

# Retail Equity Research

## Glenmark Pharmaceuticals Limited

Pharmaceuticals

BSE CODE: 532296

NSE CODE: GLENMARK

Bloomberg CODE: GNP:IN

SENSEX: 44,260

**BUY**

12M Investment period

Rating as per Mid Cap

CMP Rs. 469

TARGET Rs. 548

RETURN 17% ↑

(Closing: 26-11-20)

**KEY CHANGES:**
**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

### Escalating growth; Future to outshine

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.

- Revenues were recorded at Rs. 2,952cr (+4.9% YoY) in Q2FY21, driven by robust growth in India and API segment, partially offset by de-growth in US and Latin America segment.
- EBITDA came in at Rs. 553cr with a margin of 19.0% (+270bps) and Adj. PAT fell 9.7% to Rs. 231cr on account of high taxes.
- Market share for the Cardiac, Anti diabetic, Respiratory segments rose to 4.7%/1.9%/5.2% in Q2FY21 vs. 4.6%/1.7%/4.9% in Q2FY20.
- As we witness robust growth across regions/segments, improving cash flows, controlled debts and several cost efficiency measures, we retain our rating to BUY on the stock with a revised target price of Rs. 548 based on 16x FY22E EPS.

### Concrete topline aided by expansion across regions

Consolidated revenues for Q2FY21 rose 4.9% YoY to Rs. 2,952cr as India business at Rs. 1,051cr (+17.2% YoY) and API business at Rs.321cr (+19.1% YoY) contributed strongly coupled with a distinctive performance by the Europe (+11.6% YoY) and ROW (+9.1% YoY) regions. The increase in domestic sales is attributable to better than expected progress in Fabiflu (Covid medicine). Growth persisted in consumer care with eased up restrictions contributed majorly by candid powder (+50% in Q2FY21), whereas skincare remained dull. This was partially offset by a de-growth in US to Rs. 752cr (-11.3% YoY) and Latin America to Rs.98cr (-18.9% YoY) primarily impacted by a decline in respiratory market (-19%YoY).Unabated focus on costs and new product developments has aided Glenmark to amplify its revenues across regions despite Covid-19 challenges.

### Key concall highlights

- The company expects to maintain the capex guidance of Rs. 800cr for FY21, while capex of ~Rs. 400cr has already been incurred in the first half of FY21.
- R&D spending on ICHNOS would be lower compared to generic ANDAs (Rs.221cr for H1FY21). Innovation expenditure was Rs. 398cr for the first half of the fiscal.
- Pioneers in launching removal potion - ranks 1st in terms of prescription (Rx share - 25.2%) and 6th in terms of value (market share - 7.4%).

### Cost efficiency stabilizes margins

The EBITDA was recorded at Rs. 553cr and EBITDA margin developed 270bps to ~19.0% with curbed operating expenses coupled with cost savings on travel due to the ongoing pandemic situation. While other expenses fell 4.8%YoY to Rs. 659cr, staff costs represented a granular dip from 24.8% to 24.1% as a percentage of sales. Finance costs dropped significantly to Rs. 81cr (-10.2% YoY). Taxes were high at ~40.3% on profits giving rise to a decline in PAT by 8.4% YoY to Rs. 234cr and Adj. PAT fell 9.7% to Rs. 231cr in Q2FY21. R&D expenditure for the Q2FY21 was at Rs. 365cr (12.36% of net sales). Net debt for the quarter reduced to Rs. 3,780cr (vs. Rs. 4,851cr in Q1FY21).

### Valuation

Given current upside potential with successful new product developments and robust revenues, improving margins due to cost rationalization measures and a strong pipeline, we expect the stock to outperform in upcoming quarters. Hence, we retain our BUY rating on the stock with a revised target price of Rs. 548 based on 16x FY22E EPS.

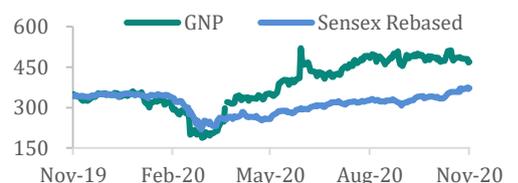
### Company Data

|                         |            |
|-------------------------|------------|
| Market Cap (cr)         | Rs. 13,231 |
| Enterprise Value (cr)   | Rs. 16,780 |
| Outstanding Shares (cr) | 28.2       |
| Free Float              | 53.0%      |
| Dividend Yield          | 0.5%       |
| 52 week high            | Rs. 573    |
| 52 week low             | Rs. 168    |
| 6m average volume (lac) | 3.4        |
| Beta                    | 0.7        |
| Face value              | Rs. 1      |

| Shareholding %    | Q4FY20 | Q1FY21 | Q2FY21 |
|-------------------|--------|--------|--------|
| Promoters         | 46.6   | 46.6   | 46.6   |
| FII's             | 28.5   | 23.4   | 25.8   |
| MFs/Insti         | 6.8    | 5.5    | 4.5    |
| Public            | 13.1   | 16.6   | 15.4   |
| Others            | 5.1    | 7.9    | 7.7    |
| Total             | 100.0  | 100.0  | 100.0  |
| Promoters' pledge | 46.6   | 46.6   | 46.6   |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return   | -3.6%   | 32.6%   | 33.4%  |
| Absolute Sensex   | 13.3%   | 44.6%   | 8.4%   |
| Relative Return*  | -16.8%  | -12.0%  | 25.0%  |

\*over or under performance to benchmark index



| Consolidated (cr) | FY20A  | FY21E  | FY22E  |
|-------------------|--------|--------|--------|
| Sales             | 10,641 | 11,452 | 12,326 |
| Growth (%)        | 7.9    | 7.6    | 7.6    |
| EBITDA            | 1,698  | 2,008  | 2,204  |
| EBITDA Margin (%) | 16.0   | 17.5   | 17.9   |
| Adj. PAT          | 743    | 870    | 966    |
| Growth (%)        | (1.9)  | 17.0   | 11.1   |
| Adj. EPS          | 26.3   | 30.8   | 34.2   |
| Growth (%)        | (1.9)  | 17.0   | 11.1   |
| P/E               | 7.8    | 15.2   | 13.7   |
| P/B               | 1.0    | 1.9    | 1.7    |
| EV/EBITDA         | 5.4    | 8.4    | 7.8    |
| ROE (%)           | 12.8   | 13.1   | 12.4   |
| D/E               | 0.7    | 0.8    | 0.7    |

## Quarterly Financials (Consolidated)

### Profit & Loss Account

|                                | Q2FY21     | Q2FY20     | YoY Growth % | Q1FY21     | QoQ Growth % | H1FY21       | H1FY20      | YoY Growth % |
|--------------------------------|------------|------------|--------------|------------|--------------|--------------|-------------|--------------|
| Revenue                        | 2,952      | 2,815      | 4.8          | 2,345      | 25.9         | 5,297        | 5,138       | 3.1          |
| <b>EBITDA</b>                  | <b>553</b> | <b>450</b> | <b>22.7</b>  | <b>478</b> | <b>15.6</b>  | <b>1,031</b> | <b>792</b>  | <b>30.1</b>  |
| EBITDA margins                 | 19.0       | 16.3       | 270bps       | 20.7       | (170bps)     | 19.8         | 15.7        | 410bps       |
| Depreciation                   | 104        | 94         | 10.5         | 113        | (8.1)        | 217          | 185         | 17.5         |
| <b>EBIT</b>                    | <b>449</b> | <b>356</b> | <b>26.0</b>  | <b>365</b> | <b>23.0</b>  | <b>814</b>   | <b>607</b>  | <b>33.9</b>  |
| Interest                       | 81         | 90         | (10.2)       | 94         | (14.0)       | 174          | 183         | (4.6)        |
| Other Income                   | (29)       | 81         | n.m.         | 87         | n.m.         | 58           | 82          | (30.0)       |
| Exceptional Items              | 3          | -          | n.m.         | 28         | n.m.         | 31           | -           | n.m.         |
| <b>PBT</b>                     | <b>339</b> | <b>347</b> | <b>(2.3)</b> | <b>358</b> | <b>(5.1)</b> | <b>697</b>   | <b>507</b>  | <b>37.4</b>  |
| Tax                            | 105        | 92         | 14.8         | 104        | 1.8          | 209          | 142         | 46.8         |
| Share of profit from Associate | -          | -          | n.m.         | -          | n.m.         | -            | -           | n.m.         |
| Minority Interest              | -          | -          | n.m.         | -          | n.m.         | -            | -           | n.m.         |
| <b>Reported PAT</b>            | <b>234</b> | <b>256</b> | <b>(8.4)</b> | <b>254</b> | <b>(7.9)</b> | <b>488</b>   | <b>365</b>  | <b>33.8</b>  |
| Adjustments                    | (3)        | -          | n.m.         | (28)       | n.m.         | (31)         | -           | n.m.         |
| <b>Adj. PAT</b>                | <b>231</b> | <b>256</b> | <b>(9.8)</b> | <b>226</b> | <b>2.2</b>   | <b>457</b>   | <b>365</b>  | <b>25.2</b>  |
| No. of shares                  | 28.2       | 28.2       | -            | 28.2       | -            | 28.2         | 28.2        | -            |
| <b>Adj. EPS (Rs.)</b>          | <b>8.2</b> | <b>9.1</b> | <b>(9.9)</b> | <b>8.0</b> | <b>2.5</b>   | <b>16.2</b>  | <b>12.9</b> | <b>25.6</b>  |

### Segment Revenue

| Segments (Cr)      | Q2FY21       | Q2FY20       | YoY Growth % | Q1FY21       | QoQ Growth % | H1FY21       | H1FY20       | YoY Growth % |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| India              | 1,051        | 896          | 17.2%        | 780          | 34.7%        | 1,831        | 1,649        | 11.0%        |
| US                 | 752          | 848          | (11.3)%      | 743          | 1.3%         | 1,495        | 1,579        | (5.3)%       |
| RoW                | 381          | 349          | 9.1%         | 212          | 79.5%        | 593          | 608          | (2.5)%       |
| Europe             | 318          | 285          | 11.6%        | 274          | 16.2%        | 592          | 528          | 12.1%        |
| Latin America      | 98           | 121          | (18.9)%      | 66           | 49.5%        | 164          | 202          | (18.9)%      |
| API                | 321          | 270          | 19.1%        | 235          | 36.8%        | 556          | 500          | 11.1%        |
| Others             | 31           | 46           | (32.1)%      | 36           | (12.6)%      | 67           | 72           | (7.6)%       |
| <b>Total Sales</b> | <b>2,952</b> | <b>2,815</b> | <b>4.9%</b>  | <b>2,345</b> | <b>25.9%</b> | <b>5,297</b> | <b>5,138</b> | <b>3.1%</b>  |

### Change in Estimates

| Year / Rs. cr | Old estimates |        | New estimates |        | Change % |          |
|---------------|---------------|--------|---------------|--------|----------|----------|
|               | FY21E         | FY22E  | FY21E         | FY22E  | FY21E    | FY22E    |
| Revenue       | 11,889        | 13,286 | 11,452        | 12,326 | (3.7)    | (7.2)    |
| EBITDA        | 2,150         | 2,747  | 2,008         | 2,204  | (6.6)    | (19.8)   |
| Margins (%)   | 18.1          | 20.7   | 17.5          | 17.9   | (60bps)  | (280bps) |
| Adj. PAT      | 887           | 1,211  | 870           | 966    | (2)      | (20.2)   |
| Adj. EPS      | 31.4          | 42.9   | 30.8          | 34.2   | (2)      | (20.2)   |

## PROFIT & LOSS

| Y.E March (Rs. cr)   | FY18A        | FY19A        | FY20A         | FY21E         | FY22E         |
|----------------------|--------------|--------------|---------------|---------------|---------------|
| <b>Revenue</b>       | <b>9,103</b> | <b>9,865</b> | <b>10,641</b> | <b>11,452</b> | <b>12,326</b> |
| % change             | (1.1)        | 8.4          | 7.9           | 7.6           | 7.6           |
| <b>EBITDA</b>        | <b>1,615</b> | <b>1,586</b> | <b>1,698</b>  | <b>2,008</b>  | <b>2,204</b>  |
| % change             | (21.4)       | (1.8)        | 7.1           | 18.3          | 9.7           |
| Depreciation         | 302          | 326          | 417           | 434           | 497           |
| <b>EBIT</b>          | <b>1,313</b> | <b>1,260</b> | <b>1,281</b>  | <b>1,574</b>  | <b>1,706</b>  |
| Interest             | 286          | 335          | 377           | 405           | 426           |
| Other Income         | 91           | 375          | 192           | 175           | 141           |
| <b>PBT</b>           | <b>1,119</b> | <b>1,301</b> | <b>1,096</b>  | <b>1,344</b>  | <b>1,421</b>  |
| % change             | (25.0)       | 16.2         | (15.7)        | 22.6          | 5.7           |
| Tax                  | 314          | 376          | 320           | 444           | 455           |
| Tax Rate (%)         | 28.1         | 28.9         | 29.2          | 33.0          | 32.0          |
| <b>Reported PAT</b>  | <b>805</b>   | <b>925</b>   | <b>776</b>    | <b>901</b>    | <b>966</b>    |
| Adj*                 | -            | (167)        | (33)          | (31)          | -             |
| <b>Adj PAT</b>       | <b>805</b>   | <b>758</b>   | <b>743</b>    | <b>870</b>    | <b>966</b>    |
| % change             | (32.3)       | (5.8)        | (1.9)         | 17.0          | 11.1          |
| No. of shares (cr)   | 28.2         | 28.2         | 28.2          | 28.2          | 28.2          |
| <b>Adj EPS (Rs.)</b> | <b>28.5</b>  | <b>26.9</b>  | <b>26.3</b>   | <b>30.8</b>   | <b>34.2</b>   |
| % change             | (32.3)       | (5.8)        | (1.9)         | 17.0          | 11.1          |
| DPS (Rs.)            | 2.0          | 2.0          | 2.5           | 2.5           | 2.5           |
| CEPS (Rs.)           | 39.2         | 38.4         | 41.1          | 46.2          | 51.9          |

## CASH FLOW

| Y.E March (Rs. cr)      | FY18A          | FY19A        | FY20A        | FY21E        | FY22E        |
|-------------------------|----------------|--------------|--------------|--------------|--------------|
| <b>Net inc. + Depn.</b> | <b>1,107</b>   | <b>1,251</b> | <b>1,193</b> | <b>1,334</b> | <b>1,464</b> |
| Non-cash adj.           | 102            | 8            | 242          | (101)        | (178)        |
| Changes in W.C          | 439            | 65           | (43)         | (13)         | (249)        |
| <b>C.F. Operation</b>   | <b>1,648</b>   | <b>1,324</b> | <b>1,392</b> | <b>1,220</b> | <b>1,038</b> |
| Capital exp.            | (1,023)        | (1,232)      | (775)        | (841)        | (906)        |
| Change in inv.          | -              | (15)         | 5            | (4)          | -            |
| Other invest.CF         | 9              | 548          | (13)         | (4)          | -            |
| <b>C.F - Investment</b> | <b>(1,013)</b> | <b>(699)</b> | <b>(784)</b> | <b>(849)</b> | <b>(906)</b> |
| Issue of equity         | -              | -            | -            | -            | -            |
| Issue/repay debt        | (188)          | (369)        | 8            | 759          | -            |
| Dividends paid          | (68)           | (68)         | (69)         | (71)         | (71)         |
| Other finance.CF        | (213)          | (302)        | (384)        | (523)        | (472)        |
| <b>C.F - Finance</b>    | <b>(468)</b>   | <b>(739)</b> | <b>(445)</b> | <b>165</b>   | <b>(543)</b> |
| Chg. in cash            | 166            | (114)        | 164          | 537          | (412)        |
| Closing cash            | 1,235          | 938          | 1,111        | 1,648        | 1,237        |

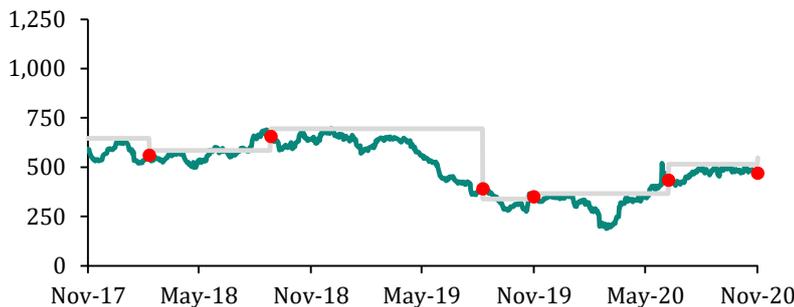
## BALANCE SHEET

| Y.E March (Rs. cr)       | FY18A         | FY19A         | FY20A         | FY21E         | FY22E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash                     | 1,235         | 938           | 1,111         | 1,648         | 1,237         |
| Accounts Receivable      | 2,332         | 2,195         | 2,409         | 2,600         | 2,803         |
| Inventories              | 2,031         | 2,252         | 2,136         | 2,320         | 2,629         |
| Other Cur. Assets        | 1,392         | 1,312         | 1,148         | 1,158         | 1,168         |
| Investments              | 15            | 30            | 25            | 28            | 28            |
| Gross Fixed Assets       | 2,561         | 2,817         | 3,592         | 4,433         | 5,339         |
| Net Fixed Assets         | 1,896         | 2,098         | 2,978         | 3,150         | 3,325         |
| 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         | 2,068         |
| Other Assets             | 120           | 110           | 150           | 155           | 155           |
| <b>Total Assets</b>      | <b>12,595</b> | <b>13,289</b> | <b>14,685</b> | <b>16,529</b> | <b>17,654</b> |
| Current Liabilities      | 2,993         | 3,718         | 3,683         | 4,057         | 4,332         |
| Provisions               | -             | -             | -             | -             | -             |
| Debt Funds               | 4,437         | 3,877         | 4,486         | 5,198         | 5,152         |
| Other Liabilities        | 3             | 89            | 446           | 374           | 374           |
| Equity Capital           | 28            | 28            | 28            | 28            | 28            |
| Reserves & Surplus       | 5,135         | 5,577         | 6,042         | 6,872         | 7,768         |
| Shareholder's Fund       | 5,163         | 5,605         | 6,071         | 6,901         | 7,796         |
| Minority Interest        | (0)           | (0)           | (0)           | (0)           | (0)           |
| <b>Total Liabilities</b> | <b>12,595</b> | <b>13,289</b> | <b>14,685</b> | <b>16,529</b> | <b>17,654</b> |
| <b>BVPS (Rs.)</b>        | <b>183</b>    | <b>199</b>    | <b>215</b>    | <b>244</b>    | <b>276</b>    |

## RATIOS

| Y.E March                      | FY18A | FY19A | FY20A | FY21E | FY22E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Profitab. &amp; Return</b>  |       |       |       |       |       |
| EBITDA margin (%)              | 17.7  | 16.1  | 16.0  | 17.5  | 17.9  |
| EBIT margin (%)                | 14.4  | 12.8  | 12.0  | 13.7  | 13.8  |
| Net profit mgn.(%)             | 8.8   | 9.4   | 7.3   | 7.9   | 7.8   |
| ROE (%)                        | 15.6  | 16.5  | 12.8  | 13.1  | 12.4  |
| ROCE (%)                       | 13.7  | 13.3  | 12.1  | 13.0  | 13.2  |
| <b>W.C &amp; Liquidity</b>     |       |       |       |       |       |
| Receivables (days)             | 93.5  | 81.2  | 82.6  | 82.9  | 83.0  |
| Inventory (days)               | 243.9 | 244.5 | 210.8 | 214.4 | 216.2 |
| Payables (days)                | 224.6 | 241.1 | 209.8 | 230.0 | 226.3 |
| Current ratio (x)              | 2.1   | 1.7   | 1.6   | 1.7   | 1.6   |
| Quick ratio (x)                | 1.1   | 0.8   | 0.9   | 0.9   | 0.8   |
| <b>Turnover &amp; Leverage</b> |       |       |       |       |       |
| Gross asset T.O (x)            | 7.1   | 3.7   | 3.3   | 2.9   | 2.5   |
| Total asset T.O (x)            | 0.7   | 0.8   | 0.8   | 0.7   | 0.7   |
| Int. coverage ratio (x)        | 4.6   | 3.8   | 3.4   | 3.9   | 4.0   |
| Adj. debt/equity (x)           | 0.9   | 0.7   | 0.7   | 0.8   | 0.7   |
| <b>Valuation</b>               |       |       |       |       |       |
| EV/Sales (x)                   | 2.0   | 2.2   | 0.9   | 1.5   | 1.4   |
| EV/EBITDA (x)                  | 11.2  | 13.4  | 5.4   | 8.4   | 7.8   |
| P/E (x)                        | 18.4  | 24.2  | 7.8   | 15.2  | 13.7  |
| P/BV (x)                       | 2.9   | 3.3   | 1.0   | 1.9   | 1.7   |

## Recommendation Summary



| Dates     | Rating | Target |
|-----------|--------|--------|
| 03-Sep-19 | SELL   | 338    |
| 25-Nov-19 | HOLD   | 366    |
| 03-Jul-20 | BUY    | 515    |
| 27-Nov-20 | BUY    | 548    |

## 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.

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. For reasons of valuations/ return/lack of clarity/ event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

## General Disclosures and Disclaimers

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