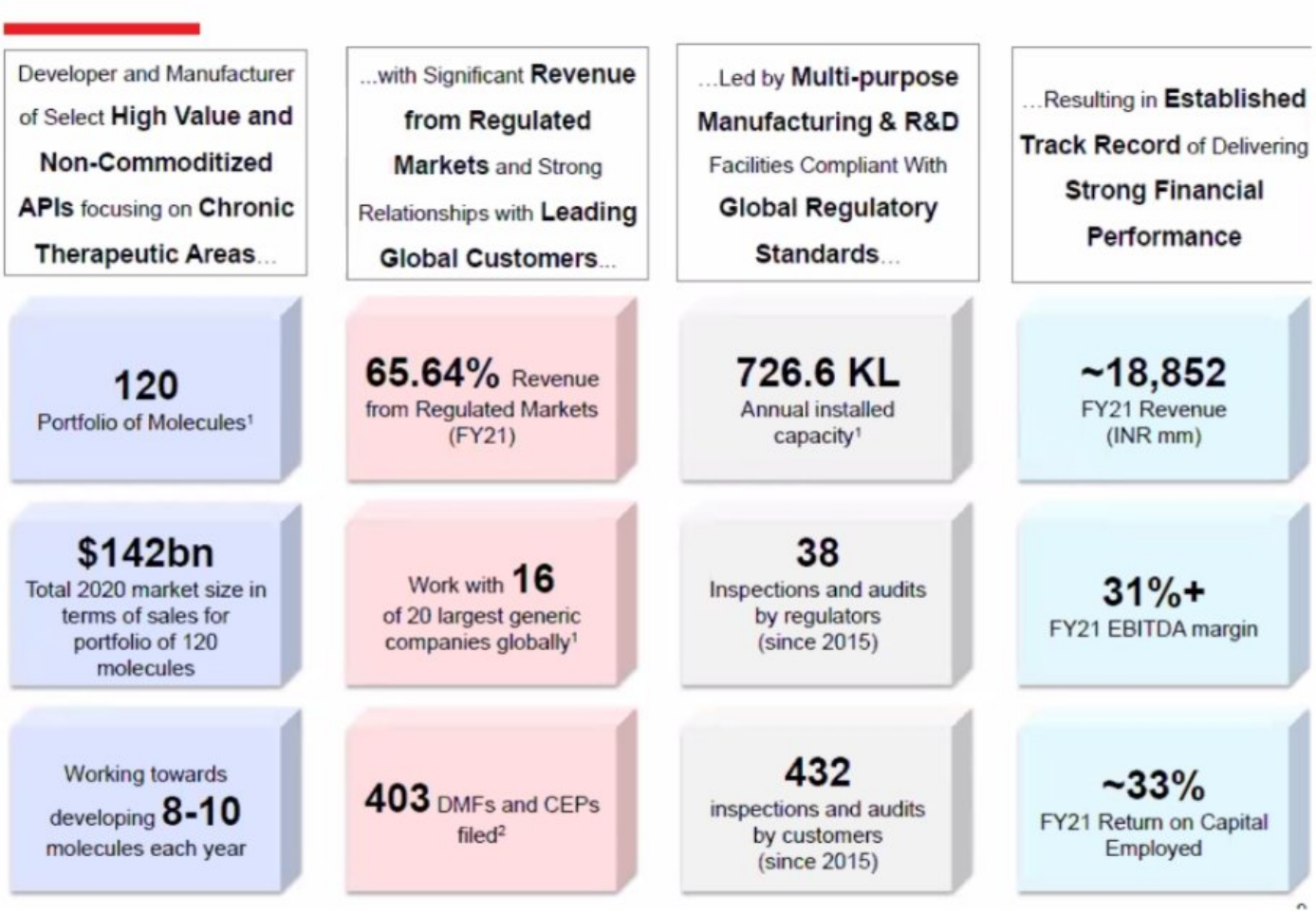
China+1: India API market growth (10% cagr projected from FY21-26) will outpace the industry: Driven by specialty API+ Strong domestic market

Highest no. of USFDA approved API facilities & % of DMFs filled



4/ Interesting facts

- 120 molecules: $142B market size
- Targetting 8 to 10 new molecules every yr (Key differentiator over time)
- 66% of sales from regulated markets
- Works with 16 of the top 20 generic cos.
- Top 7 customers: 5 to 15yrs old



5/ API Portfolio

Key products in generic API business ■ (Shows cost leadership in few molecules as market share is 30%+)

Strategy to mix: High value & High Volume APIs

Complex API is a future growth market: Going into the development of Peptide APIs by FY22.

Presence in Niche and Complex APIs...

- API portfolio comprises specialized and profitable products, including niche and technically complex molecules
  - GLS believes that it reflects the ability to branch into other high value products
- Has demonstrated the ability to branch into other high value products
- Works towards developing 8 to 10 molecules each year, which include both high value and high volume APIs

Sales of API Business in FY21

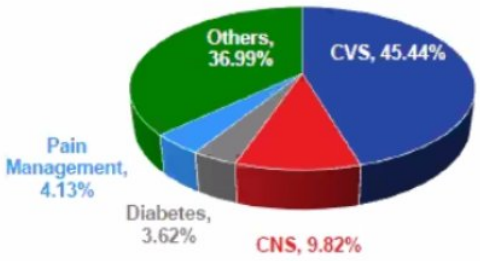
Market Share	Quantity Contribution	Value Contribution	Key Products
< 10%	27.26%	35.58%	Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole
10-20%	30.97%	17.82%	Telmisartan, Etoricoxib, Teneligliptin
20-30%	1.04%	2.99%	Desloratadine, Riluzole, Cilazapril
>30%	40.73%	43.61%	Atovaquone, Perindopril[1], Adapalene, Zonisamide

Source: IQVIA, MIDAS Database, MAT March 2021 (IQVIA, Copyright 2021. All rights reserved); [1] Numbers reflected for Perindopril Erbumine

..In Chronic Therapeutic Areas

- GLS has presence in chronic therapeutic areas including CVS, CNS, pain management and diabetes
- Complex API business is a key growth opportunity
  - GLS has expertise in the area of synthetic chemistry and analytical characterization which can be leveraged to grow the complex API portfolio

% of FY21 Revenue from Operations



6/ R&D: the secret ingredient

Spends 2-2.5% of rev every year
39 patents under the belt
213 R&D personnel in 3 dedicated facilities

Focus on cost improvements in existing products & developing newer products: onco, peptides, iron compounds

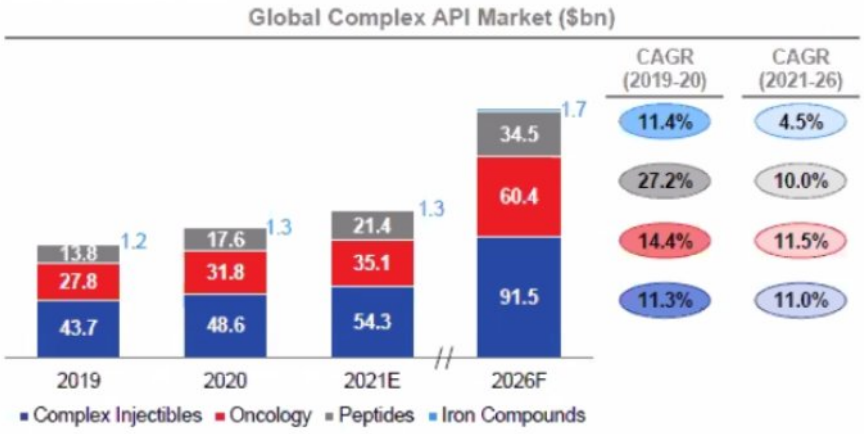
Leverage GLS' expertise in synthetic chemistry and analytical characterization to help expand existing technology platforms and manufacture, grow complex API portfolio in oncology, peptides and iron compounds

Process Research

- Portfolio evaluation
- Process development
- Process scale-up and validation
- Regulatory filing and approvals

Analytical Research

- Literature search
- Method development and optimization
- Characterization of impurities and standards
- Method validation
- Non-carry over studies
- Stability / hold time studies



Source: Newport, IQVIA, MIDAS Database, MAT Mar2021 (IQVIA, Copyright 2021. All rights reserved), Frost & Sullivan Analysis

- Regularly work on developing 8-10 molecules per year
- 39 granted patents[1]
- 41 pending patent applications globally and 6 pending provisional applications in India[1]

7/ Manufacturing Capacity & Capex

4 plants 762KL capacity, running at 85% capacity: 3 USFDA approved, 1 for emerging markets

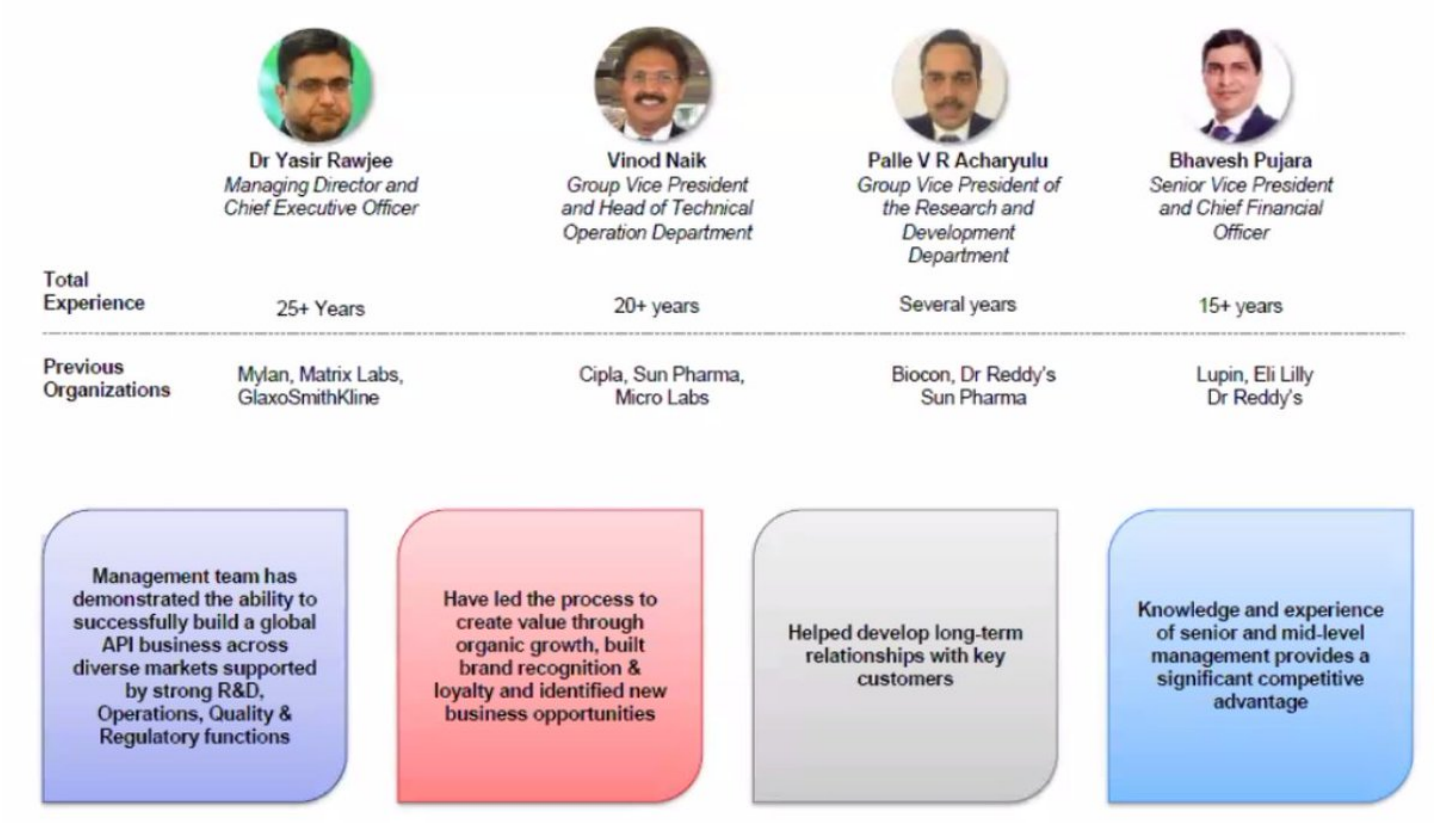
Increasing capacity by 200KL in Dahej & Ankleshwar by FY23

Investing in a new greenfield capacity: will take it to aggregate 800KL capacity in 3-4yr

GLS operates four multi-purpose manufacturing facilities in India which are situated on leasehold land

	Annual Installed Capacity (Mar-21)	Capacity Utilization (FY21)	Top Products (Therapeutic Area)	Approvals
Ankleshwar, Gujarat	511.0 KL	86.0%	Amiodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	USFDA, MHRA (UK), FIMEA (Finland), Romania (Europe) PMDA (Japan), COFEPRIS (Mexico), Health Canada, KFDA (South Korea), Gujarat FDCA
Dahej, Gujarat	141.9 KL	88.0%	Amiodarone (CVS), Etoricoxib (Pain management), Omeprazole (Gastro-intestinal), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA, EDQM (Europe), PMDA (Japan), KFDA (South Korea)
Mohol, Maharashtra	49.1 KL	85.8%	Telmisartan (CVS), Rosuvastatin (CVS), Vildagliptin (diabetes)	USFDA, Maharashtra FDA
Kurkumbh, Maharashtra	24.6 KL	67.5%	Glimepiride (diabetes), Sertaconazole (dermatology), Adapalene (dermatology)	Maharashtra FDA

8/ Experienced Management with a proven track record: A total of 1537 permanent employees.



9/ CDMO business: 8-10% of their rev (will ramp up)

End of lifecycle management- when the innovator loses its patent & looks for a cheaper source of their API; they can choose GLS

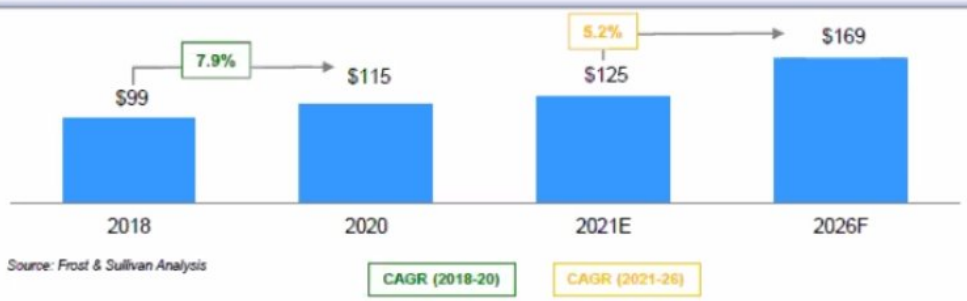
The ■ trends that benefit this business ■

- **GLS has the ability to attract innovator pharmaceutical companies for providing unique solutions tailored to the needs of the innovator**
- **GLS will continue partnering with such customers to provide lifecycle management solutions for their mature portfolio where genericization has happened or is impending**

Growth Drivers for the Global CDMO Market will Help Grow GLS' CDMO Business

- Relationships with **leading global generic pharmaceutical** provide opportunities to maximize the **value of product development** and manufacturing platforms
  - GLS to continue exploring opportunities to enhance existing relationships by **undertaking contract development and manufacturing for new molecules** across their various product segments
- Specialty business is a **key growth opportunity and an added lever for API market expansion**, with multiple companies in the United States and Europe currently focused on developing products under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act
  - In addition, the specialty business offers **higher business stability** with relatively higher margins due to the complex nature of the products which leads to high customer stickiness

Global CDMO Market ($bn)



Source: Frost & Sullivan Analysis

28

10/ Financials

Rev scaled at 16% cagr from FY19-21

Margins consistently above 30% (high operational efficiency as GMs are 50-55%)

Stable cash flows: WC requirements are high, OCF & debt would be enough to increase capacity over the next 4-5yrs

Glenmark Life Sciences Limited
Restated Balance Sheet
(All amounts in million of Indian Rupees, unless otherwise stated)

Particulars	Notes	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
ASSETS				
Non-current assets				
Property, Plant and Equipment	3	5,648.88	5,390.78	4,499.71
Capital work-in-progress	3	140.98	107.30	803.29
Intangible Assets	3	79.11	71.68	63.34
Intangible Assets under development	3	-	-	0.65
Financial Assets	4			
(i) Investments		0.77	0.77	0.77
(ii) Other financial assets		85.46	84.32	78.94
Current tax asset (net)	5	11.51	-	-
Other non-current assets	7	13.63	0.05	0.29
Total non- current assets		**5,980.34**	**5,654.90**	**5,446.99**
Current assets				
Inventories	8	5,134.21	4,127.75	4,008.43
Financial Assets	9			
(i) Trade receivables		6,195.00	6,386.28	4,480.88
(ii) Cash and cash equivalents		1,155.96	99.98	20.61
(iii) Other financial assets		275.89	207.70	57.87
Other current assets	10	1,229.35	779.43	739.17
Total current assets		**13,990.41**	**11,601.14**	**9,306.96**
Total assets		**19,970.75**	**17,256.04**	**14,753.95**
EQUITY AND LIABILITIES				
EQUITY				
Equity share capital	11 &12	19.60	19.60	19.60
Other Equity		7,507.87	3,997.32	861.65
Total Equity		**7,527.47**	**4,016.92**	**881.25**
LIABLITIES				
Non-current liabilities				
Deferred tax liabilities (net)	6	228.88	164.48	68.56
Total non-current liabilities		**228.88**	**164.48**	**68.56**
Current liabilities				
Financial Liabilities	13			
(i) Borrowings		-	0.21	0.21
(ii) Trade payables				
(a) Total outstanding dues of Micro enterprises and Small enterprises		357.71	100.66	220.92
(b) Total outstanding dues of other than Micro enterprises and Small enterprises		1,855.34	1,910.05	1,607.96
(iii) Other current financial liabilities		9,550.87	10,736.57	11,763.14
Other current liabilities	14	114.53	103.72	47.93
Provisions	15	199.02	139.83	140.44
Current tax liabilities (net)	16	136.93	83.60	23.54
Total current liabilities		**12,214.40**	**13,074.64**	**13,804.14**
Total liabilities		**12,443.28**	**13,239.12**	**13,872.70**
Total equity and liabilities		**19,970.75**	**17,256.04**	**14,753.95**

11/ Risks:

- High Customer churn: Only 41% of the customers stayed from FY19 to FY21.
- Imports 40% of RM from China: could face huge pricing pressure which they are not able to pass on.
- Regulatory & compliance risks
- Client concentration: 56% of rev from the top 5 customers

12/

- Dependence on key products: Top 10 account for 66% of sales
- Capex implementation risk
- Multiple outstanding litigations against the promoter & the company
- COVID risk: some disruptions in acute products & favipiravir sales benefit: net 2-3% +ve effect in FY21.

A summary of outstanding litigation proceedings involving our Company, Promoter and Directors as on the date of this Red Herring Prospectus, is provided below:

Types of Proceedings	Number of Cases	Amount (in ₹ million)*
Litigation against our Company		
Material civil litigation	5	1.21
Indirect tax	3	46.72
Litigation by our Company		
Criminal proceedings	1	Not applicable
Litigation against our Promoter		
Criminal proceedings	6	Not applicable
Actions by regulatory and statutory authorities	13	641.19
Direct tax	19	1,156.64
Indirect tax	15	1,090.87
Litigation by our Promoter		
Criminal litigation	2	4.29
Litigation against our Directors		
Actions by regulatory and statutory authorities	1	0.89

* *To the extent quantifiable.*

13/

- Increased competition in their respective products: pricing pressure
- Working capital risk: have huge credit terms up to 180 days
- High employee attrition of 18-20%
- Failure to get the environmental clearances for new facilities.

14/

We believe Glenmark Life sciences IPO which is currently valued at 4.6x EV/sales, 15x EV/EBITDA & 25x Price/Earnings & following the lucrative strategy to become bigger in complex APIs, is rather reasonably valued.

End of thread.

Comparison with the peers

- Top quartile EBITDA margins
- Low capex requirements & high asset turnover business
- Cash conversion cycle is one of the worst: Needs to invest a lot of working capital to grow if it doesn't improve
- Valuation wise, A discount to industry averages

Company	Revenue (Rs bn)	EBITDA (Rs bn)	EBITDA Margin %	PAT (Rs bn)	Last 3 years avg. Capex	RoCE %	RoE %	Cash conversion cycle	Asset turnover
DIVI	69.7	28.4	40.7	19.6	10.0	23.8	23.9	158.6	1.5
LAURUS	48.1	15.5	32.2	9.8	4.6	29.6	45.0	131.5	1.2
GRAN	32.4	8.6	26.4	5.5	2.2	20.0	27.4	108.2	1.8
Aarti Drugs	21.5	4.4	20.3	2.8	0.7	26.9	35.8	105.2	1.3
DCAL	19.1	2.7	14.3	(1.7)	n.a	(2.0)	(2.9)	141.6	0.2
GLS	18.9	5.9	31.4	3.5	0.4	26.2	n.a	196.5	2.9
SOLARA	16.2	3.9	23.9	2.2	2.0	16.1	16.6	97.3	1.6
NLL	9.4	1.5	15.7	0.8	0.6	9.5	10.8	85.2	1.7

Source: Company Data, Bloomberg

A glossary for the complex industry-related abbreviations I used above ■

Technical/Industry Related Terms/Abbreviations

Term	Description
“ANDA”	Abbreviated new drug application
“API”	Active pharmaceutical ingredient
“BLA”	Biologics license application
“CDMO”	Contract development and manufacturing operations
“CEP”	Certificate of suitability to the monographs of the European Pharmacopoeia
“cGMP”	current Good Manufacturing Practices
“CMO”	Contract manufacturing organization
“CNS”	Central nervous system disease
“CVS”	Cardiovascular disease
“DDS”	Drug delivery system
“DMF”	Drug Master File
“FDA”	Food and Drug Administration
“FD&C Act”	Federal Food, Drug and Cosmetic Act
“HPAPI”	High potency API
“KSM”	Key starting material
“MHRA”	Medicines and Healthcare Products Regulatory Agency
“NDA”	New drug application
“NLEM”	National List of Essential Medicines 2015
“NPPA”	National Pharmaceutical Pricing Authority
“QMS”	Quality Management System
“SOP”	Standard operating procedure
“ZLD”	Zero liquid discharge