



GLENMARK PHARMA

Strong upside from launch of Bactroban cream in US

India Equity Research | Pharmaceuticals



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Glenmark (GNP) has received approval to launch generic Bactroban (Mupirocin Calcium) cream (USD60mn annual sales) in the US. The company is the only generic player in the market and there has been no authorised generic (AG) launch. With the impending litigation on the patent expiring October 20, 2014, we do not expect incremental generic entry in the product over the next 20 months.

Financial Impact: We estimate potential sales of USD30mn per annum assuming 30% price erosion and 70% market share (MS) for Glenmark. In case of an AG launch, the potential sales could be ~USD18-20mn (assuming 40% price erosion and 50% MS).

We note that GSK has a pending exclusivity expiring October 20, 2014. However, the company failed to list its patents in the FDA Orange book before Glenmark ANDA filing. GNP has submitted ANDA with a Para-III certification and had sent a correspondence to FDA addressing patent issues with this ANDA. FDA, citing that the GSK patent was listed in the Orange book later than GNP's ANDA, granted final approval to the latter. **Thus, a new ANDA filer has to prove the non-infringement of the validity of October 2014 patent, making this an exclusive product opportunity for GNP.**

Pending litigation: Earlier, GSK had sought an explanation from GNP on why its ANDA is non-infringing. Further to this, GNP had sought a declaratory judgement from GSK that it is not infringing its US patents 389 and 672. While the case is pending in the court, we believe if GSK gains an injunction, it could result in withdrawal of the generic. However, it cannot impose any penalty on GNP given its ANDA filing is prior to listing of 389' patent. Hence, we sight strong upside potential and limited downside risk.

Outlook and valuations: We have not built in the potential upside from the generic launch in our estimates. We value the core business at 17x FY14E core EPS of INR27.6 and give NPV of INR30/share for R&D pipeline and Para-IV. We maintain 'BUY/ Sector Outperformer' recommendation/rating on the stock.

Financials

Year to March	FY11	FY12	FY13E	FY14E
Revenues (INR mn)	29,491	40,217	47,981	56,926
Rev growth (%)	17.9	36.4	19.3	18.6
Operating profit (INR mn)	6,573	9,991	9,788	11,841
Adj. PAT (INR mn)	3,914	7,015	5,900	7,458
Adj. EPS (INR)	14.5	25.9	21.8	27.6
Recurring EPS (INR)	11.7	16.8	20.7	27.6
EPS growth (%)	12.6	44.1	22.8	33.5
P/E (x)	41.4	28.7	23.4	17.5
EV/EBITDA (x)	24.0	15.8	15.9	12.9
Core ROE (%)	19.9	22.6	22.3	22.9

Note: P/E is based on Adj. EPS (excl milestone income and Para IV)

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

MARKET DATA (R: GLEN. BO, B: GNP IN)

CMP	: INR 513
Target Price	: INR 500
52-week range (INR)	: 550 / 286
Share in issue (mn)	: 270.7
M cap (INR bn/USD mn)	: 139 / 2,579
Avg. Daily Vol.BSE/NSE('000)	: 586.3

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	48.3	48.3	48.3
MF's, FI's & BK's	6.7	6.7	5.4
FII's	33.1	33.1	33.5
Others	11.8	11.8	12.8
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(3.0)	3.4	(0.4)
3 months	20.6	5.8	11.3
12 months	52.4	19.8	50.0

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