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IPO note: Glenmark Lifesciences Limited (GLS) - "SUBSCRIBE"

July 26, 2021

Impressive background, strong parentage and business model..

Glenmark Life Sciences Limited ("GLS") was incorporated on 23rd June, 2011. GLS is a wholly-owned subsidiary of the Promoter, Glenmark Pharmaceuticals Ltd. GLS is a leading developer and manufacturer of select high value, non-commoditized active pharmaceutical ingredients ("APIs") in chronic therapeutic areas, including cardiovascular disease ("CVS"), central nervous system disease ("CNS"), pain management and diabetes. GLS operates two business lines – Generic APIs (generics and complex APIs) and CDMO (including specialty). Company's API business comprises of the development, manufacture and sale of select high value, non-commoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. The CDMO business currently comprises of applying for and procuring permission to market products in regulated markets as well as contract manufacturing of APIs for utilization by pharmaceutical companies to make formulations. GLS has strong market share in select specialized APIs such as Telmisartan (anti-hypertensive), Atovaquone (anti-parasitic), Perindopril (anti-hypertensive), Tenelegliptin (diabetes), Zonisamide (CNS) and Adapalene (dermatology). The Company is also increasingly providing contract development and manufacturing operations ("CDMO") services to a range of multinational and specialty pharmaceutical companies. As of March 1, 2021, GLS had a portfolio of 120 molecules globally and sold their APIs in India and exported their APIs to multiple countries in Europe, North America, Latin America, Japan and the rest of the world. GLS is working towards developing 8 to 10 molecules each year, which include both high value and high volume APIs. As of May 31, 2021, GLS had filed 403 Drug Master Files ("DMFs") and Certificates of suitability to the monographs of the European Pharmacopoeia ("CEPs") across various major markets. Out of 20 largest generic companies globally, 16 were their customers.

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

Company's API portfolio comprises specialized and profitable products, including niche and technically complex molecules, which reflects the Company's ability to branch into other high value products. As of March 31, 2021, GLS sold its APIs in India and exported the APIs to multiple countries in Europe, North America, Latin America, Japan and ROW. The total market size in terms of sales for company's 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 5 years to reach to about US\$211 billion by 2026. The future growth of these products is expected to remain stable driven by the increasing prevalence of non-communicable diseases (including heart disease, stroke, cancer, diabetes and chronic lung disease), growing demand from the regulated markets for drugs indicated for hypertension, diabetes and cancer, and an aging population. The market size in terms of volume for their 120 molecules was estimated to be at 9,959 tonnes in 2020 and is expected to grow at a rate of 6% over the next 5 years to reach to about 12,079 tonnes by 2026. The chronic therapeutic areas covered by their portfolio of 120 molecules accounted for 84% of the US\$142 billion end-market size and is expected to become 91% by 2026.

Marquee clients..

Over the years, GLS has established strong relationships with leading global generic pharmaceutical companies that have helped them expand their product offerings and geographic reach. As of March 31, 2021, 16 of the 20 largest generic companies globally were their customers. They are maintaining high customer loyalty with a high rate of repeat customers. For the financial years 2021, 2020 and 2019, approximately 69% of their customers were period-on-period repeat customers. GLS also has a long history with many of their key customers, including Glenmark, Teva Pharmaceutical Industries, Torrent Pharmaceuticals, Aurobindo Pharma, Krka

Issue date	July 27 - July 29, 2021
Listing date	August 06, 2021
Price Band	₹ 695 - ₹720 (Face value: Rs. 2)
Bid lot	20 equity shares and in multiple thereof
Issue size and type	Fresh issue: ₹ 1,060 crores Offer for sale: ₹453.6 crores
Issue structure	QIB - 50%, NIB - 15%, Retail -35%
Post issue shares	12.25 crore equity shares
Promoter holding Public	Pre IPO: 100 %/Post IPO: 82.84 % Pre IPO: - /Post IPO: 17.16 %
Post issue market cap	₹8,820 crores
GCBRLMs	Kotak Mahindra Capital, BofA Securities India, Goldman Sachs (India)
BRLMs	DAM Capital, BOB Capital Markets, SBI Capital Markets
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (₹ crores)	FY21	FY20	FY19
Topline	1,885	1,537	886
EBITDA	592	484	248
EBITDA (%)	31.40	31.48	28.00
Profit after tax	352	313	196
PAT margin (%)	18.65	20.37	22.07
Equity share cap.*	1.96	1.96	1.96
Networth	753	402	88
Book value	70	37	11
Post IPO EPS (₹)	28.73	25.55	16
P/E (x)	25	28	45
RoNW (%)	46.71	77.94	99.25

Source: RHP, * issued bonus shares in the ratio of 10 for 1 in April 2021

and another company which is a global leader in generic pharmaceuticals and biosimilars.

Investment recommendation and rationale

At the upper end of the price band of ₹720, the Company's IPO is valued at P/E multiple of 25x which is decent and at a good discount to peers with one of them trading over 60x and Industry average P/E multiple of 35x despite having superior return ratios. We recommend to "SUBSCRIBE" the issue due to the following factors: a) India poised to have a Competitive advantage in the API industry, b) leadership in select high value, non-commoditized APIs in chronic therapeutic areas, c) complex API is a key growth opportunity ad GLS intends to leverage proven expertise to aggressively expand in oncology, peptides and iron compounds, d) cost leadership across products, e) strong relationships with leading global generic companies, f) marquee clients like Teva Pharmaceuticals, Glenmark, Torrent Pharmaceuticals, Aurobindo Pharma, Krka and another company which is a global leader in generic pharmaceuticals and biosimilars, g) 16 out of 20 largest generic companies globally were its customers, h) GLS has invested and will continue to invest in backward integration of key starting raw materials to become more self -reliant and less dependent on vendors which will be margin accretive, i) focusing on CDMO business which will augur well for the Company, j) experienced Promoters with strong management team, k) strong financial performance on all fronts, l) healthy balance sheet with debt free status, m) profitability and operational efficiency together generating strong returns - good RONW of 46.71 percent in FY21.

Strong financial performance..

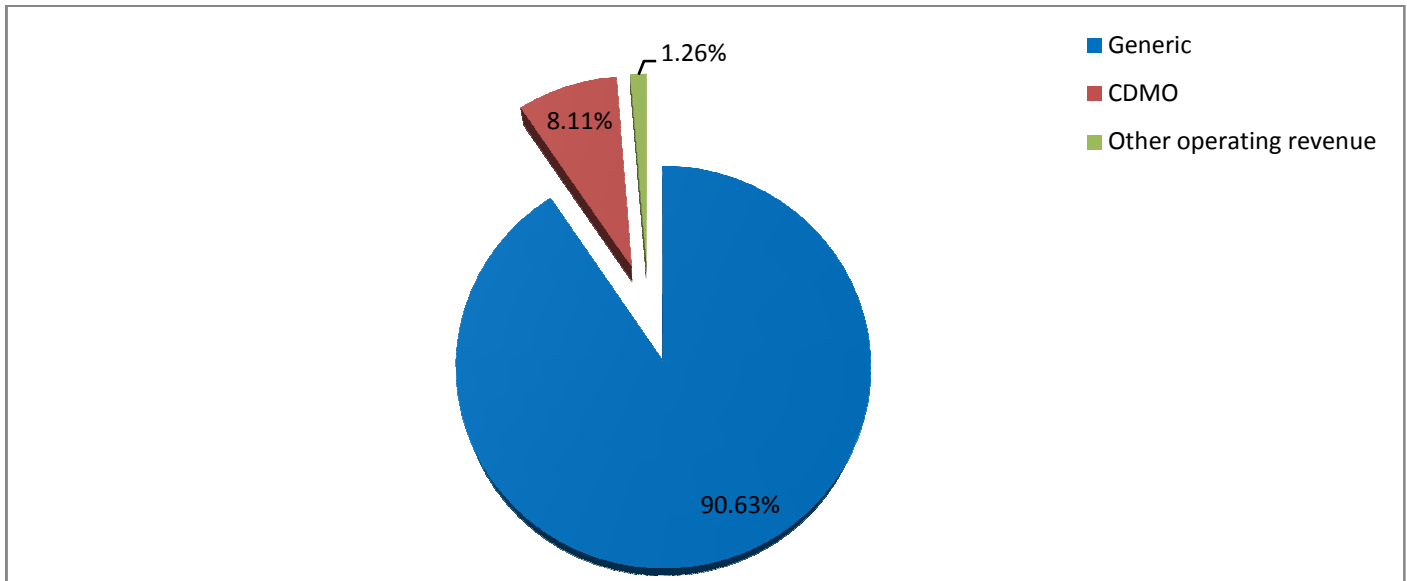
Over the period FY19-21, the Company's topline has witnessed a CAGR of 28.6 percent to ₹ 1,885 crore in FY 2021. PAT registered a CAGR of 21.55 percent to touch ₹ 352 crore in FY21.

Manufacturing facilities

The company currently operates 4 multi-purpose manufacturing facilities which are situated on leasehold properties located at Ankleshwar and Dahej in the state of Gujarat, and Mohol and Kurkumbh in the state of Maharashtra with an aggregate annual total installed capacity of 726.6 KL as of March 31, 2021.

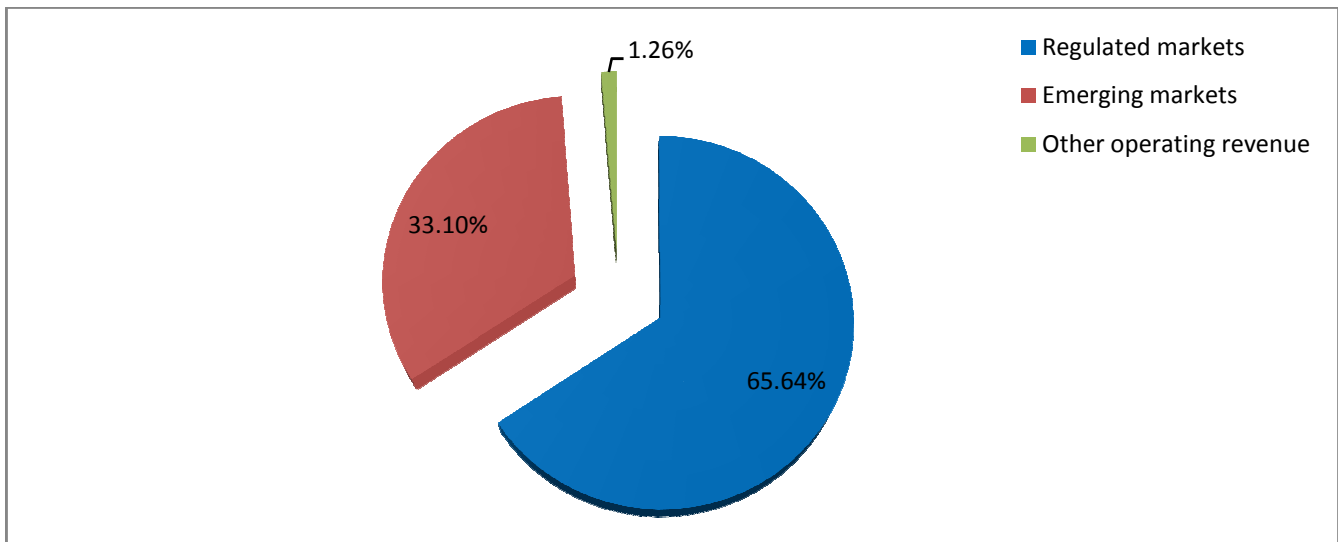
Revenue breakup

GLS operates two business lines – Generic APIs (generics and complex APIs) and CDMO (including specialty). The split of the revenue from Generic APIs and CDMO for the financial year 2021 by business line:



Source: RHP

The split of the revenue from operations for the financial year 2021 between regulated markets and emerging markets:



Source: RHP

API business

The Company's API business comprises of the development, manufacture and sale of select high value, noncommoditized APIs in chronic therapeutic areas, including CVS, CNS, pain management and diabetes. GLS also manufactures and sells APIs for gastro-intestinal disorders, anti-infective and other therapeutic areas. As of May 31, 2021, GLS had filed 403 DMFs and CEPs across various major markets (i.e. United States, Europe, Japan, Russia, Brazil, South Korea, Taiwan, Canada, China and Australia). As of March 31, 2021, they had a portfolio of 120 molecules globally.

CDMO business

In last three years, GLS has started working with innovator pharmaceutical companies in the area of CDMO. The Company's CDMO business currently comprises of applying for and procuring permission to market products in regulated markets as well as contract manufacturing of APIs for utilization by pharmaceutical companies to make formulations. The Company has the ability to attract innovator pharmaceutical companies to partner with them for providing unique solutions tailored to the needs of innovator and specialty pharmaceutical companies. GLS can continue to partner with such customers to provide lifecycle management solutions for their mature portfolio where genericization has happened or is impending. In the current portfolio of 120 molecules globally, many molecules offer such opportunities to a new set of customers. The innovators prefer to select vendors with a strong track record such as GLS and maintain a concentrated supplier base. Company's continuous focus on quality and on the sustainability of their operations makes them a serious contender to grow this business opportunity. The growth drivers for the global CDMO market include:

- a) Aging global population,
- b) Healthcare conditions in developing countries and costly breakthrough therapies,
- c) Increase in drug prices and prevalence of chronic diseases,
- d) To follow continuous manufacturing approaches,
- e) Disruption by COVID-19 pandemic.
- f) Realignment of business models
- g) Highly fragmented CDMO market

Specialty API

Specialty API is an important sub-segment of the CDMO business. Within their specialty API business, GLS offers customized support to pharmaceutical companies from making regulatory filings, providing research and technological support to manufacturing specialty APIs. As an API provider to such customers, they have helped create value through a blend of product customization and regulatory strategy to allow market access. GLS views the specialty business as a key growth opportunity and an added lever for their API market expansion, with multiple companies in the United States and Europe currently focused on developing products under Section 505(b)(2) of the FD&C 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. The growth drivers for the global specialty market include:

- a) Strong sales and low development costs lead to significant return on investment
- b) Convenience and lower product costs

Product mix

Product area	Number of Products	Key products
CVS Therapeutic Area	21 CVS products	Olmesartan, Amiodarone, Telmisartan, Perindopril, Rosuvastatin and Cilostazol
CNS Therapeutic Area	27 CNS products	Oxcarbazepine, Zonisamide, Topiramate, Bupropion, Ropinirole, Riluzole and Lacosamide
Diabetes Therapeutic Area	9 Diabetes products	Glimepiride, Teneligliptin, Vildagliptin and Linagliptin
Pain Management Therapeutic Area	2 Pain management products	Etoricoxib and Lornoxicam.
APIs in other Therapeutic area	2 Pain management products	The other generic API business is focused on manufacturing APIs for other therapeutic areas, such as gastro-intestinal disorders, anti-infective, respiratory, anti-emetic and other therapeutic areas. Key products include Atovaquone, Voriconazole, Mirabegron, Desloratadine, Esomeprazole Magnesium, Adapalene and Fluconazole.

Source: RHP

Details of Revenue from API Business

Particulars	2021	
	Revenue (Rs. in crores)	% of total
CVS Therapeutic Area	776.32	45.44%
CNS Therapeutic Area	167.72	9.82%
Diabetes Therapeutic Area	61.87	3.62%
Pain management	70.57	4.13%
APIs in other therapeutic areas	631.94	36.99%

Source: RHP

The volume of key APIs that GLS manufactured and sold and their global market share position in respect of each key product for the financial year 2021:

Market share range	Contribution to sales from API business in FY2021		Key products
	Quantity	Value	
<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, Adapalene, Zonisamide

Source: RHP

Research and development

GLS has focused on undertaking dedicated R&D in areas which have significant growth potential. The Company's R&D operations are focused on developing new products and complex molecules as well as improving the efficiency of their existing products. The key details of the 3 dedicated R&D facilities as of March 31, 2021:

Location	Description
Mahape, Navi Mumbai	R&D for new product development and complex molecules High-end analytical equipment for characterization
Ankleshwar, Gujarat	Cost improvement programs and process improvements
Dahej, Gujarat	Oncology product development Cost improvement programs and process improvements

Source: RHP

Competition

The API market is highly fragmented with approximately 1,500 API manufacturing plants. As of 2017, the top 14-16 API players comprised just 16-17% of the total market share. The key competitors in the API market include Laurus Labs, Divis Labs, Shilpa Medicare, Aarti Drugs and Solara Active Pharma Sciences but are not comparable to apple to apple basis.

Peer comparison (based on FY21 Financials - ₹ in crores)

Particulars	CMP as on July 23, 2021 (₹)	FV (₹)	P/E(x)	Market Cap	Topline	Market Cap/Sales	EBITDA (%)	PAT	PAT (%)	RONW (%)
Glenmark Lifesciences Limited	720*	2	25	8,820 (Post issue)	1,886	4.68x	31.40	352	18.66	46.71
Peer group										
Divis Laboratories Limited	4,843	2	65	1,28,082	6,969	18.37x	41	1,984	28.47	21.35
Laurus Labs Limited	648	2	35	34,740	4,814	7.22x	32	984	20.44	37.87
Shilpa Medicare Limited	631	1	35	5,148	931	5.53x	20	148	15.90	9.99
Aarti Drugs Limited	717	10	24	6,639	2,159	3.08x	20	280	12.97	30.70
Solara Active Pharma Sciences Limited	1,709	10	28	6,140	1,646	3.73x	24	221	13.43	13.93

* denotes at upper end of the price band

Company background

The company was incorporated as 'Zorg Laboratories Private Limited' on June 23, 2011 at Pune. The company was acquired by Glenmark Pharmaceuticals Ltd pursuant to the Share Purchase Agreement dated July 4, 2018. The Promoter - Glenmark Pharmaceuticals Ltd, along with its nominees, currently holds an aggregate of 107,804,950 Equity Shares, aggregating to 100% of the pre- Offer issued, subscribed and paid-up Equity Share capital.

Promoter and Management background

Brief Biographies of Directors

Glenn Saldanha is the Chairman and non-executive director of the company. He is also the chairman and managing director of the Promoter, Glenmark Pharmaceuticals Ltd.



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V.S Mani is the non-executive director of the company. He is also an executive director and global chief financial officer of the Promoter, Glenmark Pharmaceuticals Ltd.

Yasir Rawjee is the Managing Director and Chief Executive Officer of the company. He leads the overall operations of the company and is responsible for the overall business strategy of the company.

Sumantra Mitra is the executive director and vice president – human resources department of the company and has been associated with the company since October 11, 2018. He is responsible for talent acquisition, talent management, capability development, organizational development and industrial relations, besides other aspects of the human resources agendas for the company.

Sridhar Gorthi is the independent director of the company. He is a partner at Trilegal. His areas of expertise at Trilegal include mergers and acquisitions, joint ventures, private equity and venture capital.

Manju Agarwal is the independent director of the company. She has approximately 34 years of experience in State Bank of India.

Taruvai Laxminarayanan Easwar is the independent director of the company. He is currently engaged as an advisor to the Boston Consulting Group (BCG) and is also a consultant with pharmaceutical companies.

Gita Nayyar is the independent director of the company. She is also serving as an independent director on the board of Taj-SATS Air Catering Ltd, Transport Corporation of India and Oriental Hotels Ltd.

Key Managerial Personnel

Bhavesht Pujara is the Senior Vice President and Chief Financial Officer of the company and has been associated with the company since December 1, 2020. He is responsible for managing the overall finance function of the company.

Vinod Naik is the group vice president and head of the technical operation department of the company and has been associated with the company since March 12, 2020. He oversees the daily operations of the manufacturing plants such as production and manufacturing of APIs and intermediates. He is also responsible for the supply chain function of the company.

Palle V R Acharyulu is the group vice president of the research and development department and has been associated with the company since July 14, 2020. He leads the research and development team to plan and execute API research and development. He also leads the project management and intellectual property functions of the company.

Rudalf Corriea is the Company Secretary and Compliance Officer of the company since February 23, 2021

Objects of the issue

Objects	Amount (Rs. in crores)
Payment of outstanding purchase consideration to the Promoter for the spin-off of the API business from the Promoter into the company pursuant to the Business Purchase Agreement	800
Funding the capital expenditure requirements	152.76
General Corporate Purposes	-
Total	

The objects of the Offer are to (i) to carry out the **Offer for Sale of up to ₹453.6 crores (Up to 63,00,000 Equity Shares) by the Selling Shareholder**; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges. The Company expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its shareholders and will also provide a public market for the equity shares in India.

Name of the shareholder	Amount
Glenmark Pharmaceuticals Limited - The Promoter	Up to 63,00,000 Equity Shares

Source: RHP

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