

Company Flash

11 March 2008 | 6 pages

Glenmark Pharmaceuticals (GLEN.BO)

Citi India Conference 2008: Day 1 Takeaways

- Conference takeaways** — Glenmark spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Robust R&D pipeline** — With GRC-4039 entering the clinic, Glenmark now has 4 NCEs in the clinic – 3 in phase 2b and 2 licensed out. It also has 2 MABs in its Swiss unit, which are expected to enter the clinic in FY09. Glenmark expects to have 4 NCEs licensed out at any point as a de-risking and cash generating level, and move the rest of its pipeline forward on its own. It thus intends to out-license GRC-8200 (returned by Merck) again over the next year.
- Business restructuring** — Glenmark is making progress in its plan to split into separate branded and generics entities as part of its effort to replicate the Novartis-Sandoz model. The generics business (GGL) would be spun off into a 100% subsidiary, which would then be listed separately. The funds raised from the latter would partly flow through to the parent (GPL) in lieu of the assets transferred to GGL, while the rest would be used by GGL for expansion. GPL intends to use the funds to buy a US front-end for its proprietary business.
- No hurry to list** — Glenmark clarified that it is in no hurry to list GGL since the cash requirement would not come up at least over the next 15 months. As such, it can afford a delay if market conditions are not favourable for a listing. However, the business restructuring would be completed on schedule.
- Generics gaining traction on growth in base US generics, para IV opportunities** — It will mark its entry into derma in FY08 and it plans to enter a new segment (undisclosed) in 09, where it claims no other Indian or Chinese firm is present.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	864	3.22	-20.9	144.5	29.8	25.5	0.1
2007A	3,093	11.54	258.0	40.4	16.3	58.5	0.1
2008E	5,885	21.96	90.3	21.2	9.0	60.9	0.2
2009E	6,710	25.04	14.0	18.6	5.9	42.8	0.2
2010E	7,947	29.66	18.4	15.7	4.2	34.9	0.2

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification and important disclosures.

Buy/Medium Risk	1M
Price (11 Mar 08)	Rs465.80
Target price	Rs592.00
Expected share price return	27.1%
Expected dividend yield	0.2%
Expected total return	27.3%
Market Cap	Rs115,400M
	US\$2,856M

Price Performance (RIC: GLEN.BO, BB: GNP IN)



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Glenmark Pharmaceuticals

Company description

Glenmark Pharmaceuticals is a fully integrated research-based pharmaceutical company, with a business model spanning drug discovery research, APIs and formulations in the domestic and international markets. It operates in more than 65 countries, including the regulated markets of the US and Europe, with around 50% of its revenues coming from overseas markets. The company came into the limelight in September 2004 after it licensed out the US market rights of its first new chemical entity (NCE), GRC-3886, to Forest Laboratories.

Investment strategy

We have a Buy/Medium Risk rating on Glenmark Pharmaceuticals. Our positive outlook on the stock is based on: a) The R&D pipeline has broadened, with the company expecting seven molecules to be in the clinic by end FY08; b) With two molecules licensed out, the R&D option value or value at risk is now spread across a larger number of molecules; c) The base business has achieved significant traction, especially in the US and Latin America. We also believe that the rapid scale-up in the base business adds another catalyst for the stock apart from the option value being built in by its R&D effort (primarily Oglemilast, GRC-8200 & GRC-6211). Although there are potential risk triggers (especially related to Oglemilast) that could lead to partial erosion of the option value, we believe the risk-reward remains in favor of investors.

Valuation

Our target price for Glenmark Pharmaceuticals of Rs592 is derived by valuing the R&D deals and the base business separately. We believe probability-adjusted DCF is appropriate to calculate the option value from Oglemilast, GRC-6211 and GRC-8200 as it captures the reducing probability of success as the molecules progress on the clinical path. We have used the licensing deal with Forest Laboratories for the US market as a benchmark as well as a 15% discount rate. We adjust for the higher-risk income streams by probability of success. Accordingly, we arrive at a value of Rs111/share for Oglemilast. We use a similar approach for GRC-8200 and GRC-6211, arriving at respective values of Rs31/share and Rs87/share. We value Glenmark's non-R&D business based on 20x forward earnings, which we use for front-line Indian pharma companies such as Ranbaxy and Cipla. We believe Glenmark deserves a P/E premium to other mid-tier companies, given the higher value addition in its business and its proven ability to leverage its assets.

Risks

We rate Glenmark Medium Risk, even though our quantitative model suggests Low Risk, as we believe the R&D-related option value built into the stock warrants a higher risk rating. The main downside risks to our target price and estimates include: (1) Glenmark's efforts to build its own front-end in regulated markets could prove to be a drag on earnings if execution is lacking; (2) growing competition, rapid price erosion and fragmented market share are risks that are inherent to the generics business; and (3) the failure of any molecule could lead to the R&D milestone payments being removed from our estimates.

Appendix A-1

Analyst Certification

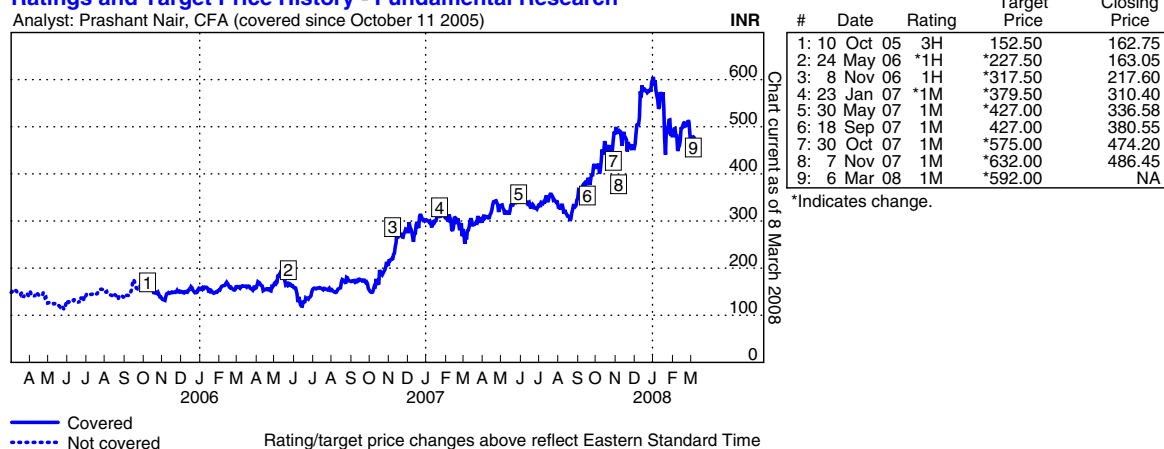
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Glenmark Pharmaceuticals (GLEN.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Prashant Nair, CFA (covered since October 11 2005)



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