

RETAIL EQUITY RESEARCH

Glenmark Pharmaceuticals Ltd.

Pharmaceuticals

BSE CODE: 532296

NSE CODE: GLENMARK

Bloomberg CODE: GNP:IN

SENSEX: 37,121

HOLD

Rating as per Large cap

12months investment period

CMP Rs669 TARGET Rs695 RETURN 4% 21st September, 2018**India & Europe business to drive growth**

Glenmark Pharma Ltd (GNP) is an India-based pharmaceutical company with commercial presence in more than 60 countries across the globe. The company has significant presence in the branded generics markets across emerging economies including India.

- Revenue fell by 8% YoY in Q1FY19 mainly due to 33% YoY decline in US sales, although on a high base, owing to continued pricing pressure in the US.
- India sales rose 8% YoY supported by new launches including Akynzeo and robust consumer care business performance.
- EBITDA margin contracted by 850 bps YoY to 16.3% in Q1FY19 primarily due to high base on account of gZetia exclusivity, lower US sales and higher employee expenses.
- While EBITDA margin is expected to remain under pressure in FY19E, it is expected to recover in FY20E on the back of new product launches.
- We lower our EPS estimates by 8% for FY20E to factor in continued pricing pressure in the base business and delay in company's key drug launches.
- Strong pending niche ANDA pipeline coupled with expected monetization of Specialty and innovation R&D pipeline and potential out-licensing deals for its novel drugs are some of the key positives. Hence, we maintain 'HOLD' rating with a revised TP of Rs695.

Weak US sales; Expected key launches to drive business going ahead

GNP reported 8.4% YoY decline in consolidated revenue impacted by decline in the US business (down 33% YoY) owing to continued pricing pressure in the US and high base (marketing exclusivity of gZetia in Q1FY18). The company filed three ANDAs with the USFDA in Q1FY19 and is targeting to file additional 3 in Q2. In terms of launches, GNP launched 3 limited competition drugs including gWelchol and Tacrolimus in Q1FY19 and it is planning another 2-3 limited competition launches in the rest of FY19E. Glenmark's pipeline remains strong as it currently has 63 applications pending for approval with the U.S. FDA, of which 30 are Para IV applications. GNP expects to make at least 15 filings by FY20E. Importantly, the company has received the acceptance for its key drug, Ryaltris (GSP 301, Nasal Spray) in Q1FY19 and has received a target action date of March 21, 2018, from the USFDA for completion of FDA review. The company plans to commercialise Ryaltris in several key markets globally and has already initiated product filings in certain markets. Although, the company is going to benefit from the ramp-up of recent launches like gWelchol & gProtopic and expected potential launches of limited competition products - gEpiduo, gVoltaren, gFinacea & gVagifem, we expect US business to remain under pressure until FY19E due to high base and continued pricing pressure. However, a recovery is expected in FY20E with 7% YoY growth in revenue on the back of niche launches. On the R&D front, the company maintained R&D expenses guidance at 12% of sales for clinical trials of new molecular entities (NMEs), of which 8% is towards specialty and generics portfolio.

Improved performance from India and rest of the geographies

Indian formulation sales rose by 8% YoY in Q1FY19 supported by new launches including Akynzeo and robust consumer care business performance with 25% YoY growth in Q1FY19. GNP entered into a collaboration agreement with True North for its orthopedic and pain management business in India and Nepal. We expect India formulation business to grow at 13% CAGR over FY18-20E on the back of product launches and improved performance of its 3 major brands- Candid powder, VWash Plus and Scalpe+. Further, sales from Europe formulations grew by 36% YoY in Q1FY19 led by new product launches across all key markets. Glenmark launched 4 products in Spain, 2 each in the UK, the Netherlands, Germany, Spain and Sweden. Notably, the launch of Salmex and Seretide in Denmark and Norway led to strong growth in Western Europe sales. The company expects Seretide product to contribute significantly to the European growth going ahead. We model in 18% revenue CAGR from Europe business over FY18-20E. Further, revenue from rest of the world (RoW) rose by 8% YoY, LATAM grew by 16% YoY growth and API rose by 3% YoY. Active Pharmaceutical Ingredients (API) sales grew by 3% YoY.

EBITDA margin to remain under pressure going ahead

EBITDA margin contracted by 850 bps YoY primarily due to high base on account of gZetia exclusivity, lower US sales and higher employee expenses (up 18% YoY). Management expects R&D expenses to be 12% of sales in FY19E due to higher spend on building speciality pipeline. The company intends to start clinical trials for biosimilar Xolair in Q4FY19 along with GBR 1372, gAdvair and GBR 830. We expect EBITDA margin to remain under pressure in FY19E due to end of gZetia exclusivity, higher R&D expense and continued pricing pressure in the US base business. However, it is expected to recover by 70bps YoY in FY20E. Decline in Adj.PAT was restricted to 30% YoY due to higher other income (up 804% YoY).

Outlook & Valuation.

We lower our EPS estimate by 8% for FY20E on the back of higher R&D spend, continued pricing pressure and delay in key drug launches. Further, we would be keenly watching the management's focus on lowering the overall debt burden in FY19. However, long term story remains intact for Glenmark Pharma considering strong pending ANDA pipeline, expected monetization of R&D pipeline in the next 12-15 months and potential out-licensing deals for its novel drugs. We expect revenue/PAT to grow at a CAGR of 10%/13% over FY18-20E driven by new launches. Hence, we maintain 'HOLD' rating on the stock with a revised TP of Rs 695 based on 19x FY20E EPS.

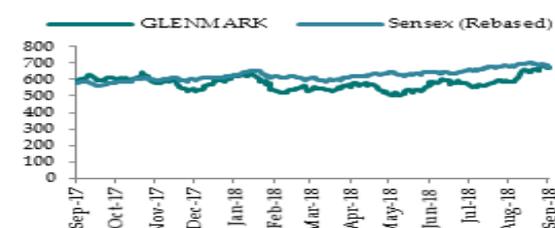
Company Data

Market Cap (cr)	Rs18,888
Enterprise Value (cr)	Rs22,091
Outstanding Shares (cr)	28.2
Free Float	53.5%
Dividend Yield	0.3%
52 week high	Rs711
52 week low	Rs484
6m average volume (cr)	0.1
Beta	0.9
Face value	Rs1

Shareholding %	Q3FY18	Q4FY18	Q1FY19
Promoters	46.5	46.5	46.5
FII's	31.0	30.7	30.6
MFs/Insti	6.1	6.7	7.0
Public	11.6	11.4	10.7
Others	4.8	4.7	5.2
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	14%	23%	9%
Absolute Sensex	5%	13%	15%
Relative Return*	9%	10%	(6%)

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY18	FY19E	FY20E
Sales	9,103	9,840	11,058
Growth (%)	-0.9%	8.1%	12.4%
EBITDA	1,615	1,680	1,960
Margin (%)	17.7	17.1	17.7
PAT Adj	804	910	1,032
Growth (%)	-32.4%	13.2%	13.5%
Adj.EPS	28.5	32.2	36.6
Growth (%)	-32.4%	13.2%	13.5%
P/E	23.5	20.8	18.3
P/B	3.7	3.1	2.7
EV/EBITDA	13.7	13.1	11.2
RoE (%)	16.7	16.3	15.9
D/E	0.9	0.7	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Revenue	2,166	2,363	(8.4)	2,280	(5.0)
EBITDA	347	577	(39.9)	327	6.1
EBITDA Margin (%)	16.3%	24.8%	(850 bps)	14.5%	175
Depreciation	79	78	2.1	73.5	8.0
EBIT	267	500	(46.5)	253	5.6
Interest	79	71	11.5	74.4	6.2
Other Income	138	15	804.1	69.6	-
Exceptional Items	-	-	-	-	-
PBT	327	444	(26.4)	248	31.5
Tax	94	111	(15.4)	97	-
PAT	233	333	(30.1)	152	53.7
Minority Interest/P&L of associates	-	-	-	-	-
Reported PAT	233	333	(30.1)	152	53.7
Adjustment	-	-	-	-	-
Adj PAT	233.0	333	(30.1)	152	53.7
No. of shares (cr)	28.2	28.2	-	28.2	-
EPS (Rs)	8.3	11.8	(30.1)	5.4	53.7

Segment Revenue

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q2FY18	QoQ Growth %
India	663	616	7.6	609	9.0
US	704	1045	(32.7)	700	0.6
Europe	220	162	35.6	319	(31.1)
Latin America	98	85	15.5	128	(23.5)
RoW	245	226	8.4	299	(17.8)
APIs	210	205	2.6	205	2.5
Other	26	24	8.2	22	18.9
Total sales	2,166	2,363	(8.5)	2,280	(5.2)

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	9,636	10,882	9,840	11,058	2.1	1.6
EBITDA	1,703	2,065	1,680	1,960	(1.3)	(5.1)
Margins (%)	17.7	19.0	17.1	17.7	(60 bps)	(130 bps)
PAT	887	1,136	910	1,032	2.6	(9.2)
EPS	31.4	40.3	32.2	36.6	2.6	(9.2)

Source: Company, Geojit Research

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Sales	7,650	9,186	9,103	9,840	11,058
% change	15.4%	20.1%	-0.9%	8.1%	12.4%
EBITDA	1,437	2,037	1,615	1,680	1,960
% change	15.5%	41.7%	-20.7%	4.0%	16.6%
Depreciation	234	264	302	330	370
EBIT	1,203	1,772	1,313	1,350	1,590
Interest	179	237	286	264	252
Other Income	20	37	91	168	84
PBT	1,044	1,572	1,119	1,253	1,422
% change	28.0%	50.6%	-28.8%	11.9%	13.5%
Tax	301	383	315	343	390
Tax Rate (%)	28.8%	24.3%	28.2%	27.4%	27.4%
Reported PAT	743	1,109	804	910	1,032
Adj*	0	(81)	-	-	-
Adj PAT	743	1,190	804	910	1,032
% change	6.7%	60.1%	-32.4%	13.2%	13.5%
No. of shares (mn)	28	28	28	28	28
Adj EPS (Rs)	26.3	42.2	28.5	32.2	36.6
% change	2.6%	60.1%	-32.4%	13.2%	13.5%
DPS (Rs)	2.0	2.0	2.0	2.0	2.0

Balance Sheet

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Cash	857	1,056	1,235	1,103	981
Accounts Receivable	2,493	2,404	2,332	2,517	2,825
Inventories	1,568	2,139	2,031	2,234	2,474
Other Cur. Assets	987	1,275	1,392	1,491	1,644
Investments	17	16	15	15	15
Gross Fixed Assets	4,243	4,722	5,316	6,488	7,738
Net Fixed Assets	2,536	2,707	2,977	3,819	4,699
CWIP	543	708	1,122	800	400
Intangible Assets	57	48	52	52	52
Def. Tax (Net)	1,065	1,311	1,320	1,320	1,320
Other Assets	70	99	120	120	120
Total Assets	10,193	11,764	12,595	13,470	14,530
Current Liabilities	3,212	2,515	2,993	3,225	3,521
Provisions	-	-	-	-	-
Debt Funds	3,275	4,724	4,437	4,237	4,037
Other Liabilities	77	33	3	3	3
Equity Capital	28	28	28	28	28
Reserves and Surplus	3,601	4,464	5,135	5,977	6,942
Shareholder's Fund	3,630	4,493	5,163	6,005	6,970
Minority Interest	(0)	(0)	(0)	(0)	(0)
Total Liabilities	10,193	11,764	12,595	13,470	14,530
BVPS (Rs)	128.6	159.2	183.0	212.8	247.0

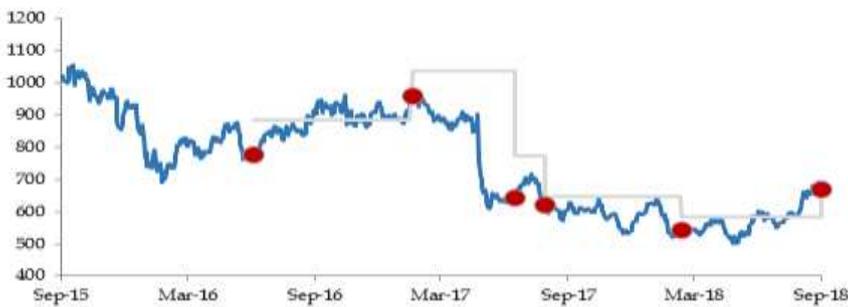
Cash flow

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	1,044	1,491	1,119	1,253	1,422
Depreciation	234	345	302	330	370
Changes in W.C	(612)	(862)	309	(254)	(406)
Others	157	381	269	97	168
Tax paid	(478)	(699)	(352)	(343)	(390)
C.F.O	345	657	1,648	1,082	1,164
Capital exp.	(890)	(749)	(1,045)	(850)	(850)
Change in inv.	-	-	-	-	-
Other invest.CF	10	36	31	168	84
C.F - investing	(880)	(712)	(1,013)	(682)	(766)
Issue of equity	935	0	-	-	-
Issue/repay debt	11	794	(188)	(200)	(200)
Dividends paid	(68)	(68)	(68)	(68)	(68)
Other finance.CF	(180)	(184)	(213)	(264)	(252)
C.F - Financing	699	543	(468)	(532)	(519)
Chg. in cash	163	488	166	(132)	(122)
Closing cash	857	1,056	1,235	1,103	981

Ratios

Y.E March	FY16	FY17	FY18	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	18.8	22.2	17.7	17.1	17.7
EBIT margin (%)	15.7	19.3	14.4	13.7	14.4
Net profit mgn.(%)	9.7	13.0	8.8	9.2	9.3
ROE (%)	22.4	29.3	16.7	16.3	15.9
ROCE (%)	17.8	22.5	14.9	15.3	15.8
W.C & Liquidity					
Receivables (days)	122.0	97.8	94.9	94.9	94.9
Inventory (days)	116.5	141.5	122.7	123.5	122.9
Payables (days)	114.0	97.2	91.1	91.4	91.2
Current ratio (x)	1.8	2.7	2.3	2.3	2.3
Quick ratio (x)	1.4	1.9	1.7	1.6	1.5
Turnover &Levg.					
Gross asset T.O (x)	1.8	2.0	1.8	1.6	1.5
Total asset T.O (x)	0.8	0.8	0.7	0.7	0.8
Adj. debt/equity (x)	0.9	1.1	0.9	0.7	0.6
Valuation ratios					
EV/Sales (x)	2.9	2.5	2.5	2.3	2.0
EV/EBITDA (x)	14.8	11.1	13.7	13.1	11.2
P/E (x)	25.4	15.9	23.5	20.8	18.3
P/BV (x)	5.2	4.2	3.7	3.1	2.7

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
14-July-16	BUY	935
09-February-17	HOLD	1039
04-July-17	BUY	774
17-August-17	HOLD	647
06-March-18	HOLD	584
21-Sep-18	HOLD	695

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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