

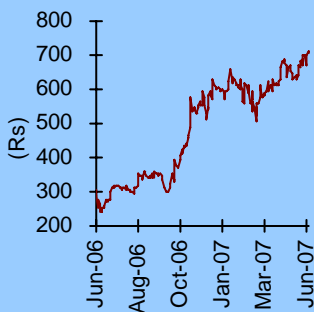
## Pharmaceuticals

## Shareholding pattern

	Sep '06	Dec '06	Mar '07
Promoters	54.9	54.5	54.3
Institutional investors			
MFs and UTI	25.0	29.5	29.3
Insurance Cos.	2.6	1.4	1.8
FII's	2.0	1.9	1.8
FII's	20.4	26.2	25.7
Others	20.1	16.0	16.4

Source: NSE

## Price chart



Rajesh Vora

rajesh\_vora@isecltd.com

+91 22 6637 7508

## INDIA

## Glenmark Pharmaceuticals

**BUY**  
Maintained  
**Rs708**

## On a visionary trail

Reason for report: Company update

Our meeting with Glenmark's top management reinforced our optimism on the company's healthy prospects. At the recent analyst meet, Glenmark unveiled VISION 2015: 'To become a specialty pharma company with two proprietary products in the world market, and earn >70% of revenues from the proprietary business'. Glenmark believes it would achieve FY08 and FY09 PAT guidance of US\$125mn and US\$150mn respectively. Further, the company seems poised to strike two more NCE licensing deals in FY08, which we believe would potentially add US\$400-500mn (19-24%) to its current market cap. Glenmark, being one of the best twin plays on India's R&D capabilities and among the fastest growing generics businesses, remains one of our top large-cap BUYs in the sector. Our fair value remains unchanged at Rs916/share, implying a potential upside of 29% in the next 12 months.

- **VISION '15: To bring two NCEs in the world market.** In the recent analyst meet, Glenmark unveiled Vision '15: 'To become a specialty company with two proprietary products in the world market, and earn >70% of revenues from the proprietary business with specialty front-ends in all key markets (the US, EU and ROW)'. We believe Glenmark has all the ingredients to become a world-class mid sized specialty pharma company and bring at least one NCE to the regulated markets. However, >70% of revenue from the proprietary business seems a tall order.
- **Drug discovery, base generics – In full swing.** Glenmark's R&D NCE pipeline is progressing well, with the GRC6211 compound having recently entered phase II in Europe. Further, the company is in advanced negotiations for the compound, with a deal closure in the offing in '07. Based on the US FDA requirement, Glenmark's licensee, Forest Labs is conducting additional studies on *Oglemilast*, expected to be completed by end-'07. GRC10693 and GRC10801 are other key compounds. On the generics front, the company has sustained aggressive growth, with the US dosage form revenues likely to grow ten-fold within just three years – to US\$130mn in FY09 from US\$13mn in FY06. Further, non-US revenues would more-than-double to US\$340mn in FY09 from US\$159mn in FY06. Glenmark expects its net profit from the base generics business to jump to US\$65mn and US\$90mn in FY08 and FY09 respectively.
- **Remains one of our top BUYs.** Glenmark offers the best twin play from India, with both drug discovery and generics engines scaling up fast. The recent announcement at the June 11 board meeting, to consider stock split (we expect 1:1), is a positive to market sentiment. The stock, currently trading at FY08E P/E of 17x on a consolidated basis, remains one of our top large-cap BUYs in the sector.

Market Cap	Rs85bn/US\$2.1bn
Reuters/Bloomberg	GLEN.BO/ GNP IN
Shares Outstanding (mn)	120
52-week Range (Rs)	713/238
Free Float (%)	45.7
FII (%)	25.7
Daily Volume (US\$/'000)	9,050
Absolute Return 3m (%)	29.4
Absolute Return 12m (%)	131.0
Sensex Return 3m (%)	14.5
Sensex Return 12m (%)	46.0

Year to March	FY06	FY07P	FY08E	FY09E
Revenue (Rs mn)	7,020	12,083	17,237	19,271
Net Income (Rs mn)	814	3,132	5,296	5,862
EPS (Rs)	6.3	24.6	41.6	46.1
% Chg YoY	(24.9)	292.3	69.1	10.7
P/E (x)	112.8	28.8	17.0	15.4
CEPS (Rs)	8.6	29.6	48.6	54.4
EV/E (x)	66.7	21.8	13.3	12.1
Dividend Yield (%)	0.1	0.1	0.2	0.3
RoCE (%)	9.7	24.1	28.7	25.6
RoE (%)	23.5	58.6	56.2	40.2

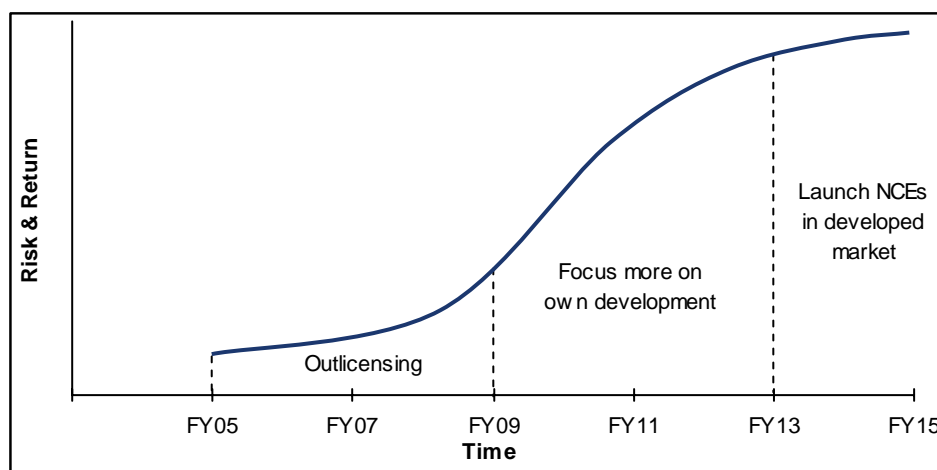
Please refer to important disclosures at the end of this report

## Vision 2015

In the recent analyst meet, Glenmark unveiled Vision '15: 'To become a specialty company with two proprietary products in the world market, and earn >70% of revenues from the proprietary business, with specialty front-ends in all key markets (the US, EU and ROW)'. We believe that Glenmark has all the ingredients to become a world-class mid sized specialty pharma company and bring at least one NCE to the regulated markets. However, >70% of revenue from the proprietary business may be a tall order. In FY07, Glenmark earned 11% of revenue from the proprietary business through R&D milestone income.

Further, in the next one year after licensing out two more NCEs, the company plans to invest more resources, taking one-two NCEs beyond the Proof-of-Concept (PoC) stage. The decision to move up the value chain and learning curve is partly influenced by expected higher free-cash generation from the business.

**Chart 1: Progression of NCE business model**

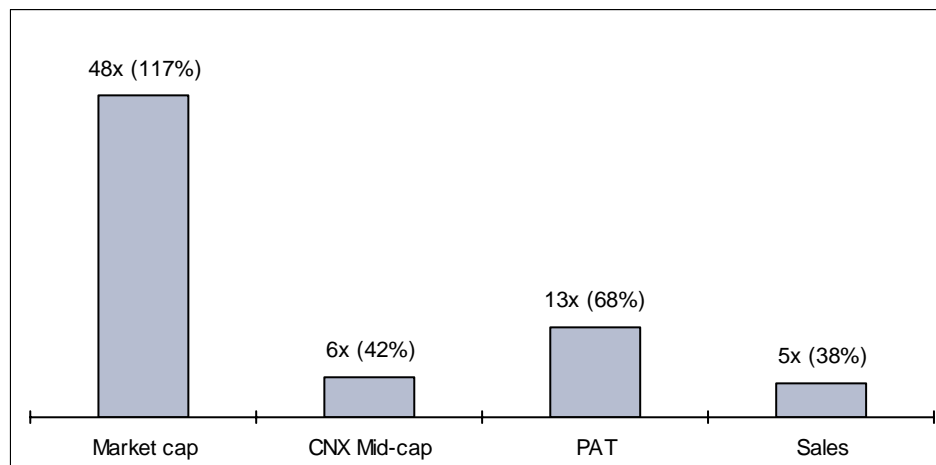


Source: i-SEC Research

## Phenomenal transformation

Glenmark has come a long way from a pure, small generic company in FY02 (sales: Rs2.4mn, PAT: Rs233mn, and **market cap: US\$44mn at which we initiated coverage in our report 'Poised for takeoff', dated December 12, '02**) to a greatly transformed innovation-led generics company. At present, Glenmark has two world-class lucrative NCE deals in the bag, sales and PAT of Rs12bn and Rs3bn respectively in FY07 and a market cap of US\$2.1bn.

**Chart 2: Stellar track record (~5 years)**



Figures in brackets represent CAGR  
Source: i-SEC Research

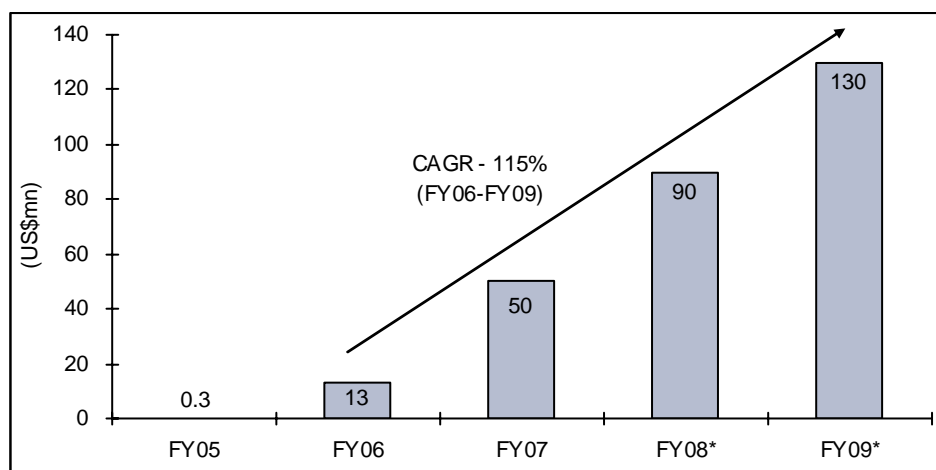
## GRC6211 – Now in phase II, likely candidate for deal

Glenmark's GRC6211, a VR1 (vanniloid receptor) antagonist compound, recently completed a successful phase I, which was conducted on 72 human subjects. The compound was well tolerated by the subjects at all dosage levels, with a good safety profile and predictable pharmacokinetic properties. Glenmark will now move into phase II (a) or the PoC stage for dental pain in Europe, which the company targets completing by December '07. Glenmark had given guidance to clinch two licensing deals in FY08 and, we believe that GRC6211 is the prime candidate. In the past, large innovator companies – Pfizer and Merck & Co – have in-licensed similar compounds from Renovis and Nurogen for US\$170mn and US\$118mn respectively in total milestone payments. This indicates an attractive scientific and commercial opportunity for Glenmark. With the addition of GRC6211 in phase II, Glenmark now has three compounds in phase II trials and expects three more to enter clinical trials in the next six-nine months.

## US generics – US\$100mn within striking distance

Glenmark's multi-pronged strategy of building a robust US generics business is bearing fruit; the company smartly ramped up its ANDA filings through the owned, acquired & partnership routes. At present, Glenmark (along with its partners) has as many as 36 ANDAs pending approvals, with a good mix of commodity and niche generics (para IVs, controlled release, dermatology & controlled substance). Recently, Glenmark announced that it has first-to-file position on *Zetia* (ezetimibe) – which has revenues of US\$1.5bn in the US – with its patents expiring through '11-22. At present, Glenmark has 13 products in the US generics market, with sales expected to jump to US\$130mn in FY09 (company's guidance) compared with <US\$1mn in FY05 and US\$50mn in FY07. This will place Glenmark in India's top league (Ranbaxy, Dr. Reddy's Laboratories and Sun Pharma) that includes companies with >US\$100mn revenues from the US generics business. Further, Glenmark is the fastest (in the fifth year of sales) Indian company to have achieved the US\$100mn sales mark. More importantly, Glenmark's US dosage form business is quite profitable, with ~25% EBITDA margin, which is one of the highest among Indian pharma companies.

**Chart 3: Massive scale-up in dosage form revenues from the US**



\* Company data  
Source: Company guidance

## Company guidance

**Table 1: Company's guidance versus i-SEC estimates**

(US\$ mn)

	FY08			FY09		
	i-SEC estimate	Company guidance	% chg	i-SEC estimate	Company guidance	% chg
Formulations	303	303	0.1	354	400	(11.5)
<i>Domestic</i>	108	108	0.2	118	125	(5.6)
<i>US</i>	92	90	2.2	120	130	(7.7)
<i>Latin America</i>	41	42	(2.4)	47	60	(21.4)
<i>Rest of world</i>	62	63	(1.6)	69	85	(18.8)
API	42	47	(11.4)	53	70	(23.7)
<b>Total product sales</b>	<b>345</b>	<b>350</b>	<b>(1.5)</b>	<b>408</b>	<b>470</b>	<b>(13.3)</b>
R&D income	69	69	0.0	55	69	(20.3)
<b>Total Revenues</b>	<b>414</b>	<b>419</b>	<b>(1.2)</b>	<b>463</b>	<b>539</b>	<b>(14.2)</b>
<b>Consolidated PAT</b>	<b>126</b>	<b>125</b>	<b>0.9</b>	<b>140</b>	<b>150</b>	<b>(7.0)</b>
<b>Core business PAT</b>	<b>62</b>	<b>65</b>	<b>(4.7)</b>	<b>88</b>	<b>90</b>	<b>(1.8)</b>

Source: Company data, i-SEC Research

Glenmark has assumed US\$=Rs42 in its guidance, which we too have now used for our earnings forecast. Consequently, the gap between the company's guidance and conservative i-SEC estimates has almost disappeared (Table 1). Further, we have modified our FY08E and FY09E earnings forecast based on FY07 actuals and the company's new guidance, however keeping the EPS estimate unchanged.

## Financial Summary (Consolidated as per Indian GAAP)

Table 2: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY06	FY07	FY08E	FY09E
<b>Operating Income (Sales)</b>	<b>7,020</b>	<b>12,083</b>	<b>17,237</b>	<b>19,271</b>
<b>Operating Expenses</b>	<b>5,648</b>	<b>7,823</b>	<b>10,307</b>	<b>11,865</b>
<b>EBITDA</b>	<b>1,372</b>	<b>4,260</b>	<b>6,930</b>	<b>7,406</b>
% margins	19.5	35.3	40.2	38.4
Depreciation & Amortisation	232	426	544	667
Gross Interest	182	404	521	427
Other Income	97	181	279	497
<b>Recurring PBT</b>	<b>1,055</b>	<b>3,611</b>	<b>6,144</b>	<b>6,808</b>
Extraordinaries (Net)	66	(20)	0	0
Less: Taxes	241	479	848	946
- Current tax	139	163	265	265
- Deferred tax	102	316	584	681
<b>Net Income (Reported)</b>	<b>880</b>	<b>3,111</b>	<b>5,296</b>	<b>5,862</b>
<b>Recurring Net Income</b>	<b>814</b>	<b>3,132</b>	<b>5,296</b>	<b>5,862</b>

Source: Company data, i-SEC Research

Table 3: Balance Sheet

(Rs mn, year ending March 31)

	FY06	FY07P	FY08E	FY09E
<b>Assets</b>				
Total Current Assets	7,415	12,372	16,361	18,720
of which cash & cash eqv.	1,056	1,728	2,264	1,786
Total Current Liabilities & Provisions	1,728	2,486	3,332	3,998
<b>Net Current Assets</b>	<b>5,687</b>	<b>9,886</b>	<b>13,029</b>	<b>14,721</b>
<b>Investments</b>	<b>197</b>	<b>197</b>	<b>1,097</b>	<b>1,097</b>
of which				
Strategic/Group	135	135	135	135
Other Marketable	62	62	962	962
<b>Net Fixed Assets</b>	<b>5,805</b>	<b>7,178</b>	<b>8,635</b>	<b>10,167</b>
of which				
intangibles				
Capital Work-in-Progress	577	360	400	440
<b>Total Assets</b>	<b>11,689</b>	<b>17,261</b>	<b>22,760</b>	<b>25,985</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>7,554</b>	<b>9,554</b>	<b>9,554</b>	<b>6,682</b>
<b>Deferred Tax Liability</b>	<b>420</b>	<b>736</b>	<b>1,320</b>	<b>2,001</b>
Equity Share Capital	237	240	240	240
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	3,477	6,731	11,646	17,063
<b>Net Worth</b>	<b>3,715</b>	<b>6,971</b>	<b>11,886</b>	<b>17,303</b>
<b>Total Liabilities</b>	<b>11,689</b>	<b>17,261</b>	<b>22,760</b>	<b>25,985</b>

\*excluding revaluation reserves; # = not written off

Source: Company data, i-SEC Research

Table 6: Quarterly trends

(Rs mn, year ending March 31)

	Jun-06	Sep-06	Dec-06	Mar-07
Gross sales	1,916	2,557	3,066	3,486
% growth (YoY)	45.6	65.2	49.8	49.8
EBITDA	321	601	2,328	1,010
Margin (%)	17.4	24.3	53.1	29.8
Other income	45	29	31	77
Extraordinaries (Net)	-	-	(20)	0
Net profit	187	402	1,910	633

Source: Company data, i-SEC Research

Table 4: Cash Flow Statement

(Rs mn, year ending March 31)

	FY06	FY07P	FY08E	FY09E
<b>Operating Cash flow</b>	<b>1,078</b>	<b>3,673</b>	<b>6,144</b>	<b>6,713</b>
Working Capital Changes	(1,605)	(3,526)	(2,608)	(2,170)
Capital Commitments	(2,596)	(1,800)	(2,900)	(2,200)
<b>Free Cash Flow</b>	<b>(3,123)</b>	<b>(1,633)</b>	<b>636</b>	<b>2,344</b>
<b>Cash flow from Investing Activities</b>	<b>97</b>	<b>181</b>	<b>279</b>	<b>497</b>
Issue of Share Capital	0	3	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	2,979	2,000	0	(2,872)
Dividend paid	(111)	(93)	(169)	(234)
<b>Extraordinary Items</b>	<b>66</b>	<b>(20)</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(216)</b>	<b>672</b>	<b>536</b>	<b>(477)</b>

Source: Company data, i-SEC Research

Table 5: Key Ratios

(Rs mn, year ending March 31)

	FY06	FY07P	FY08E	FY09E
<b>Per Share Data (in Rs)</b>				
EPS(Basic Recurring)	6.6	26.1	44.1	48.8
Diluted Recurring EPS	6.3	24.6	41.6	46.1
Recurring Cash EPS	8.6	29.6	48.6	54.4
Dividend per share (DPS)	0.8	0.8	1.4	2.0
Book Value per share (BV)	30.9	58.1	99.0	144.1
<b>Growth Ratios (%)</b>				
Operating Income	23.3	72.1	42.7	11.8
EBITDA	(11.9)	210.5	62.7	6.9
Recurring Net Income	(24.0)	284.6	69.1	10.7
Diluted Recurring EPS	(24.9)	292.3	69.1	10.7
Diluted Recurring CEPS	(16.1)	245.2	64.1	11.8
<b>Valuation Ratios (x)</b>				
P/E	112.8	28.8	17.0	15.4
P/CEPS	82.5	23.9	14.6	13.0
P/BV	22.9	12.2	7.2	4.9
EV / EBITDA	66.7	21.8	13.3	12.1
EV / Operating Income	13.0	7.7	5.4	4.7
EV / Operating FCF	(173.7)	633.9	26.1	19.8
<b>Operating Ratio</b>				
Raw Material/Sales (%)	36.4	30.4	30.2	30.0
SG&A/Sales (%)	22.4	19.9	19.6	19.0
R&D/Sales (%)	3.9	3.9	4.7	4.8
Other Income / PBT (%)	9.2	5.0	4.5	7.3
Effective Tax Rate (%)	21.5	13.3	13.8	13.9
NWC / Total Assets (%)	39.6	47.3	47.3	49.8
Inventory Turnover (days)	198.7	219.2	237.1	255.4
Receivables (days)	154.8	173.2	196.2	212.7
Payables (days)	131.0	145.3	148.9	160.6
D/E Ratio (%)	214.6	147.6	91.5	50.2
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	11.4	25.5	30.2	29.7
RoCE	9.7	24.1	28.7	25.6
RoNW	23.5	58.6	56.2	40.2
Dividend Payout Ratio	11.9	3.0	3.2	4.0
Dividend Yield	0.1	0.1	0.2	0.3
EBITDA Margins (excl. R&D income)	16.4	26.8	28.1	30.0

Source: Company data, i-SEC Research

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