

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.

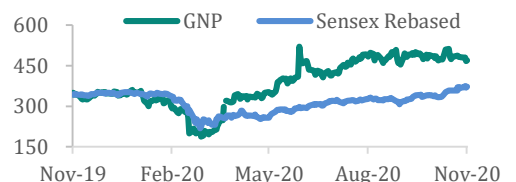
Company Data

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
EBITDA	553	450	22.7	478	15.6	1,031	792	30.1
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
EBIT	449	356	26.0	365	23.0	814	607	33.9
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.
PBT	339	347	(2.3)	358	(5.1)	697	507	37.4
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.
Reported PAT	234	256	(8.4)	254	(7.9)	488	365	33.8
Adjustments	(3)	-	n.m.	(28)	n.m.	(31)	-	n.m.
Adj. PAT	231	256	(9.8)	226	2.2	457	365	25.2
No. of shares	28.2	28.2	-	28.2	-	28.2	28.2	-
Adj. EPS (Rs.)	8.2	9.1	(9.9)	8.0	2.5	16.2	12.9	25.6

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)%
Total Sales	2,952	2,815	4.9%	2,345	25.9%	5,297	5,138	3.1%

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
Revenue	9,103	9,865	10,641	11,452	12,326
% change	(1.1)	8.4	7.9	7.6	7.6
EBITDA	1,615	1,586	1,698	2,008	2,204
% change	(21.4)	(1.8)	7.1	18.3	9.7
Depreciation	302	326	417	434	497
EBIT	1,313	1,260	1,281	1,574	1,706
Interest	286	335	377	405	426
Other Income	91	375	192	175	141
PBT	1,119	1,301	1,096	1,344	1,421
% 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
Reported PAT	805	925	776	901	966
Adj*	-	(167)	(33)	(31)	-
Adj PAT	805	758	743	870	966
% 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
Adj EPS (Rs.)	28.5	26.9	26.3	30.8	34.2
% 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
Net inc. + Depn.	1,107	1,251	1,193	1,334	1,464
Non-cash adj.	102	8	242	(101)	(178)
Changes in W.C	439	65	(43)	(13)	(249)
C.F. Operation	1,648	1,324	1,392	1,220	1,038
Capital exp.	(1,023)	(1,232)	(775)	(841)	(906)
Change in inv.	-	(15)	5	(4)	-
Other invest.CF	9	548	(13)	(4)	-
C.F - Investment	(1,013)	(699)	(784)	(849)	(906)
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)
C.F - Finance	(468)	(739)	(445)	165	(543)
Chg. in cash	166	(114)	164	537	(412)
Closing cash	1,235	938	1,111	1,648	1,237

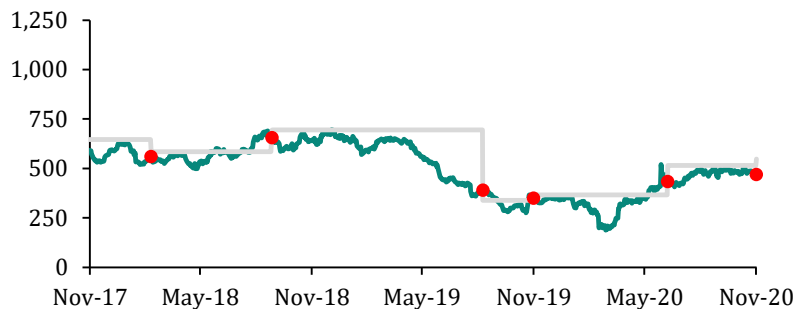
BALANCE SHEET

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
Total Assets	12,595	13,289	14,685	16,529	17,654
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)
Total Liabilities	12,595	13,289	14,685	16,529	17,654
BVPS (Rs.)	183	199	215	244	276

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
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
W.C & Liquidity					
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
Turnover & Leverage					
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
Valuation					
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.

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