

Retail Equity Research

Glenmark Pharmaceuticals Limited

Pharmaceuticals

BSE CODE: 532296

NSE CODE: GLENMARK

Bloomberg CODE: GNP:IN

SENSEX: 35,844

BUY

12M Investment period

Rating as per Mid Cap

CMP Rs. 435

TARGET Rs. 515

RETURN 18% ↑

(Closing: 02-07-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Growth momentum continues

Glenmark Pharma Ltd (GNP) is an India-based pharmaceutical company with commercial presence in more than 80 countries across the globe. GNP is primarily focused on generics, specialty and OTC businesses. The company has strong regional/country-specific presence in diabetes, cardiovascular and oral contraceptives.

- Company recorded revenue of Rs. 2,767cr (+8.0% YoY) in Q4FY20, driven by robust growth in India, Europe, Latin America and API segment, only partially offset by de-growth in US and RoW segment.
- EBITDA rose 27.9% YoY to Rs. 466cr, as margin improved 280bps to 17.2%, led by lower operating expenses and better product mix. R&D expenditure stood at Rs. 350cr (12.6% as a percentage of sales).
- Adjusted PAT grew 17.2% YoY to Rs. 190cr vs. Rs. 162cr in Q4FY19.
- Strong growth in key segments and new launches are the key positives. Given current upside potential, we upgraded our rating to BUY on the stock with a revised target price of Rs. 515 based on 12x FY22E EPS.

Solid growth led by India, Europe and Latin America

The Group Revenue rose 8.0% YoY to Rs. 2,767cr in Q4FY20, largely led by strong growth in India business, up 14.5% YoY to Rs. 765cr (continued to benefit from strong growth in Glenmark consumer care business). Moreover, India business outperformed the industry growth (15.9% vs. IPM growth 9.7%), while market share for the Cardiac, Anti diabetic, Respiratory segments rose to 4.7%/1.7%/5.1% in Q4FY20 vs. 4.5%/1.6%/4.7% in Q4FY19. Europe was up 29.3% YoY to Rs. 412cr, supported by growth in western and central Europe. Latin America grew 46.9% YoY to Rs. 177cr, aided by growth in Brazilian subsidiary followed by three new respiratory products licensed from Novartis. The growth in revenue was partially offset by de-growth in US (-1.0% YoY to Rs. 762cr, impacted by Mupirocin Cream, Atomoxetine hydrochloride, Calcipotriene cream and Ranitidine sales) and RoW business (-12.6% YoY to Rs. 337cr).

Margin expansion aided by lower cost

EBITDA came in at Rs. 466cr, as EBITDA margin improved to 280bps YoY to 17.2% due to lower operating expenses, as other expenses declined 5.0% YoY to Rs. 802cr, while employee benefit expenses fell to 19.3% as a percentage of sales (vs. 19.6% in Q4FY19). Resultantly, PAT rose to 36.3% YoY to Rs. 220cr. Adj. PAT came in 17.2% higher as compared to Q4FY19. Company has indicated a further decline in operating expense, R&D, and capex while they also intend to reduce debt further in next year.

Roadmap ahead

Company has launched Favipiravir antiviral drug (approved by DCGI) for mild to moderate Covid-19 patients and also initiated combined study of two antiviral drugs Favipiravir and Umifenovir. Company signed an agreement with HUL for disinvestment of VWash and extension business and would receive upfront amount and certain % of sales for next 3 years. Also, Company entered into an agreement with Hikma for commercialization of Ryaltris™ (to receive upfront payment and royalty), Following this, company has already signed licensing deal to manufacture Ryaltris™ in China, Australia, New Zealand and South Korea. Glenmark continued to strengthen its pipeline with approval of 14 ANDAs (12 finally and 2 tentative approved) in FY20.

Valuation

Given attractive new product launches, strong topline and improved margins in upcoming periods, we expect earnings to grow at healthy ~28% CAGR over FY20-22E. Hence, we upgraded our rating on the stock to BUY with a revised target price of Rs. 515 based on 12x FY22E EPS.

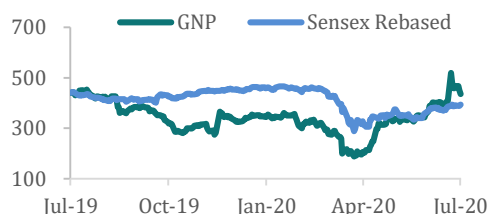
Company Data

Market Cap (cr)	Rs. 12,281
Enterprise Value (cr)	Rs. 15,907
Outstanding Shares (cr)	28.2
Free Float	53.0%
Dividend Yield	0.6%
52 week high	Rs. 573
52 week low	Rs. 168
6m average volume (lacs)	2.8
Beta	0.4
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	46.6	46.6	46.6
FII's	31.4	30.2	28.5
MFs/Insti	7.4	7.0	6.8
Public	9.7	11.5	13.1
Others	4.9	4.7	5.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	113.5%	22.9%	-1.3%
Absolute Sensex	26.8%	-13.9%	-10.0%
Relative Return*	86.7%	36.8%	8.7%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	10,641	11,889	13,286
Growth (%)	7.9	11.7	11.8
EBITDA	1,698	2,150	2,747
EBITDA Margin (%)	16.0	18.1	20.7
Adj. PAT	743	887	1,211
Growth (%)	(1.9)	19.4	36.5
Adj. EPS	26.3	31.4	42.9
Growth (%)	(1.9)	19.4	36.5
P/E	7.8	13.8	10.1
P/B	1.0	1.8	1.5
EV/EBITDA	5.4	7.4	6.2
ROE (%)	12.8	12.9	15.1
D/E	0.7	0.8	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	2,767	2,563	8.0	2,736	1.2	10,641	9,865	7.9
EBITDA	466	364	27.9	440	5.8	1,698	1,586	7.1
EBITDA margins	17.2	14.4	280bps	16.7	50bps	16.3	16.3	0bps
Depreciation	126	81	56.0	106	19.1	417	326	28.0
EBIT	339	283	19.9	334	1.6	1,281	1,260	1.7
Interest	98	82	20.2	96	2.5	377	335	12.8
Other Income	77	39	97.3	33	133.7	160	208	(23.3)
Exceptional Items	33	-	-	-	-	33	167	(80.3)
PBT	318	240	32.3	271	17.3	1,096	1,301	(15.7)
Tax	98	79	24.2	80	21.8	320	376	(14.8)
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	220	162	36.3	191	15.4	776	925	(16.1)
Adjustments	(33)	-	-	-	-	(33)	(167)	(80.3)
Adjusted PAT	190	162	17.2	191	(0.5)	743	758	(1.9)
No. of shares	28.2	28.2	-	28.2	-	28.2	28.2	-
EPS (Rs.)	6.7	5.7	17.5	6.8	(1.5)	26.3	26.9	(2.2)

Segment Revenue

Segments (Cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
India	765	668	14.5	789	(3.1)	3,202	2,777	15.3
US	762	770	(1.0)	800	(4.7)	3,140	3,139	0.0
RoW	337	385	(12.6)	341	(1.4)	1,285	1,276	0.7
Europe	412	318	29.3	309	33.2	1,248	1,121	11.4
Latin America	177	120	46.9	156	13.1	536	418	28.1
API	261	249	5.1	262	(0.3)	1,024	949	7.9
Others	54	53	2.4	78	(30.3)	205	185	10.6
Total Sales	2,767	2,563	8.0	2,736	1.2	10,641	9,865	7.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	11,690	-	11,889	13,286	1.7	-
EBITDA	1,967	-	2,150	2,747	9.3	-
Margins (%)	16.8	-	18.1	20.7	130bps	-
Adj. PAT	938	-	887	1,211	(5.4)	-
EPS	33.3	-	31.4	42.9	(5.7)	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,103	9,865	10,641	11,889	13,286
% change	(1.1)	8.4	7.9	11.7	11.8
EBITDA	1,615	1,586	1,698	2,150	2,747
% change	(21.4)	(1.8)	7.1	26.6	27.7
Depreciation	302	326	417	434	500
EBIT	1,313	1,260	1,281	1,716	2,247
Interest	286	335	377	520	559
Other Income	91	375	192	144	141
PBT	1,119	1,301	1,096	1,340	1,829
% change	(25.0)	16.2	(15.7)	22.3	36.5
Tax	314	376	320	453	618
Tax Rate (%)	28.1	28.9	29.2	33.8	33.8
Reported PAT	805	925	776	887	1,211
Adj*	-	(167)	(33)	-	-
Adj PAT	805	758	743	887	1,211
% change	(32.3)	(5.8)	(1.9)	19.4	36.5
No. of shares (cr)	28.2	28.2	28.2	28.2	28.2
Adj EPS (Rs.)	28.5	26.9	26.3	31.4	42.9
% change	(32.3)	(5.8)	(1.9)	19.4	36.5
DPS (Rs.)	2.0	2.0	2.5	2.5	2.5
CEPS (Rs.)	39.2	38.4	41.1	46.8	60.6

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,107	1,251	1,193	1,321	1,710
Non-cash adj.	102	8	242	15	(787)
Changes in W.C	439	65	(43)	(44)	(319)
C.F. Operation	1,648	1,324	1,392	1,292	604
Capital exp.	(1,023)	(1,232)	(775)	(873)	(978)
Change in inv.	-	(15)	5	(4)	-
Other invest.CF	9	548	(13)	(4)	-
C.F - Investment	(1,013)	(699)	(784)	(881)	(978)
Issue of equity	-	-	-	-	-
Issue/repay debt	(188)	(369)	8	700	-
Dividends paid	(68)	(68)	(69)	(71)	(71)
Other finance.CF	(213)	(302)	(384)	(591)	(559)
C.F - Finance	(468)	(739)	(445)	38	(629)
Chg. in cash	166	(114)	164	448	(1,003)
Closing cash	1,235	938	1,111	1,560	557

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	1,235	938	1,111	1,560	557
Accounts Receivable	2,332	2,195	2,409	2,702	3,026
Inventories	2,031	2,252	2,136	2,437	2,753
Other Cur. Assets	1,392	1,312	1,148	1,163	1,180
Investments	15	30	25	28	28
Gross Fixed Assets	2,561	2,817	3,592	4,465	5,444
Net Fixed Assets	1,896	2,098	2,978	3,183	3,428
CWIP	993	1,234	1,091	1,325	1,559
Intangible Assets	1,262	1,737	2,182	2,682	2,682
Def. Tax (Net)	1,320	1,383	1,456	1,463	2,811
Other Assets	120	110	150	155	155
Total Assets	12,595	13,289	14,685	16,697	18,178
Current Liabilities	2,993	3,718	3,683	4,251	4,591
Provisions	-	-	-	-	-
Debt Funds	4,437	3,877	4,486	5,186	5,186
Other Liabilities	3	89	446	374	374
Equity Capital	28	28	28	28	28
Reserves & Surplus	5,135	5,577	6,042	6,859	7,999
Shareholder's Fund	5,163	5,605	6,071	6,887	8,027
Minority Interest	(0)	(0)	(0)	(0)	(0)
Total Liabilities	12,595	13,289	14,685	16,697	18,178
BVPS (Rs.)	183	199	215	244	284

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	17.7	16.1	16.0	18.1	20.7
EBIT margin (%)	14.4	12.8	12.0	14.4	16.9
Net profit mgn.(%)	8.8	9.4	7.3	7.5	9.1
ROE (%)	15.6	16.5	12.8	12.9	15.1
ROCE (%)	13.7	13.3	12.1	14.2	17.0
W.C & Liquidity					
Receivables (days)	93.5	81.2	82.6	82.9	83.1
Inventory (days)	243.9	244.5	210.8	214.4	216.2
Payables (days)	224.6	241.1	209.8	235.4	235.4
Current ratio (x)	2.1	1.7	1.6	1.7	1.5
Quick ratio (x)	1.1	0.8	0.9	0.9	0.7
Turnover & Leverage					
Gross asset T.O (x)	7.1	3.7	3.3	3.0	2.7
Total asset T.O (x)	0.7	0.8	0.8	0.8	0.8
Int. coverage ratio (x)	4.6	3.8	3.4	3.3	4.0
Adj. debt/equity (x)	0.9	0.7	0.7	0.8	0.6
Valuation					
EV/Sales (x)	2.0	2.2	0.9	1.3	1.3
EV/EBITDA (x)	11.2	13.4	5.4	7.4	6.2
P/E (x)	18.4	24.2	7.8	13.8	10.1
P/BV (x)	2.9	3.3	1.0	1.8	1.5

Recommendation Summary



Dates	Rating	Target
4-Jul-17	BUY	774
17-Aug-17	HOLD	647
6-Mar-18	HOLD	584
21-Sep-18	HOLD	695
3-Sep-19	SELL	338
25-Nov-19	HOLD	366
03-Jul-20	BUY	515

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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