

Equities

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Glenmark Pharmaceuticals (GLEN.BO)

Alert: Takeaways from India Pharma Conf., Dec. 6-7

- Company Update
- Conference Calls/Meetings

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- **Takeaways from Mumbai** – Glenmark presented at our India Pharma Mini-Conference in Mumbai. Below are key takeaways:
- **Growth outlook remains strong** – Glenmark is confident of maintaining healthy top-line growth over the medium term, on the back of key product opportunities in the US and as it gains scale in emerging markets. In emerging markets such as LatAm, it intends to focus more on gaining scale rather than profitability by reinvesting consistently in the biz. It also intends to start work on biosimilars from FY12. Margins would be driven by the mature markets such as the US and India, where roll out of key products and scale benefits would boost profitability.
- **Several product oppys in the US - key stock catalysts over the next 12-18 months in our view** – While Tarka (at risk launch) has started adding to financials, there is potential upside from a) Malarone (Sep'10 settled with GSK); b) Cutivate (litigation ongoing; potential launch in mid CY11); c) Calcipotriene (derma brand launched thru Taro - could be a cUS\$30-40m product in FY12 - Glenmark to get royalties); d) Oxycodone - grandfathered product - Glenmark has filed an NDA & got approval - could be sole player (tied up with LVT) in the market - cUS\$15-16m product, could expand once Glenmark gets pricing power.
- **Balance sheet improving** – Glenmark expects receivables days to remain in the 120-125 range in FY11 and improve further to c110 days in FY12. With inventory days remaining stable and most of the large capex projects behind, debt could decline by cRs500m in FY11 and cRs2.5-3bn in FY12. We believe this is a key aspect of the business that investors are focused on and sustained improvement would be the key to further re-rating.
- **R&D focus stays** – Crofelemer close to market: Glenmark remains focused on innovative R&D and is confident it will deliver returns over the long term. Crofelemer (inlicensed from Napo) is a key opportunity that should play out from FY13. Glenmark believes it can launch for HIV induced diarrhea in end FY12 and also simultaneously work on expanding the label for the product to other indications such as travellers diarrhea and pediatric diarrhea. It would also benefit through global API supplies and royalties on sales in developed markets.
- **Maintain Buy** – Things appear to be gradually falling in place and we expect some re-rating over the next year.

Glenmark Pharmaceuticals (GLEN.BO; Rs382.05; 1M)

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Glenmark Pharmaceuticals

Valuation

Our target price for Glenmark Pharmaceuticals of Rs395 is based on 16x March 12E EPS for the base business. We are now more comfortable with the sustainability of the positive trends seen in Glenmark's key markets. This, along with the improvement in balance sheet (lower leverage, tighter working capital) lead us to use a multiple of 16x – a 10-20% discount (to factor in the higher risk / uncertainty in the biz and weaker balance sheet) to what we use for sector leaders such as Sun, Cipla, Dr Reddy's & Lupin – to value the base biz. At 16x March 12E EPS we arrive at a value of Rs335/sh for the base biz. Our TP also includes : a) Rs26/sh for Glenmark's R&D deal with Sanofi for GRC-15300; b) Rs18/sh for Crofelemer launch; c) Rs16/sh for its Para IV pipeline. Cumulatively, we arrive at a TP of Rs395/sh.

Risks

We rate Glenmark as Medium Risk, as we do not see any major downside on the R&D front in the near to medium term. Downside risks to our target price include: (1) Continued delay in product approvals would impact sales and profitability; (2) Adverse verdict in the ongoing Tarka litigation with GSK could lead to significant damages; and (3) Growing competition, rapid price erosion, and fragmented market share are risks inherent to the generics business.

Appendix A-1

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Glenmark Pharmaceuticals (GLEN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Prashant Nair, CFA



Chart current as of 5 December 2010

	Date	Rating	Target Price	Closing Price
1	6-Mar-08	1M	*592.00	480.20
2	29-Apr-08	1M	*770.00	657.75
3	9-Dec-08	*1H	*467.00	281.75
4	27-Jan-09	*3H	*180.00	188.15

	Date	Rating	Target Price	Closing Price
5	9-Jun-09	3H	*225.00	222.40
6	3-Sep-09	*2M	*250.00	226.25
7	16-Nov-09	2M	*275.00	230.05
8	2-Feb-10	*1M	*300.00	247.05

	Date	Rating	Target Price	Closing Price
9	3-May-10	1M	*335.00	279.65
10	27-Jul-10	1M	*350.00	284.85
11	27-Oct-10	1M	*395.00	324.15

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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