

Glenmark Pharmaceuticals



Outlicensing deal to ease off cash flow

GRC 15300 outlicensed to Sanofi

Glenmark has outlicensed its first-in-class molecule GRC 15300 to Sanofi-Aventis with a potential of milestone revenue, USD325mn in the next 6-7 years. Along with GRC 15300, Glenmark has also outlicensed a portfolio of vanilloid receptor (known as TRPV 3) to Sanofi-Aventis. The molecule, presently in phase-I clinical trial, is being projected as next generation treatment for various pain conditions including diabetic neuropathic pain and osteoarthritic pain. Post the out-license deal, Sanofi will develop a research programme for the molecule from hereon.

Deal to facilitate much needed cash flow for core business

As per terms of the deal, Glenmark would receive USD20mn upfront payment from Sanofi-Aventis and with a potential of another USD305mn milestone revenues, which would be mostly back-ended. Major part of milestone revenues would be triggered on the successful completion of the late-stage clinical trials. Glenmark would also receive mid-teen royalties on successful launches of the molecule in the markets. We believe the milestone revenues would provide the company a comfortable headroom to meet the increasing demand for working capital from its core business.

Major markets attributed to Sanofi-Aventis

Outlicense partner Sanofi-aventis will have the exclusive marketing rights of the molecule in major geographies including North America, Europe and Japan. Besides, Sanofi will have co-marketing rights in ten other countries including Brazil, Russia and China. With co-promotion rights in the US and five East European countries, the company has retained exclusive marketing rights in rest of the world including India.

Revival of hopes in NCE pipeline

The deal revives prospects of Glenmark's NCE pipeline from its current moribund scenario post the failure of its earlier three molecules. With upfront revenues from the deal with Sanofi, Glenmark would have received the first outlicense income since Q4FY08.

Core valuation remains same

While the milestone payment of USD20mn raises the reported EPS by INR3.3 in FY11, we treat the revenue as one-off income for the company. Going by the high uncertainty in NCE business, and the past record of Glenmark, we assume the future revenues from NCE at zero. Hence, the milestone revenues will not affect our valuation methodology for the core business of Glenmark. We have not included EPS from the deal in our estimation and continue to maintain BUY on the company with a target price of INR 331.

Rating : Buy

Target Price : INR331

Upside : 19%

CMP : INR279 (as on 3 May 2010)

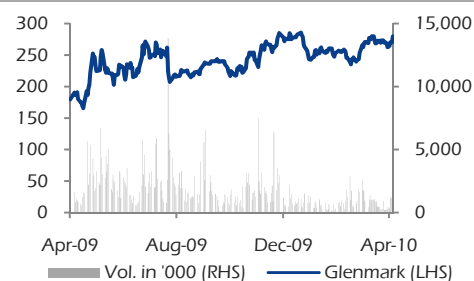
Key data

Bloomberg /Reuters Code	GNP IN/GLEN.BO
Current /Dil. Shares O/S (mn)	269/269
Mkt Cap (INRbn/US\$bn)	70/1.6
Daily Vol. (3M NSE Avg.)	635,410
Face Value (INR)	1

1 US\$= INR44.5

Source: Bloomberg; * As on 3 May 2010

Price & volume



Source: Bloomberg

Share holding (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	52.1	48.4	48.4	48.4
Institutional Investors	30.3	32.5	35.7	35.4
Other Investors	4.2	5.5	4.4	4.3
General Public	13.5	13.5	11.6	12.0

Source: Bloomberg

Price performance (%)	3M	6M	12M
Glenmark	8.8	28.0	46.9
Nifty	5.9	14.4	42.9
Relative performance	2.9	13.6	4.0

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY08	19,340	63.4	8,082	41.8	6,321	103.9	25.4	41.6	31.0	11.0	1.1
FY09	20,402	5.5	4,550	22.3	1,917	(69.7)	7.6	12.0	12.1	36.9	4.6
FY10E	23,053	13.0	6,185	26.8	3,108	62.1	11.5	13.4	14.9	24.2	2.8
FY11E	27,088	17.5	7,584	28.0	4,419	42.2	16.4	16.1	17.4	17.0	2.0
FY12E	32,378	19.5	8,915	27.5	5,473	23.8	20.3	16.7	19.2	13.7	1.4

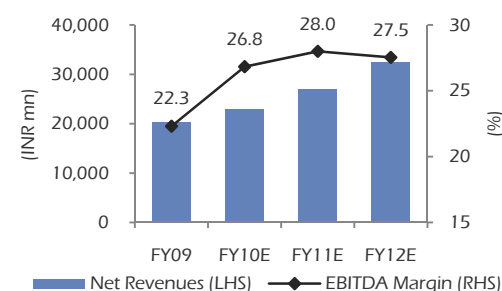
Source: Company, Elara Securities Estimate

Financials

Income Statement (INR mn)	FY09	FY10E	FY11E	FY12E
Net Revenues	20,402	23,053	27,088	32,378
EBITDA	4,550	6,185	7,584	8,915
Add:- Non operating Income	1,740	696	731	738
OPBIDTA	6,290	6,881	8,315	9,653
Less :- Depreciation & Amortization	1,027	1,373	1,579	1,845
EBIT	5,263	5,508	6,736	7,808
Less:- Interest Expenses	1,405	1,852	1,537	1,293
PBT	3,858	3,656	5,199	6,515
Less :- Taxes	754	548	780	1,042
Adjusted PAT	3,104	3,108	4,419	5,473
Add/Less: - Extra-ordinaries	1,188	-	-	-
Reported PAT	1,917	3,108	4,419	5,473
Balance Sheet	FY09	FY10E	FY11E	FY12E
Share Capital	251	269	269	269
Reserves	15,763	22,884	27,203	32,575
Borrowings	20,943	17,937	15,809	13,591
Deferred Tax (Net)	569	436	277	51
Total Liabilities	37,526	41,527	43,557	46,486
Gross Block	18,386	22,886	25,886	28,386
Less:- Accumulated Depreciation	2,723	4,096	5,676	7,521
Net Block	15,662	18,789	20,210	20,865
Add:- Capital work in progress	5,454	3,000	2,000	2,000
Investments	181	181	181	181
Net Working Capital	16,228	19,556	21,166	23,440
Other Assets	-	-	-	-
Total Assets	37,526	41,527	43,557	46,486
Cash Flow Statement (INR mn)	FY09	FY10E	FY11E	FY12E
Cash profit adjusted for non cash items	3,921	7,533	7,262	8,272
Add/Less : Working Capital Changes	(3,762)	(2,810)	(1,501)	(2,199)
Operating Cash Flow	159	4,723	5,760	6,072
Less:- Capex	(9,561)	(2,046)	(2,000)	(2,500)
Free Cash Flow	(9,402)	2,677	3,760	3,572
Financing Cash Flow	8,492	(4,732)	(3,665)	(3,511)
Investing Cash Flow	(9,502)	467	(1,987)	(2,487)
Net change in Cash	(850)	458	108	75
Ratio Analysis (INR mn)	FY09	FY10E	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	5.5	13.0	17.5	19.5
EBITDA Growth	(43.7)	35.9	22.6	17.6
PAT Growth	(69.7)	62.1	42.2	23.8
EBITDA Margin	22.3	26.8	28.0	27.5
Net Margin	9.4	13.5	16.3	16.9
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	1.3	0.7	0.5	0.4
ROE (%)	12.0	13.4	16.1	16.7
ROCE (%)	12.1	14.9	17.4	19.2
Per Share data & Valuation Ratios				
Diluted EPS (Rs/Share)	7.6	11.5	16.4	20.3
EPS Growth (%)	(70.2)	52.3	42.2	23.8
DPS (Rs/Share)	0.1	0.0	0.0	0.0
P/E Ratio (x)	36.9	24.2	17.0	13.7
EV/EBITDA (x)	4.6	2.8	2.0	1.4
EV/Sales (x)	1.0	0.7	0.5	0.4
Price/Book (x)	4.4	3.3	2.7	2.3
Dividend Yield (%)	0.0	0.0	0.0	0.0

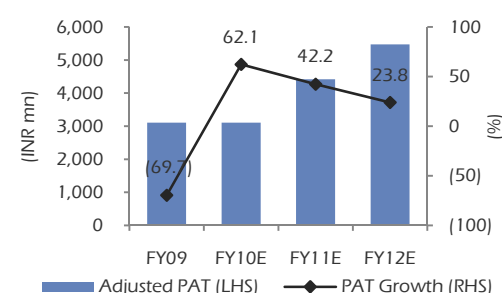
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



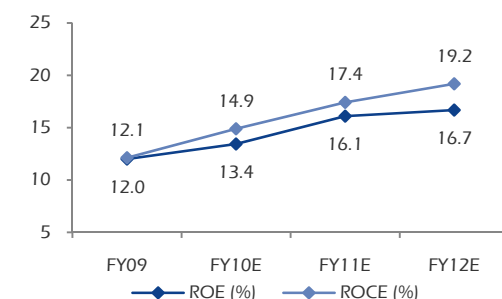
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



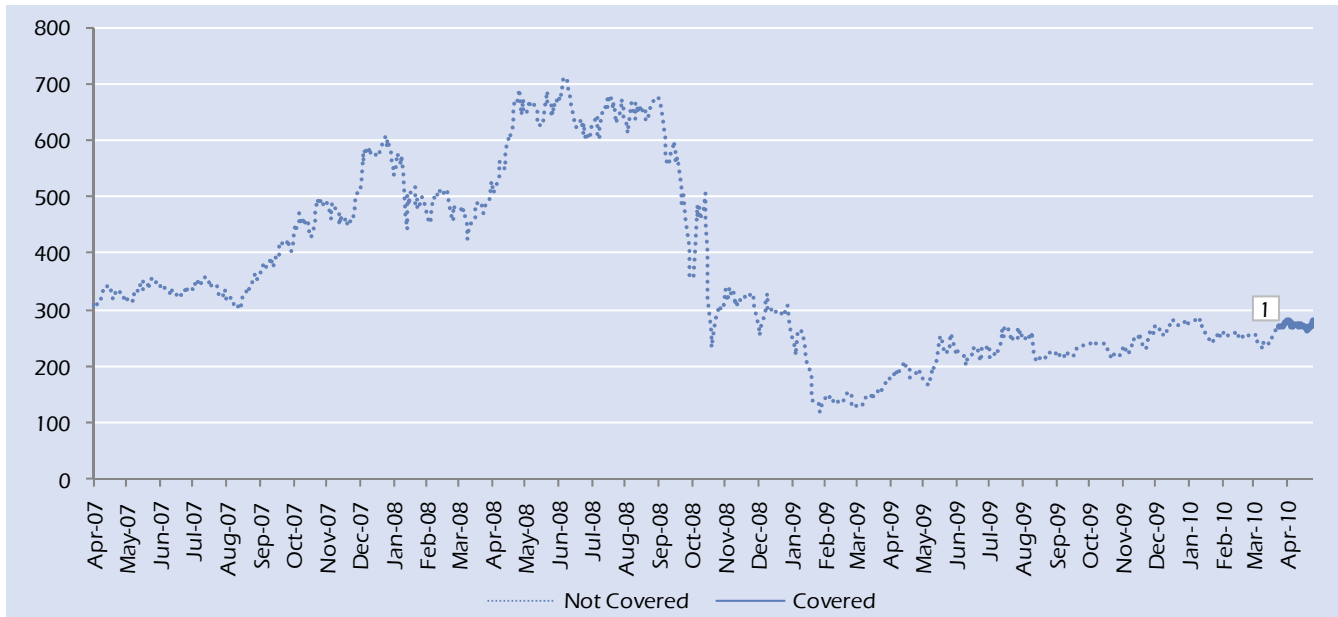
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price
1 8-Apr-2010	Buy	INR331	INR275

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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