Initiating Coverage

Glenmark Pharmaceuticals (GLEPHA)

Current Price	Target Price
Rs 240	Rs 288
Potential upside	**Time Frame**
20%	12-15 months

OUTPERFORMER

Down but not out...

Glenmark Pharma (GPL) is one of the best twin plays in the Indian pharma space. Monetisation of the discovery pipeline has been one of the key drivers of valuation in the past but lack of visibility on it has kept valuations under pressure. We believe current valuations only discount the generics business, as things are getting better on the base business front. On the DDR front, GPL has a robust discovery pipeline, monetisation of which may fetch significant upsides. We initiate coverage on GPL with an OUTPERFORMER rating and a target price of Rs 288.

- **Specialty business appears major growth driver while India holds the key**

  The specialty business will likely lead GPL's base business growth in the short-term with India remaining the key to specialty business growth. We estimate the specialty business (ex-India) will grow at ~17% while India will grow at ~18% CAGR over FY09-11E.

- **Things appear to be getting better now**

  Given the smart specialty business QoQ growth in Q1FY10, we believe the worst is behind us and visibility is getting better. Better credit conditions and stable currencies are driving the performance.

- **Speedy approval holds the key in US markets**

  Speedy approval of key ANDAs will likely be the mainstay for US revenue growth. GPL has a robust pipeline of 45 ANDAs pending approval, most of which are for differentiated and controlled substances that generate better margins and have longer lifecycles.

- **Out-licensing from strong discovery R&D pipeline cannot be ruled out**

  GPL earned ~$110 mn (highest among peers) from discovery R&D till date and has a strong pipeline of 13 molecules, 8 of which are in clinics. Given such a strong pipeline, licensing deals can't be ruled out.

Valuations

We believe lower visibility on R&D income kept GPL under pressure. We believe although the global appetite for drug-compound licensing is still low, given GPL's strong R&D pipeline, monetisation of its key drug-compound cannot be ruled out. On the base business, things are getting better. At 13.3x FY11E EPS, the current valuation discounts the generics business only, which is at a discount to its peers even after considering GPL's high leverage. We remain confident on GPL's DDR capability and initiate coverage with an **OUTPERFORMER** rating. We value GPL at Rs 288, 16x FY11E EPS. We have not attributed any value to the DDR pipeline.

Exhibit 1: Key Financials (Rs Crore)

Year to March 31	FY08	FY09	FY10E	FY11E
Net Sales (Rs Crore)	2037.4	2093.0	2435.7	2827.1
Net Profit (Rs crore)	632.7	193.5	379.4	484.2
Shares in issue (Crore)	24.9	25.1	26.9	26.9
Consolidated EPS (Rs)	25.4	7.7	14.1	18.0
% Growth	-1.5	-69.9	84.6	27.6
PE (x)	9.4	31.4	17.0	13.3
Price / Book (x)	3.9	3.8	2.7	2.7
EV/EBITDA (x)	8.5	18.6	11.6	9.2
RoE (%)	41.7	19.4	16.1	20.2
RoCE (%)	34.2	16.4	17.3	21.1

Source: Company, ICICIdirect.com Research

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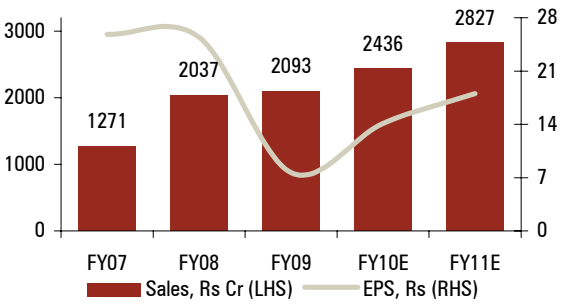
Sales & EPS trend



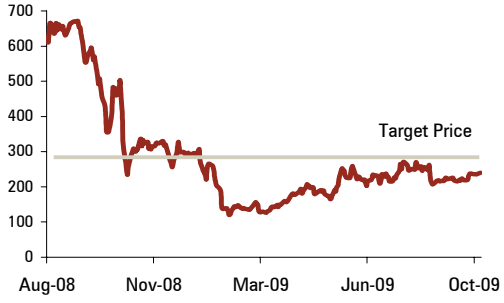
Stock Metrics

Reuters/Bloomberg Code	GLEN.BO / GNP@IN
Market Cap. (Rsbn)	6446.3
Shares Outstanding (Cr)	26.9
52-week High/Low (Rs)	526/119

Comparative return metrics

	3M	6M	12M
Glenmark Pharma	12.1	50.3	-52.3
Cipla	14.2	27.9	22.5
Dr Reddy	25.4	104.5	94.1
Piramal Heathcare	19.2	96.4	15.1
Sun Pharma	24.4	30.6	-5.3

Price Trend



Company Background

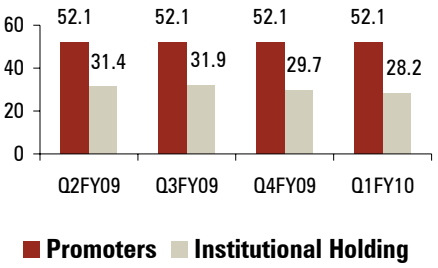
Glenmark Pharmaceuticals Ltd (GPL) is a research-driven, global, fully integrated pharmaceutical company. GPL almost has a leadership position in the Indian drug discovery space (both NCEs and biologics).

GPL has a presence in over 85 countries across the world including India, Europe, Brazil, Latin America (excluding Argentina), Russia/CIS, Africa and Asia through branded generic formulations. In regulated markets such as US, Europe, Argentina, etc it has a presence via its non-branded generics. GPL's formulation business is diversified over several therapeutic segments such as dermatology, internal medicine, respiratory, diabetes, paediatrics, gynaecology, ENT and oncology. Its manufacturing plants are located in Baddi (India), Nashik (India), Sao Paolo (Brazil) and Vysoke Myto (Czech Republic). In India, GPL markets over 100 molecules and combinations in various therapy areas such as dermatology, respiratory, gynaecology, pain management, diabetes, cardio-vascular, internal medicine, etc.

Shareholding pattern (Q1FY10)

Shareholder	% holding
Promoters	52.1
Institutional Investors	28.2
Mutual Fund	1.2
Others	18.5

Promoter & Institutional holding trend (%)



The evolution…

GPL was incorporated in 1977. The company came out with its public issue in December 1999 to set up a manufacturing facility at Goa and set up the R&D centre at Mumbai by providing funds to GM Pharma, GPL's wholly-owned subsidiary.

GPL had successfully entered the API business in FY02. In CY03, the company acquired the bulk drugs manufacturing plant from GSK Pharma at Ankleshwar. Simultaneously, it sold its Verna Plant at Goa along with the shares of Glenmark Laboratories. GPL installed the bulk drug facility for the first time in FY04 with an installed capacity of 60,000 kg.

…the transformation

GPL signed a landmark US$190-million deal with Forest Laboratories in 2004 to develop and market Oglemilast, its lead molecule for asthma/COPD, for the North American region. During the same year, it signed another deal worth US$53 million with Teijin Pharma Ltd to develop and market Oglemilast for the Japanese territory.

GPL signed a landmark US$190-million deal with Forest Laboratories and US$53 million with Teijin Pharma to develop and market Oglemilast in 2004

During FY05, GPL incorporated Glenmark Pharmaceuticals SA, a wholly-owned subsidiary in Switzerland to help manage NCE clinical trials as well as build research skills that complement R&D activities in India. During FY05 itself, it acquired an API manufacturing unit in Ankleshwar, Gujarat.

In March 2005, GPL entered into a collaboration agreement with Shasun Chemicals for joint development, filing and marketing of 12 generic products for the US market. During 2005 itself, GPL made a deal with Napo Pharma for developing and marketing Crofelemer, Napo's lead candidate for treatment of diarrhoea for over 140 countries.

In CY06, GPL set up one manufacturing facility at Baddi (HP) to manufacture solid oral, liquid oral and semi-solids formulations. During 2007, the company inked a deal with Dyax Corporation for performing funded biologics research on three of its targets in the areas of inflammation and oncology. In the same year, GPL signed a deal worth US$350 million with Eli Lily for developing and marketing GRC 6211, Glenmark's lead molecule for treatment of pain conditions, for North America, Europe and Japan.

Glenmark's speciality business includes India and other emerging markets. The generic business includes US, Western Europe and the company's oncology business in Argentina

GPL reorganised its business with effect from April 2008. As a result of business reorganisation, the company transferred its generics and active pharma ingredient (API) business to Glenmark Generics Ltd (GGL), a 100% subsidiary of GPL. The semi regulated markets (SRM) business including India and the drug discovery research operations were kept under GPL.

Glenmark is among the few Indian pharmaceutical players targeting new drug discovery research. Currently, Glenmark has a pipeline of 13 molecules.

Seven of them are in the clinical development stage while the rest are in various stages of preclinical development. GPL aims to provide a spectrum of medicines to people across the globe, ranging from high value, specialty products to low-cost generics. It wants to be counted among the global leaders and innovators of the pharmaceutical industry. Going forward, Glenmark aims to be a global specialty company with the launch of at least two proprietary molecules through a product pipeline developed by its own research and in-licensing/buyouts of NCEs or NBEs. The company wants to be at the forefront of pharma innovation. Glenmark has three API facilities, eight finished dosage facilities and three R&D facilities.

Recent setbacks

In spite of Glenmark having the best NCE pipeline among its Indian peers; recent setbacks on its key molecules have caused a dent in its NCE efforts. Glenmark suffered its first setback when Merck KGa decided to discontinue its investment in diabetes therapy and handed back Melogliptin (for Type-II diabetes) to Glenmark, after making an upfront payment of €25 million. The next blow came from Eli Lilly in October FY08, when the deal on GRC 6211 (for osteoarthritis pain) was terminated, after certain adverse findings. The recent failure of Oglemilast, led to the dampening of sentiments for Glenmark.

Glenmark had out-licensed Oglemilast, its lead molecule for asthma & COPD, to Forest Labs for further studies on the molecule and commercialisation in the North American markets on successful completion of clinical studies. The total deal size was pegged at US$190 million, out of which Glenmark had received US$30 million as upfront payment while the rest was to come on achievement of milestones. Recently, Forest Labs announced that the molecule has failed for the COPD indication in phase IIB clinical studies. This negative development is a concern for Glenmark. Forest continues to work on the Phase IIB trials for asthma indication and clinical data is expected in Q4FY10. We feel the failure of the molecule for COPD indication representing larger market (an unmet medical need) may trigger revisiting the deal in the light of positive news flow on asthma indication. In addition, Glenmark has another PDE IV inhibitor (Revamilast) for COPD indications, which may keep the Oglemilast deal alive. Revamilast (GRC 4039) is in the phase I of clinical trials.

Recent Setbacks:

*1) **Melogliptin**: returned by Merck*

*2) **GRC 6211**: Deal suspended by Eli Lilly*

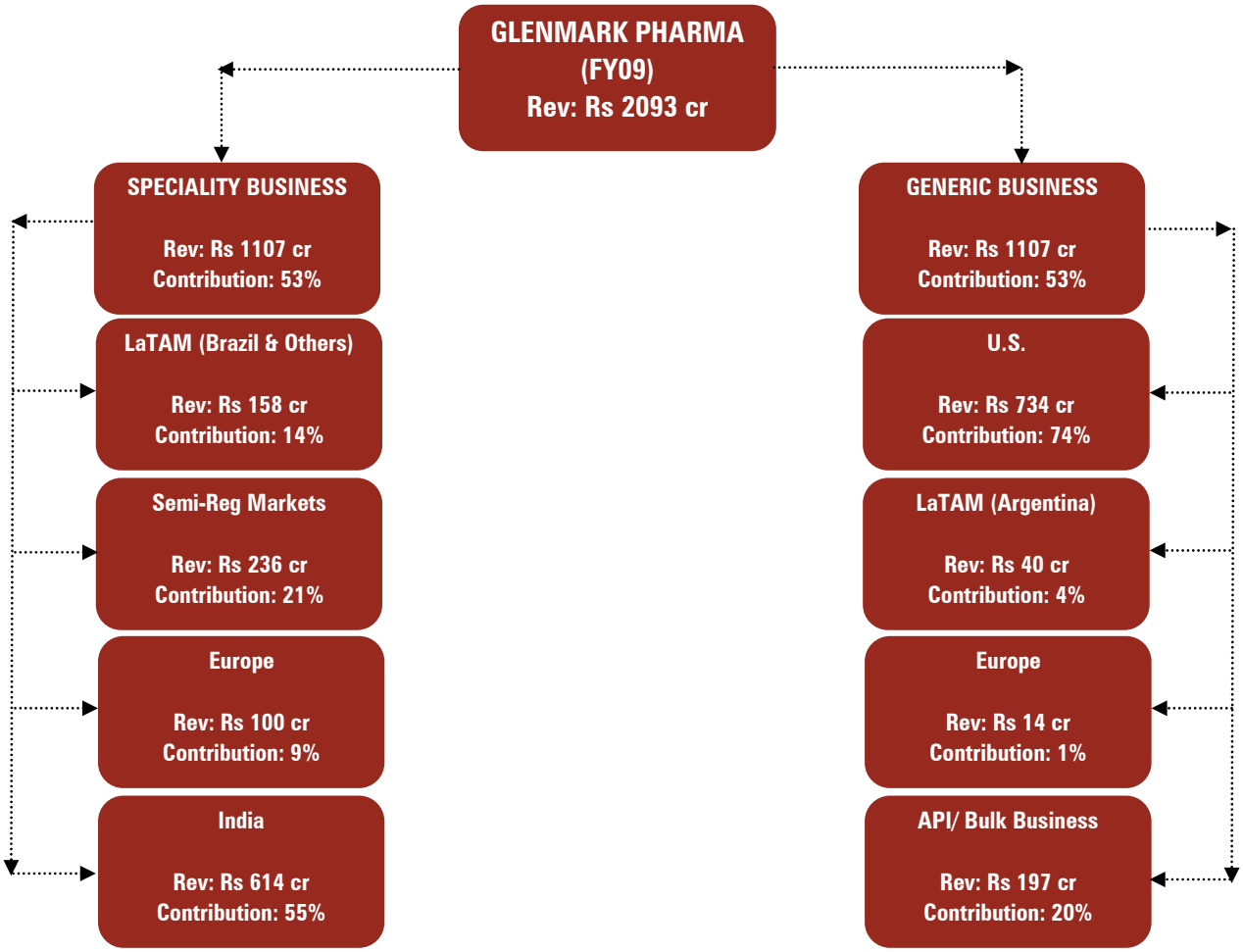
*3) **Oglemilast**: P-IIb data for COPD did not show any statistical benefits, molecule returned by Forest Labs*

Exhibit 1: Recent setback on Glenmark's R&D efforts

Molecules	Licensed to	Indication	Target Market	Comments
Oglemilast	Forest Labs	Anti-asthma	North America	Deal Suspended
Oglemilast	Tejin Pharma		Japan	PII b studies in progress
Melogliptin	Merck	Type-2 Diabetes	North America, Europe & Japan	Handed back the molecule
GRC 6211	Eli Lilly	Osteoarthritis & Pain	North America, Europe & Japan	Deal Suspended

Source: Company, ICICIdirect.com Research

Exhibit 2: Glenmark Pharma business break-up



LaTAM: Latin America

Source: Company, ICICIdirect.com Research

Investment rationale

GPL has been one of the best performers in the Indian pharma space during the last five years, clocking a growth of ~19% CAGR in the domestic market and ~387% in the US generics market. Going forward, we estimate the consolidated revenue of Glenmark will grow at a CAGR of ~16% over FY09-11E and bottomline would grow at a CAGR of ~25% over this period. Even though we expect all-round growth, revenues from emerging markets would be the primary growth driver. On the licensing income front, which has been a principal value driver during the past few years, lack of management guidance and a lumpy nature of such income do not provide a clear picture on timelines and quantum of such income.

An eye on GPL's robust pipeline of NCE and history of being one of the highest R&D income earners (~US$110 million) via licensing of new chemical entity (NCE), licensing deal cannot be ruled out. Earlier, Glenmark had divided the entire business into two parts – specialty business remaining with GPL and generics business with GGL since both the business segments achieved critical mass. Now, Glenmark may list GGL as it has filed a draft red herring prospectus with Sebi indicating the IPO of GGL may come in a few months.

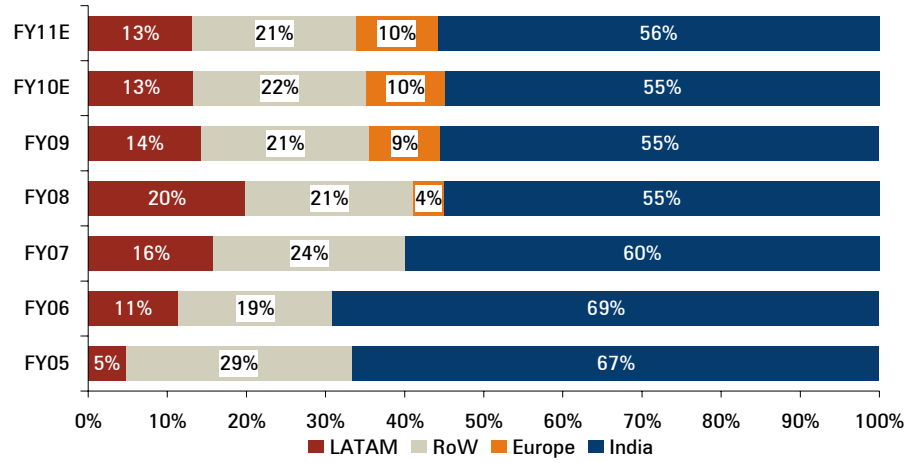
GPL boasts of being one of the highest R&D income earners (~US$110 million) via licensing of new chemical entity (NCE).

We expect the company to log top line growth at over 16% CAGR and bottom line at ~25% respectively, over FY09-11E.

Specialty business – EMs appear major growth driver…

We believe the specialty business would continue to remain the significant business contributor to GPL's overall revenue, accounting for over 56% of overall revenues. We estimate the specialty business revenue will grow at a CAGR of ~18% over FY09-11E to Rs 1534 crore. In the specialty segment, Indian market revenues are likely to grow at a CAGR of over 18% while other emerging markets* (excluding India) are likely to grow at a CAGR of ~17% over FY09-11E.

Exhibit 3: GPL's specialty business revenue distribution (excluding licensing income)

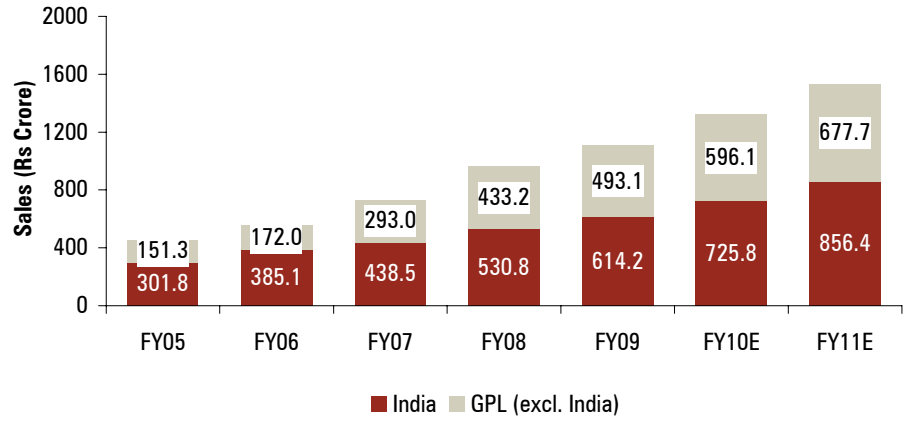


Source: Company, ICICIdirect.com Research

…while India will likely lead the pack

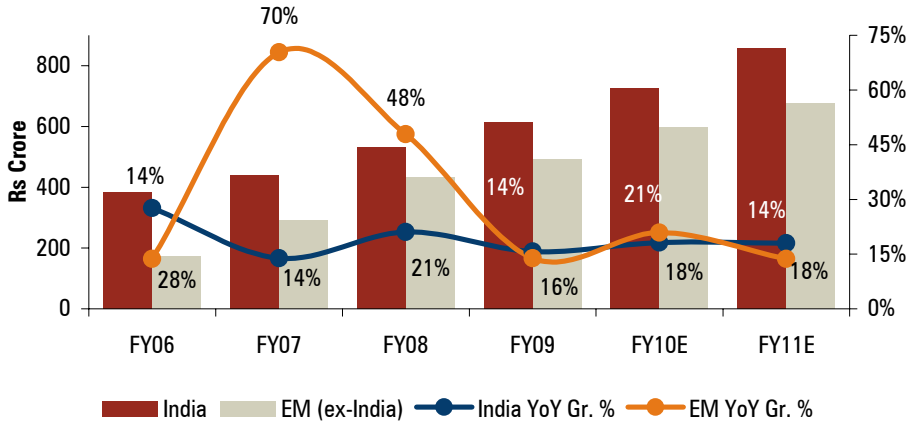
We estimate the Indian market revenue will grow at 18% CAGR over FY09-11E to Rs 856 crore, contributing ~56% to the speciality business revenues. Latin America, European specialty business and Rest-of-the-World markets will likely contribute the remaining 44% of the specialty business revenue. We believe Emerging Market (geographies in the specialty business) will likely lead Glenmark's base business growth over the short to medium term.

Exhibit 4: Revenue contribution from India to specialty business remains high at ~56%



Source: Company, ICICIdirect.com Research

Exhibit 5: YoY growth in India & Emerging Markets (excluding India) (Rs Crore)



Source: Company, ICICIdirect.com Research

Domestic market will likely leverage on its therapy area distribution

We believe GPL will leverage from its market penetration and therapy exposure in the domestic market. GPL generates ~23% revenue from the chronic segment, which is growing faster. In addition, GPL has significant exposure (~30% of domestic formulation revenue) to the dermatology segment, which is growing in excess of ~20% while the cardiovascular segment accounts for ~14% and is growing at ~20%.

GPL has significant (~30% of domestic formulation revenue) exposure to dermatology therapy area, growing in excess of ~20% while the cardiovascular segment accounts for ~14% and is growing at ~20%

We further believe the strong field force of ~2000 people spread across 11 divisions will help derive domestic formulation growth. GPL is one of the fastest growing companies in India with a focus across eight therapy areas and leadership in dermatology.

Exhibit 6: Therapeutic break-up in domestic market (%)

	2001	2002	2003	2004	2005	2006	2007	2008
Dermatologicals	37	36	35	34	33	32	29	28
Anti-infectives	11	12	12	11	11	14	17	17
Respiratory	22	21	18	18	15	17	16	15
Anti-Diabetics	0	4	7	7	8	9	9	8
Pain Management	4	3	7	10	13	7	7	6
Cardiovascular	0	0	0	3	5	5	7	10
Gynaecologicals	9	7	6	6	5	5	5	5
Gastro-intestinal	10	11	11	8	7	3	4	4
Others	7	6	4	3	3	8	6	7

Source: Company, ICICIdirect.com Research

Worst seems to be over, things appear better in various EMs

We believe all the geographies in Emerging Markets are performing well. This will enable Emerging Markets to be the lead drivers of GPL's base business. We have clubbed India, CIS, RoW, LatAm and the European specialty business under Emerging Markets. We believe an improvement in credit quality and stable currency are the main levers of robust performance of GPL in CIS countries in Q1FY10. Fair improvement in global economic conditions has made the business environment robust in EMs. GPL resorted to a tight control over its working capital in a few of its emerging markets due to worsening credit quality and currency fluctuations, which impacted its growth in that region. Now, with improvement in the business environment, things are likely to improve. We believe GPL will consolidate its position in emerging markets. Given this consolidation, focus on limited number of markets, the stability in currency and improving credit quality will likely result in a better performance.

We believe an improvement in credit quality and stable currency were the main levers of robust performance of GPL in CIS countries in Q1FY10

Glenmark Generics (GGL) – banking on quality filings

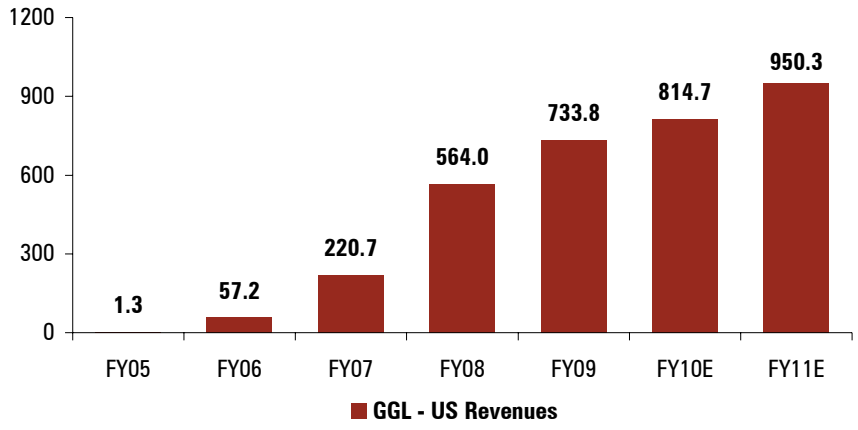
We expect GGL's revenues will likely post a CAGR of 14.5% over FY09-11E on account of growth of ~14% CAGR in US revenues and 44.7% CAGR in European revenues. Growth of GGL depends upon its filing in regulated markets. The company is focused on filing niche generics in these markets to manage the excellent growth.

US revenue to growth at ~14% CAGR

We expect the US fixed dosage revenue of GGL to grow at a CAGR of ~14% over FY09-11E to Rs 950 crore on account of quality filings under the niche segment. Glenmark's fixed dosage US revenue grew at ~386% over FY05-09 to Rs 734 crore. Currently, the company has 46 generic products authorised for distribution in the US market and 45 products in various stages of approval.

We expect US fixed dosage revenues to grow at a CAGR of ~14% over FY09-11E to Rs 950 crore on account of quality filings under the niche segment. Currently, the company has 46 generic products authorised for distribution in the US market. Another 45 products are in various stages of approval

Exhibit 7: US market revenues to grow at 14% CAGR (FY09-11E)



Source: Company, ICICIdirect.com Research

Quality filing for US market to drive US revenues

Speedy approval of key ANDAs will likely be the mainstay for US revenue growth. GPL has a robust pipeline of 45 ANDAs pending approval, most of which are for differentiated and controlled substances that generate better margin and have a longer lifecycle. During the last two quarters, the number of approvals by USFDA suggests the pace of approval has increased.

Exhibit 8: Performance in the US market during last 5 quarters (Rs crore)

	US Revenues	YoY %	QoQ %	Pdt launched	Pdt approved	Cumm ANDA's
Q1FY09	190.9	131.0	-2.7	2	4	35
Q2FY09	176.1	117.3	-7.7	0	1	40
Q3FY09	210.4	3.1	19.5	2	1	40
Q4FY09	156.4	-20.3	-25.7	6	5	40
Q1FY10	172.1	-9.9	10.0	2	*5	45

** including two tentative approvals*

Source: Company, ICICIdirect.com Research

GPL has adopted a differentiated strategy for the US fixed dosage market, wherein it, now, focuses on products, which can generate higher margins and have a longer life cycle. The company has started filing for ANDAs in niche segments such as in Para IVs, controlled release, dermatology, hormones,

GPL has adopted a differentiated strategy for the US fixed dosage market, wherein it now focuses on products, which can generate higher margins and have a longer life cycle. Currently, such products constitute ~50% of its US product portfolio. We expect this to go up to ~75% on account of the company's increased focus on developing niche ANDAs (such as Para IV, controlled substances, dermatology, hormones and oncology)

oncology and controlled substance. These have higher margin and comparatively longer life cycles.

Exhibit 9: % ANDA Filings

	FY08	FY09	Total US Maket ($ bn)
Dermatology	16	22	4
Controlled substances	7	11	12
Modified Release	10	26	22
Hormones	5	11	5
Oncology	0	11	NA
FTF	10	8	NA
Immediate Release	52	11	NA
Total %	**100**	**100**	**NA**
Total ANDA's Filed	**30**	**45**	**NA**

Source: Company, ICICIdirect.com Research

The competitive position of GPL in the niche generic market is quite interesting. We believe the company would be able to generate handsome revenue growth from the filings once the USFDA speeds up its ANDA approval process.

Exhibit 10: Competitive positioning of niche ANDAs

	Market size (US$, Bn)	Entry barrier	Margins	Competitors	Partnership	Filings
Dermatology	4	High	**High**	Fougera, Perrigo, Taro	Partnership with Paul Capital for development of 16 dermatology	10
Controlled Substance	12	High	**High**	Mallinckrodt, Watson, Endo		4
Modified Release	22	High	**High**			6
Hormones	5	High	**High**	Barr & Watson		2
Oncology	10	High	**High**	Teva Sicor, Ben-Venue & Barr		-

Source: Company, ICICIdirect.com Research

Glenmark has first-to-file (FTF) status on five ANDAs {for Zetia (ezetimibe), Strattera (atomoxetine), Tarka (Trandopril) and Crestor (Rosuvastatin)}.

Exhibit 11: ANDA filings under Para IV certification

Ongoing litigation (FTF)

Product	Brand Name	Innovator	IMS Sales	Indication
Ezetimibe	Zetia	Schering Plough	1.8 bn $	High BP & Cholesterol
Rosuvastatin Ca	Crestor	---	1.7 bn $	High LDL cholesterol & fat accumulation
Trandalopril/Verapamil	Tarka	Abbott	95 mn $	Hypertension
Flucinonide	Vanos	Medicis	329 mn $	Psoriasis/ Atopic dermatitis
Fluticasone Lotion	Cutivate	Nycomed	33 mn $	Atopic dermatitis

Source: Company, ICICIdirect.com Research

Drug discovery – a major business of GPL

Glenmark differentiates itself from most of its peers by virtue of its strong focus on drug discovery research (DDR). Having generated licensing income of ~US$110 million, Glenmark boasts of a strong discovery pipeline of 13 molecules, eight NCEs and five new biological entities (NBEs). GPL foresees entering into a licensing deal on few of the DDR pipeline. However, it has not guided for any licensing income in the years to come post the recent setback on a few existing deals. However, given GPL's DDR focus on unmet medical needs, we believe the company will be able to successfully out-license at least one molecule in FY10.

GPL has been one of the best performers in Indian pharma in the DDR space and is one of the highest R&D income earners (~US$110 million) via licensing of NCEs

Strong discovery pipeline – a goldmine for future

GPL's DDR has achieved a high level of success in a comparatively short period by garnering ~US$110 million licensing income on three molecules. We believe such an excellent performance was on account of (I) high level of commitment of the top management on drug discovery and, (II) focus on validated and known targets that have large target markets and significant level of interest from big innovator companies. Currently, the company boasts of 13 molecules in the research pipeline, two molecules in phase III clinical trials, two in clinical trial phase II and three in phase I. The rest are in the preclinical stage. Out of the pipeline, two molecules have the potential to be first in class for launch. Glenmark seems to be well positioned to fulfil its Vision 2015, wherein it plans to launch two proprietary drugs and build a late-stage pipeline.

Exhibit 12: Glenmark's out-licensing deals

Year	Molecules	Licensed to	Value (US $ mn)	Indication	Target Market	Upfront Payment ($ mn)
2004 Sep	Oglemilast	Forest Labs	190	Anti-asthma	North America	53
2005 Dec		Tejin Pharma	53		Japan	7
2006	Melogliptin	Merck	190	Type-2 Diabetes	North America, Europe & Japan	Euro 25 mn
2007 Oct	GRC 6211	Eli Lilly	350	Osteoarthritis & Pain	North America, Europe & Japan	45

Source: Company, ICICIdirect.com Research

However, on the flip side, Glenmark suffered heavy blows in its R&D efforts in the recent past. It all started with Merck KGa, giving back Melogliptin to Glenmark followed by Eli Lilly suspending the deal for GRC 6211 and the recent failure of Oglemilast's P-II b studies for COPD. This had led to dampening of sentiments for Glenmark Pharma both stock-wise and from a business point of view. The company is now pinning its hope on Oglemilast for asthma (Forest is conducting P-II studies), Melogliptin (which is scheduled to enter P-III in Q4FY10) and the Chrofelemer opportunity.

Exhibit 13: Strong discovery pipeline

		Investigation phases			
			Clinical Trial		
	Indication	Preclinical	Phase I	Phase II	Phase III
GRC 3886 (Oglemilast)	Asthma, COPD				
GRC 6211	Osteoarthritis, Neuropathic Pain, Dental Pain, Incontinence		Further clinical development suspended		
GRC 8200 (Melogliptin)	Diabetes (Type II)				
GRC 4039	Rheumatoid Arthritis, Inflammation, Multiple Sclerosis				
GRC 10693	Neuropathic Pain, Osteoarthritis and other Inflammatory Pain				
GBR 500	Acute Multiple Sclerosis, Inflammatory Disorders				
GRC 9332	Obesity, Dyslipidemia, Metabolic Disorders				
GBR 600	Acute Stroke/ Coronary Syndrome, Thrombosis Cardiovascular Disorders				

Source: Company, ICICIdirect Research

Key near-term trigger for the stock

Chrofelemer launch

GPL in-licensed Crofelemer, a drug for HIV associated diarrhoea, from Napo Pharma of US. The molecule continues to progress well in Phase III clinical trials. Glenmark expects to launch the product by early FY11 in 'Rest of the World' markets (excluding North America, Europe, China and Japan). The company expects to generate peak sales of US$80 million. GPL will have to pay royalty to Napo on sales but may get an opportunity to supply API for western markets.

Exhibit 14: Rich R&D pipeline; licensing deal cannot be ruled out

Compound	Target	Target launch	Current status	Comments
Crofelemer	HIV associated diarrhea	2010	Conducting Phase III trials	GPL licensed Crofelemer from Napo for markets other than North America, Europe, China, Japan, etc and expects to generate peak sales of US$80 million. GPL will have to pay royalty to Napo on Crofelemer sales
GRC 3886 (Oglemilast)	**PDE IV Inhibitor (for Asthma, COPD)**	**2012**	**Phase IIB studies for Asthma is ongoing**	**Forest announced that Oglemilast has not fetched positive results in Phase IIB trial for COPD. Clinical trials for asthma are ongoing and the data on it is expected in Q4FY10. Negative data on asthma will have significant impact on Glenmark**
GRC 8200 (Melogliptin)	DPP IV Inhibitor (for Diabetes Mellitus (Type II))	2012	Phase IIB studies on the compound are completed and is to enter the Phase III. IND on the compound is approved	Melogliptin is one of the candidates for out-licensing. Phase III trials on it are likely to start by the end of FY10
GRC 6211	TRPV1 Antagonist (for Osteoarthritic Pain, Neuropathic Pain, Urinary Incontinence)		Discontinued	
GRC 4039 (Revamilast)	**PDE IV Inhibitor (for Rheumatoid Arthritis & other Inflammatory disorders, Multiple Sclerosis)**	**2013**	**Phase I completed**	**Phase II studies on Revamilast are likely to start. Revamilast can be utilised to save the future licensing income from Forest as it is also a PDE IV inhibitor as Oglemilast was**
GRC 10693	CB•2 Agonist (for Neuropathic Pain, Osteoarthritis & other inflammatory pain)	2014	Finished Phase I trials	Phase IIB clinical trials on the molecule are to be started
GBR 500	VLA•2 Antagonist (for Multiple Sclerosis, Inflammatory Disorders)	2013	To enter Phase I shortly	
GRC 15300	TRPV3 Antagonist (for Osteoarthritic pain, Neuropathic Pain, Dental Pain)	2014	To enter Phase I in UK	Regulatory approval has been received for clinical studies, which is likely to be started now
GBR 600		2014	Pre-clinical	

Source: Company, ICICIdirect.com Research

Exhibit 15: Assumptions for revenue model (Rs Crore)

	FY05	FY06	FY07	FY'08	FY09	FY10E	FY11E
USA	1.3	57.2	220.7	564.0	733.8	814.7	950.3
Growth (%, YoY)		4269.6	285.6	155.5	30.1	11.0	16.6
% revenue contribution to GGL	1.5	31.0	58.0	71.2	74.4	73.1	73.5
Europe	0	0	0	0.9	14.7	20.4	30.7
Growth (%, YoY)					1497.2	38.8	50.7
% revenue contribution to GGL				0.1	1.5	1.8	2.4
Latin America (Argentina)	0	14.0	27.9	30.9	40.0	52.9	63.5
Growth (%, YoY)			99.4	10.5	29.8	32.2	20.0
% revenue contribution to GGL		7.6	7.3	3.9	4.1	4.8	4.9
API	84.6	113.3	131.8	195.9	197.2	225.8	248.3
Growth (%, YoY)		33.9	16.4	48.6	0.7	14.5	10.0
% revenue contribution to GGL	98.5	61.4	34.6	24.7	20.0	20.3	19.2
Glenmark Generics (GGL) - Total	**85.9**	**184.5**	**380.5**	**791.7**	**985.7**	**1113.8**	**1292.9**
% revenue contribution to total sales	14.3	24.0	30.4	39.7	47.1	45.7	45.7
SPECIALTY BUSINESS							
Latin America (Brazil & Others)	21.5	63.4	115.9	191.8	158.0	176.5	203.0
Growth (%, YoY)	0.0	195.5	82.9	65.4	-17.6	11.7	15.0
% revenue contribution to GPL	4.2	10.9	13.3	15.9	14.3	13.4	13.2
Rest of the World [RoW]	129.9	108.6	177.1	204.6	235.5	288.0	316.8
Growth (%, YoY)	0.0	-16.4	63.0	15.5	15.1	22.3	10.0
% revenue contribution to GPL	25.2	18.6	20.3	17.0	21.3	21.8	20.7
Europe	0.0	0.0	0.0	36.9	99.6	131.6	157.9
Growth (%, YoY)					169.9	32.1	20.0
% revenue contribution to GPL				3.1	9.0	10.0	10.3
India	301.8	385.1	438.5	530.8	614.2	725.8	856.4
Growth (%, YoY)	0.0	27.6	13.9	21.0	15.7	18.2	18.0
% revenue contribution to GPL	58.5	66.0	50.3	44.1	55.5	54.9	55.8
Out-licensing Revenues	62.7	26.1	139.5	240.3	0.0	0.0	0.0
Growth (%, YoY)		-58.3	434.3	72.2	NA	NA	NA
	515.8						
Specialty business (GPL) – Total	**515.8**	**583.3**	**871.0**	**1204.2**	**1107.3**	**1321.9**	**1534.2**
Growth (%, YoY)		13.1	49.3	38.3	-8.1	19.4	16.1
% revenue contribution to total sales	85.7	76.0	69.6	60.3	52.9	54.3	54.3
Total - Glenmark (Consolidated)	**601.7**	**767.8**	**1251.5**	**1996.0**	**2093.0**	**2435.7**	**2827.1**

** Revenues for FY08 are reported numbers*

Source: Company, ICICIdirect.com Research

Risks & concerns

1. While Glenmark is receiving approvals for products where the competition is high, approvals in focused areas of controlled releases/modified releases and hormones space are being delayed. This is likely to impact revenue growth and margin expansion for the company

2. After achieving critical mass in the US generics business, the company has started focusing on filing ANDAs under niche segments such as under Para IV, controlled substances, dermatology, etc. Filing of ANDAs under Para IV may trigger litigation with innovators, leading to cash outgo in the form of legal expenses

3. The company has so far out-licensed three molecules (NCEs) in return for a certain out-licensing fee. A part of the fee is received as upfront payment, while further payments are based on a milestone the molecule crosses. Failure of licensed molecules at a later phase may lead to a non-payment of milestone. This may impact investor sentiments considerably and may exert a further pressure on R&D expenditure

4. High leverage and higher working capital requirement has been a cause of worry for Glenmark Pharma. Glenmark's current working capital cycle is 190 days long. We believe this is the highest among its Indian peers. With current debt at ~Rs 2100 crore, the debt-equity is above 1. Although the management has guided for debt repayment from the recent issue of QIP, we believe this may be beneficial only if the entire money raised is used for debt repayment.

Financials

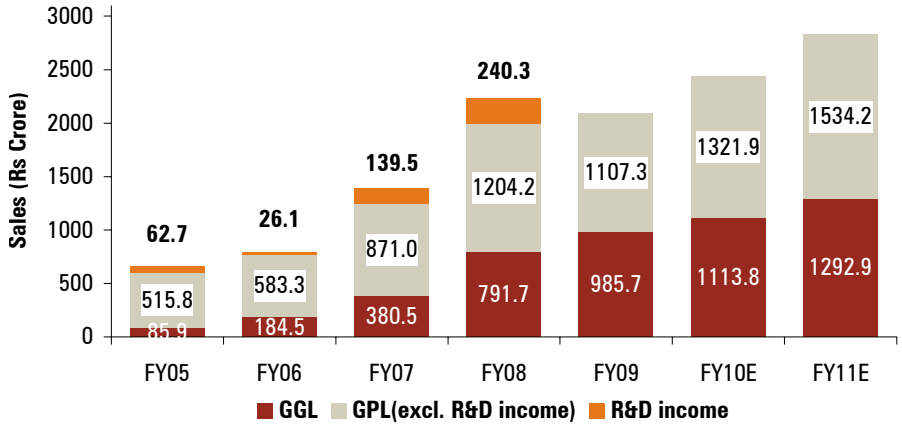
We expect the consolidated revenue and profits of Glenmark to grow at a CAGR of ~16% and 25% respectively, over FY09-11E. Even though we expect all-round growth, revenues from India and the US generics market would be the primary growth driver. GGL's revenue is likely to clock a topline growth of 14.5% CAGR over FY09-11E while the speciality business is likely to see growth of ~18% CAGR over this period. We believe GGL's topline growth would come primarily on the back of US generics revenue on account of filings under niche therapy areas. Although we are confident that Glenmark would continue generating out-licensing revenues by monetising its NCE pipeline, we have not factored these upsides into our forward estimates.

We expect the consolidated revenue and profits of Glenmark to grow at a CAGR of ~16% and 25% respectively, over FY09-11E, on account of Glenmark's speciality business growing at 18% CAGR and the generic business at 14.5% CAGR

Consolidated revenue – growth momentum to sustain

Consolidated revenues are estimated to grow at a CAGR of ~16% over FY09-11E to Rs 2827 crore. We expect the speciality business to deliver a robust performance on account of sturdy all-round growth, with India leading the pack. USFDA is speeding up the approval process, which may eventually lead to higher than anticipated growth from the US market. We expect US revenues to grow at a CAGR of ~14% in FY09-11E.

Exhibit 16: Consolidated revenues to grow at 16% FY09-11E CAGR (Rs crore)



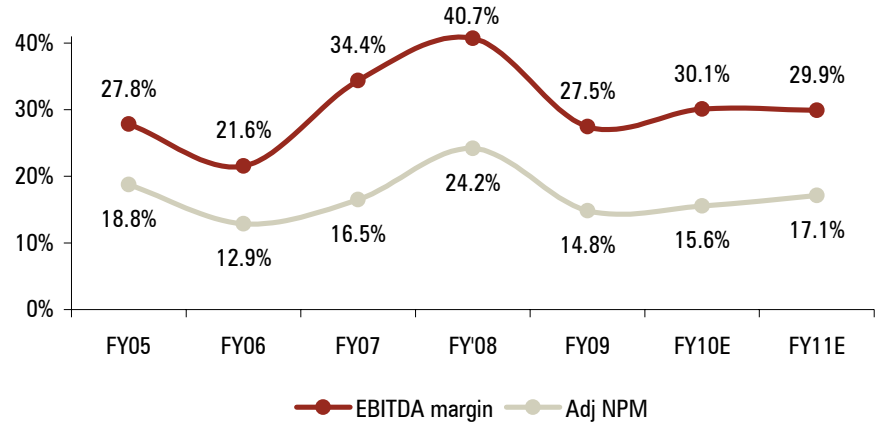
Source: Company, ICICIdirect.com Research

Margins – set to improve over FY09-11E

In spite of a rise in R&D expenditure, the EBITDA margins are expected to improve by 244 bps over FY09-11E to ~30% on account of ~16% CAGR growth in top-line over the same period. The company clocked an EBITDA margin of 27% during FY09, a decline of ~13% YoY as there was price erosion in Oxcarbazepine (Trileptal), which was launched under para IV certification in the US market in the previous year. Products launched with exclusivity under para IV generated handsome revenues and margins for the company.

The EBITDA margin is expected to improve by 244 bps to ~30% in FY09-11E

Exhibit 17: Margin to witness good growth during FY09-11E



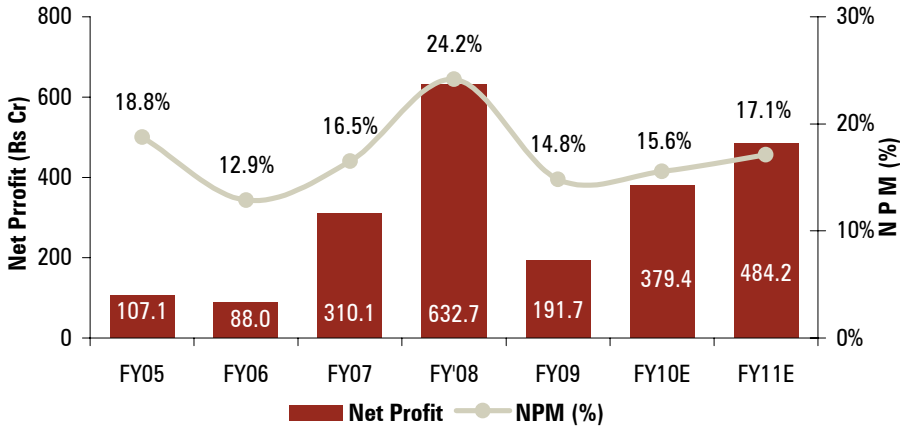
Source: Company, ICICIdirect.com Research

Adjusted net profit to grow at CAGR of ~25% over FY09-11E

We expect the net profit margin to expand by 230 bps to ~17.1% during FY09-11E. The company has recently raised US$85 million through QIP at Rs 221 per share and has guided to repay the debt, which will reduce the interest cost, going ahead. Higher depreciation cost (due to recent capex) and higher tax charges in the range of 23% (as some of the plants are losing EOU status) will prevent further margin expansion. According to our estimates, net profit of the company will grow at a CAGR of ~25% to Rs 484 crore in FY09-11E.

We expect the reported net profit margin to expand to ~17.1% during FY09-11E. Higher depreciation cost and tax charges will prevent further expansion in net profit

Exhibit 18: Net profit likely to grow at a CAGR of ~25% over FY09-11E



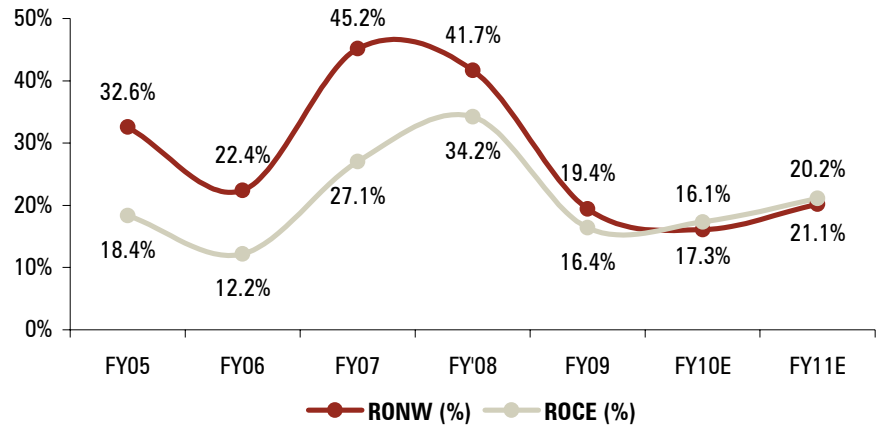
** FY09 net profit margin is on adjusted basis*

Source: Company, ICICIdirect.com Research

Return ratios likely to improve, going ahead

We believe the return ratios would hover around ~20-21%, going ahead. Higher depreciation, tax charges and dilution due to QIP will keep pressure on return on net worth (RoNW). The RoNW is likely drop to ~16% in FY10E due to dilution and lower PAT growth over FY09-10E. With higher growth in PAT over FY10E-11E, the RoNW will likely recover to ~20%. The RoCE is likely to improve by 473 bps from ~16.4% in FY09 to ~21.1% in FY11E but will remain suppressed during FY10E at ~17%.

Exhibit 19: Return ratios to stabilise at 20-21% levels



Higher depreciation, tax charges and dilution due to QIP will keep pressure on return on net worth while RoCE is likely to improve by 473 bps over FY09-11E

Source: Company, ICICIdirect.com Research

Recent QIP – EPS accretive transaction

Recently, the company raised US$85 million through qualified institutional placement (QIP) at a price of Rs 221 per share. We believe the company would utilise the proceeds of the QIP to retire debts on the book. In Q3FY09, the company had raised funds at higher rates (~16%). Hence, retiring debt from this QIP issue would be EPS accretive as the interest cost would come down.

Recently, the company raised US$85 million through QIP, the proceeds of which will be used in retiring debt

Exhibit 20: Impact of QIP

	With QIP		W/o QIP		Absolute Change (w - wo)
	FY10E	FY11E	FY10E	FY11E	FY11E
Net Profit	379.4	484.2	287.9	377.5	106.7
EPS	14.1	18.0	11.5	15.1	3.0
PE	17.0	13.3	19.0	14.5	-1.2
Cash	524.9	145.8	442.6	365.1	-219.3
EV/ EBITDA	11.6	9.2	12.5	9.3	-0.1
NPM %	14.8	16.8	11.6	13.5	3.2
RoNW %	16.1	20.2	15.4	17.0	3.2
RoCE %	17.3	21.1	15.3	17.1	4.0

Source: Company, ICICIdirect.com Research

Valuations

Glenmark has been one of the best performers in the Indian pharma space during the last few years. The company boasts of being one of the highest R&D income earners (US$110 million) via out-licensing of new chemical entity (NCE). Glenmark differentiates itself by logging commendable growth at a CAGR of over 386% during FY05-09 to Rs 734 crore from US markets.

We expect the consolidated topline of Glenmark to grow at a CAGR of ~16% over FY09-11E while the bottomline will grow at a CAGR of ~25% over this period. Revenue from fixed dosage branded generics from the specialty business will likely be the primary growth driver. GGL's revenue is likely to clock 14.5% topline growth CAGR over FY09-11E while GPL (specialty business) is likely to see ~18% growth CAGR over the same period. We believe GGL's topline growth would come primarily on the back of US generics revenue on account of filings under niche generics. An eye on GPL's robust pipeline of NCE and history of being one of the highest R&D income earners (~US$110 million) via licensing of new chemical entity (NCE), licensing deal cannot be ruled out. A meaningful out-licensing deal and positive news flow for lead molecules are critical for sentiments to improve and would lead to a re-rating of the stock.

We expect the consolidated topline of Glenmark to grow at a CAGR of ~16% over FY09-11E while the bottom-line to grow at a CAGR of ~25% over this period.

A meaningful out-licensing deal and positive news flow for lead molecules are critical for sentiments to improve and would lead to a re-rating of the stock.

Going ahead, Glenmark would focus on generating cash by strengthening its working capital cycle in emerging markets (excluding India). The company would be consolidating its position in EMs. We believe lower visibility on R&D income kept GPL under pressure, recently. However, we believe the global appetite for drug-compound licensing is still low. Given GPL's strong R&D pipeline, monetisation of its key drug-compound cannot be ruled out. On the base business, things are getting better.

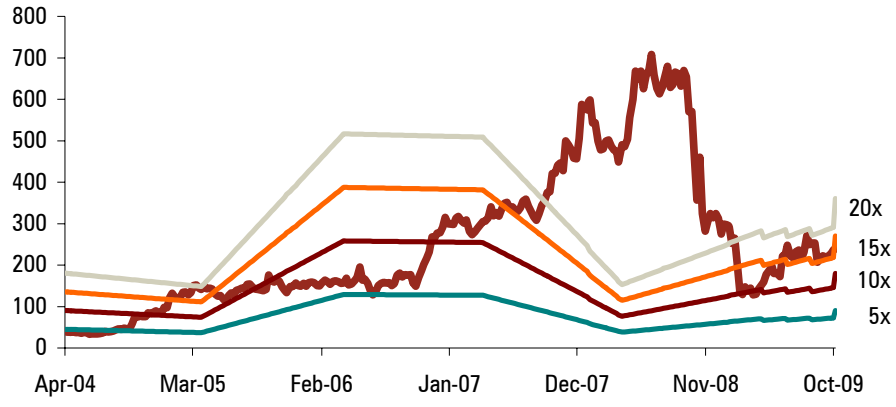
Going ahead, Glenmark would focus on generating cash by strengthening its working capital cycle in emerging markets (excluding India).

At 13.3x FY11E EPS, the current valuation discounts the generics business only, which is at discount to its peers even after considering GPL's high leverage. We remain confident on GPL's DDR capability and initiate coverage on the stock with an **OUTPERFORMER** rating. We value GPL at Rs 288, 16x FY11E EPS. We have not attributed any value to the DDR pipeline.

P/E Band

Better than expected improvement in return ratios and growth numbers, would lead to a re-rating of the stock.

Exhibit 21: P/E band



Source: Company, ICICIdirect.com Research

Exhibit 22: Profit & loss account (Rs. Crore)

	FY08	FY09	FY10E	FY11E
Sales	2111.3	2093.0	2435.7	2827.1
Growth (%)	60.3	2.7	16.4	16.1
Op. Expenditure	1234.2	1661.0	1790.3	2023.6
EBITDA	847.8	629.0	770.4	863.5
Growth (%)	91.8	-25.8	22.5	12.1
Other Income	44.6	197.0	125.0	60.0
Depreciation	71.6	102.7	144.0	150.9
EBIT	776.2	526.3	626.4	712.6
Interest	63.2	140.5	133.6	83.7
PBT	713.0	268.9	492.7	628.9
Growth (%)	97.3	-62.3	83.2	27.6
Tax	80.3	75.4	113.3	144.6
Extraordinary Item	0.0	117.0	0.0	0.0
Rep. PAT before MI	632.7	193.5	379.4	484.2
Minority interest (MI)	2.0	3.0	4.0	5.0
Rep. PAT after MI	632.7	193.5	379.4	484.2
Adjustments	2.0	3.0	4.0	5.0
Adj. Net Profit	492.7	310.4	379.4	484.2
Growth (%)	134.5	-37.0	22.2	27.6

Exhibit 23: Balance sheet (Rs, Crore)

	FY08	FY09	FY10E	FY11E
Equity Capital	24.9	25.1	26.9	26.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1493.8	1573.1	2330.1	2368.2
Shareholder's Fund	1517.1	1598.2	2357.0	2395.1
Minority Interest	-1.5	0.0	0.0	0.0
Secured Loans	196.1	382.7	522.0	433.7
Unsecured Loans	794.8	1711.7	1089.3	689.3
Deferred Tax Liability	94.6	60.1	56.9	56.9
Source of Funds	2923.4	4208.9	4649.5	4291.8
Gross Block	1124.1	1838.6	2203.6	2333.6
Less: Acc. Depreciation	205.6	272.3	417.8	568.7
Net Block	918.5	1566.2	1785.8	1764.9
Capital WIP	337.2	545.4	409.1	204.5
Net Fixed Assets	1255.7	2111.7	2194.8	1969.4
Intangible asset	2.0	3.0	4.0	5.0
Investments	18.8	18.1	40.0	40.0
Cash	157.3	71.5	524.9	145.8
Trade Receivables	806.9	955.3	1001.0	1107.6
Loans & Advances	286.9	422.1	350.3	406.6
Inventory- Other	400.7	630.2	538.4	622.5
Total Current Asset	1651.8	2079.2	2414.7	2282.4
Current Liab. & Prov.	320.7	456.3	624.4	716.8
Net Current Asset	1331.0	1622.8	1790.3	1565.6
Application of funds	2926.3	4208.9	4649.5	4291.8

Exhibit 24: Key ratios (%)

	FY08	FY09	FY10E	FY11E
Raw material	28.1	32.8	31.8	31.8
Emp Exp	2.7	5.0	3.8	3.7
Other mfg exp	3.6	4.0	2.6	2.5
SG&A	22.4	33.4	26.4	25.1
R&D	3.7	4.2	8.8	8.5
Average cost of debt	6.4	6.7	8.3	7.5
Effective Tax rate	11.3	28.0	23.0	23.0
Profitability ratios (%)				
EBITDA Margin	40.7	27.5	30.1	29.9
PAT Margin	30.4	8.4	14.8	16.8
Adj. PAT Margin	24.2	14.8	14.8	16.8
Per share data (Rs)				
Revenue per share	81.9	83.5	90.7	105.3
EV per share	272.9	320.2	279.3	275.2
Book Value	61.1	63.8	87.8	89.2
Cash per share	6.3	2.9	19.5	5.4
EPS	25.4	7.7	14.1	18.0
Cash EPS	28.3	11.8	19.5	23.6
DPS	1.3	0.8	1.4	1.8

Costs as % to sales except tax rate and average co

Exhibit 25: Key ratios (%)

Return ratios	FY08	FY09	FY10E	FY11E
RoNW	41.7	19.4	16.1	20.2
ROCE	34.2	16.4	17.3	21.1
ROIC	33.0	10.4	18.1	21.3
Financial health ratio				
Operating CF (Rs Cr)	696.7	240.8	482.3	586.7
FCF (Rs Cr)	-163.1	-782.6	715.9	638.9
Cap. Emp. (Rs Cr)	2604.1	3752.6	4025.1	3575.0
Debt to equity (x)	0.7	1.3	0.7	0.5
Debt to cap. emp. (x)	0.4	0.6	0.4	0.3
Interest Coverage (x)	11.3	1.9	3.7	7.5
Debt to EBITDA (x)	1.2	3.3	2.1	1.3
DuPont ratio analysis				
PAT/PBT	0.9	0.7	0.8	0.8
PBT/EBIT	0.9	0.7	0.8	0.9
EBIT/Net sales	0.4	0.3	0.3	0.3
Net Sales/ Tot. Asset	0.8	0.6	0.6	0.8
Total Asset/ NW	1.7	2.3	1.7	1.5
Spread of RoIC over WACC				
RoIC	33.0	10.4	18.1	21.3
WACC	9.6	11.3	10.9	10.9
EVA (Rs)	492.7	-27.4	205.3	277.7
RoIC-WACC	23.4	-0.9	7.2	10.4

Exhibit 26: Cash flow statement (Rs Crore)

	FY08	FY09	FY10E	FY11E
Profit after Tax	632.7	193.5	379.4	484.2
Misc exp w/o	1.5	-1.5	0.0	0.0
Dividend Paid	-31.6	-19.3	-37.9	-48.4
Depreciation	71.6	102.7	144.0	150.9
Provision for deferred ta	22.6	-34.5	-3.2	0.0
CF before change in WC	696.7	240.8	482.3	586.7
Inc./Dec. in Current Liab.	81.2	135.6	168.1	92.4
Inc./Dec. in Current Asse	494.8	513.2	-117.9	246.9
CF from operations	283.0	-136.7	768.3	432.2
Purchase of Fixed Asset	516.9	958.6	227.2	-74.5
(Inc.)/Dec. in Investment	0.1	-0.7	21.9	0.0
CF from Investing	-517.0	-957.9	-249.1	74.5
Inc./(Dec.) in Debt	54.2	1103.4	-483.1	-488.2
Inc./(Dec.) in Net worth	231.2	-94.6	417.3	-397.7
CF from Financing	285.5	1008.8	-65.8	-885.9
Opening Cash balance	105.8	157.3	71.5	524.9
Closing Cash balance	157.3	71.5	524.9	145.8

Exhibit 27: YoY growth (%)

	FY08	FY09	FY10E	FY11E
Net sales	60.3	2.7	16.4	16.1
EBITDA	91.8	-25.8	22.5	12.1
Adj. net profit	134.5	-37.0	22.2	27.6
EPS	-1.5	-69.9	84.6	27.6
Cash EPS	-3.5	-58.3	64.9	21.3
FCF	86.1	-65.4	100.3	21.6
Net worth	121.3	5.2	47.5	1.6

Exhibit 28: Working capital & FCF

Working Capital	FY08	FY09	FY10E	FY11E
Working cap./Sales	0.7	0.8	0.7	0.6
Inventory turnover	5.1	3.3	4.5	4.5
Debtor turnover	2.5	2.2	2.4	2.6
Creditor turnover	6.4	4.6	3.9	3.9
Current Ratio	5.2	4.6	3.9	3.2
Quick ratio	3.9	10.3	10.6	11.3
Cash to abs. Liab.	0.5	0.2	0.8	0.2
WC (Excl. cash)/sales	0.6	0.7	0.5	0.5

FCF Calculation				(Rs Crore)
EBITDA	847.8	629.0	770.4	863.5
Less: Tax	80.3	75.4	113.3	144.6
NOPLAT	767.4	553.6	657.1	718.8
Capex	516.9	958.6	227.2	-74.5
Change in working cap.	413.6	377.6	-286.0	154.5
FCF	-163.1	-782.6	715.9	638.9

Exhibit 29: Valuation parameters

	FY08	FY09	FY10E	FY11E
PE (x)	9.4	31.4	17.0	13.3
EV/EBITDA (x)	8.5	18.6	11.6	9.2
EV/Sales (x)	3.3	3.8	3.1	2.6
Dividend Yield (%)	0.5	0.3	0.6	0.8
Price/BV (x)	3.9	3.8	2.7	2.7

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Outperformer (OP): 20% or more;
Performer (P): Between 10% and 20%;
Hold (H): ±10% return;
Underperformer (U): -10% or more;

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