

Twitter Thread by Vishnu Kapadia

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Thread on Glenmark Life Science IPO 27 July ■:

Glenmark Life Science (GLS) is the wholly-owned subsidiary of Glenmark Pharmaceuticals Ltd;

In 2001-02, GLS launched the API manufacturing business; Currently, the company has two key business verticals: namely API and CDMO;

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GLS is a leading developer and manufacturer of select high-value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain, and diabetes;

As of FY21, API and CDMO contributed ~90.6 & 8.1% to GLS revenues respectively;

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The company works with 16 of the top 20 generic pharma companies in the world and as of 31st May 2021, they have registered ~403 DMFs globally;

From the IPO proceeds, GLS will be using ~Rs 8bn as repayment of an outstanding purchase agreement to the promoter-

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-for the spin-off of the API business. The company has also envisaged using Rs 1.53bn as capital expenditure;

This includes a new multi-usage facility, which will mainly focus on the company's CDMO business aspiration from 4QFY23.

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Figure 1: Financial summary table

Financial Summary Table	FY18	FY19	FY20	FY21
Total Revenues (Rs mn)	12,017	14,050	15,373	18,852
YoY Growth(%)	n.a	16.9	9.4	22.6
Gross Profit (Rs mn)	6,449	7,786	8,469	9,797
Gross Margins (%)	53.7	55.4	55.1	52.0
EBITDA (Rs mn)	3,312	4,293	4,720	5,911
EBITDA Margins (%)	27.6	30.6	30.7	31.4
A - Post Tax Income (Rs mn)	2,294	2,927	3,216	3,516
APAT Growth	n.a	27.6	9.9	9.3
EPS (Rs.)	21.3	27.2	29.0	32.6
Net D/E (x)	-0.0	13.2	2.6	1.1
RoE %	200.7	184.8	127.8	60.9
RoCE %	31.3	39.0	24.7	26.2
Cash conversion cycle (Days)	-83	188	217	196
Asset Turnover (x)	2.6	3.0	2.6	2.9

Source: Company Data

Key growth drivers for the Indian API industry:

- India is on par with other countries in terms of technological capabilities and process efficiency;
- The costs are very low in India: Domestic pharmaceutical facilities cost only 2/5th of what it costs to set up and-

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Figure 4: Manufacturing facilities

Location	Total Capacity (KL)	Key Products (Therapy)	Key Approval
Ankleshwar	511	Amlodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	USFDA, MHRA, FIMEA, Romania
Dahej	141.9	Amlodarone (CVS), Etoricoxib (Pain), Omeprazole (Gastro), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA, EDQM, PMDA, KFDA
Mohol	49.1	Telmisartan (CVS), Rosuvastatin (CVS), Vildagliptin (diabetes)	USFDA, Maharashtra FDA
Kurkumbh	24.6	Glimepiride (diabetes), Sertaconazole (derma), Adapalene (derma)	Maharashtra FDA

Source: Company Data

Figure 5: DMF/CEP filings

Region	No. of DMF/CEP Filings	Approx no. of customers in FY21 (API seg.)
North America	142	30+
Europe	79*	50+
India	0	100+
Japan	15	10+
Latin America	59 (Brazil)	50+
RoW	108	300+

Source: Company Data,
Note * Incl. 3 CEPs under review

- China+1 strategy: In 2020, according to the DRHP, an estimated 40% of all factories in China have shut down -resulting in supply disruptions and higher costs. This has caused several major pharma countries to reconsider and reshuffle their API import sources.

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- Favorable labor cost: The cost of labor in China has more than doubled, from 5.2% of the total direct manufacturing cost to 10.6%, while in India, it has decreased from 6.1% to 5% (2015 data).

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■Largest US DMF filers: The fact that India has the largest percentage of DMFs filed in the US (15%) and the highest number of USFDA-approved API facilities is a significant 'first-mover' advantage.

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■High Potent API could be a key driver: With a large no. of synthetic drugs' patents set to expire, a growing no. of small molecules in clinical trials, & a steady increase in contract manufacturing & research services, synthetic chemical API will continue to expand in India.

■Government assistance: 1) Investments in Bulk Drug parks worth Rs 99.4bn, 2) PLI schemes, 3) Raising the FDI cap & 4) developing a new intellectual property rights (IPR) strategy to encourage innovation.

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Glenmark LS API Business:

CVS is the largest segment with a 43% revenue share: Glenmark LS derives its API revenue from 5 key segments namely CVS, CNS, Diabetes, Pain & Others;

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CVS is the largest segment for GLS in API as it makes up ~45% of FY21 API sales With key products being Olmesartan, Amiodarone, Telmisartan, Perindopril, Rosuvastatin and Cilostazo;

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Other key segments include CNS, Diabetics, and Pain that contributed 9.8%, 3.6% & 4.1% of API sales, respectively.

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Figure 13: Key products in Generic API business

Key Products	Vol. contribution in API business (FY21- %)	Value contribution in API business (FY21- %)	Market share (%)
Atovaquone, Perindopril*, Adapalene, Zonisamide	40.73	43.61	>30
Desloratadine, Riluzole, Cilazapril	1.04	2.99	20-30
Telmisartan, Etoricoxib, Teneligliptin	30.97	17.82	10-20
Olmesartan, Rosuvastatin, Oxcarbazepine, Voriconazole	27.26	35.58	<10

Source: Company Data, Note: * Numbers reflected for Perindopril Erbumine

In the near term, the company has announced its vision for growth by,

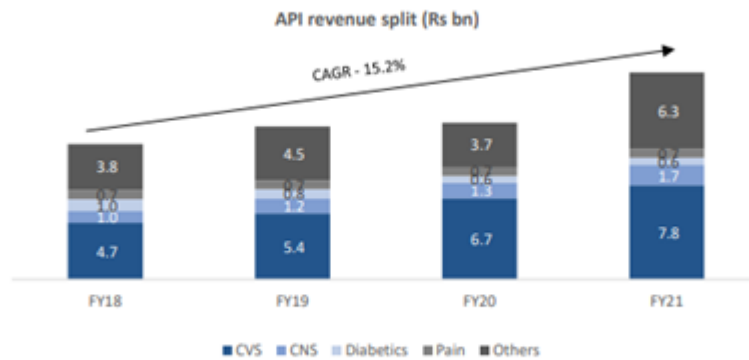
1) Diversifying customer base in existing markets and expanding its presence in semi-regulated markets like South Korea, Taiwan, Russia, Brazil, Mexico, and Saudi Arabia.

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- In these markets, the company will look for local partnerships;
- 2) Strive for improvement in market share increase in existing products;
 - 3) New product launches which include complex API portfolios in Oncology, Peptides, and Iron Compounds.

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Figure 14: GLS's generic API revenues has grown at ~15.2% CAGR over FY18-21



Source: Company Data

CDMO - Another growth driver:

In the last 3 years, GLS has started working with innovator companies for CDMO opportunities;

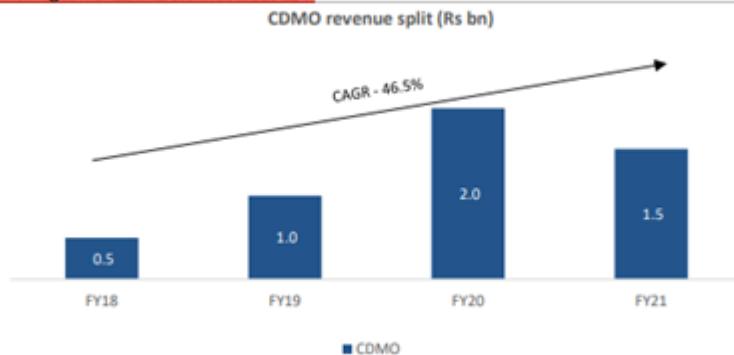
Due to this, the company was able to grow its business by 1.5-2x between 2018-21;

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The company is also looking at the specialty business as it offers higher margins while the complex nature of the products leads to high customer stickiness.

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Figure 17: CDMO business has grown at ~46.5% CAGR over FY18-21



Source: Company Data

Manufacturing:

3 of the 4 plants are USFDA approved;

Future CAPEX plans:

Plans to utilize ~Rs 1.53bn from the IPO proceeds towards CAPEX; includes enhancing the production capacity of Ankleshwar (FY22) and Dahej (in FY22&23) facilities to an aggregate annual capacity of 200KL.

Figure 18: Manufacturing facilities

Location	Total Capacity (KL)	Key Products (Therapy)	Key Approval
Ankleshwar	511	Amlodarone (CVS), Olmesartan (CVS), Perindopril (CVS), Oxcarbazepine (CNS)	USFDA, MHRA, FIMEA, Romania, FDC - Gujarat, PMDA
Dahej	141.9	Amlodarone (CVS), Etoricoxib (Pain), Omeprazole (Gastro), Fluconazole (anti-infective), Cilostazol (CVS)	USFDA, EDQM, PMDA, KFDA
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Source: Company Data

The company says the expansion will help increase their generic API pipeline and grow the company's Onco product pipeline;

Additionally, Glenmark LS will put up a new manufacturing facility, which is expected to be commercialized in 4QFY23;

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The facility will be used primarily for the CDMO business and aid the company's generic manufacturing API needs.

Financials:

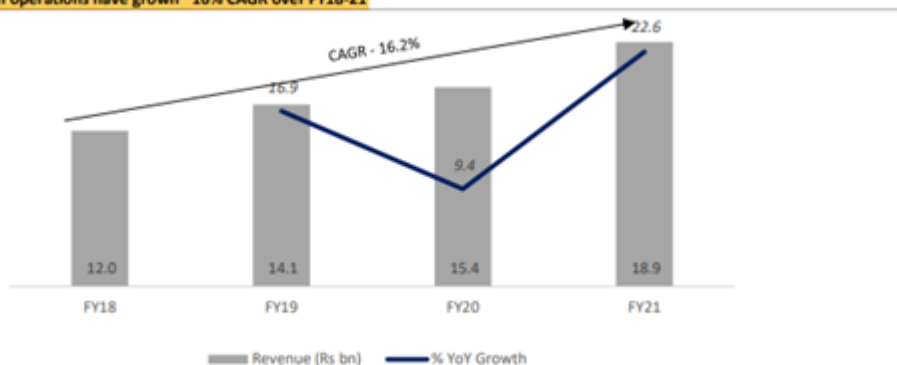
Revenue, EBITDA and PAT grew ~16%, 21% and 15% CAGR (FY18-21) respectively: In FY21, GLS's operating revenue grew ~23% YoY to Rs 18.9bn.

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The growth was primarily due to a ~32% YoY increase in the generic API business. The increase in the API business was due to the company's expansion in EM and growth in regulated markets

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Figure 20: Revenues from operations have grown ~16% CAGR over FY18-21



Source: Company Data

Key Strengths (as mentioned in the RHP):

Leadership in Select High Value, Non-Commoditized APIs in Chronic Therapeutic Areas: Key products in the company's portfolio include Atovaquone, Perindopril, Adapalene, and Zonisamide;

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GLS holds a ~30% market share in these products & they contributed ~40% of the company's FY20 sales;

Since 2015, company has been subjected to 37 regulatory audits (includes USFDA, Health Canada, & European agencies) & has not received any warning letters in this period;

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In the last 3 years, the company's R&D spends ranged between 2-3% of total sales; GLS employs ~213 people in its R&D division, which constitutes ~14% of total employee strength;

Key Concerns:

Regulatory Risk: In FY21, ~65% of sales come from regulated markets;

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Dependence on key customers: GLS derives ~55.88% from its top 5 customers as of FY21;

Dependence on key products: As of FY21, the company derives ~66.36% of its revenues from its top 10 products in the generic API segment.

End of thread■

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