

Glenmark Pharmaceuticals Ltd.

BUY
CMP Rs270
TP Rs353

28 May 2010

Strong Q4, base business now stabilised; Remains our preferred pick

Glenmark reported strong Q4FY10 results with sales and EBITDA (ex Milestones) growth of 44% and 63% respectively; 12% and 9% ahead of our estimates. Sales growth was driven mainly by US (+19 %) and Semi regulated markets (+224%). India, Europe and Latin America grew by 35%, 22% and 24% respectively.

Improvement in the base business

EBITDA (ex milestones) stands at Rs1.8bn and is the highest in the history of Glenmark barring Q3FY08 (launch of Oxcarbazepine in US during exclusivity) and Q3FY09 (benign RM costs).

Balance sheet shows improvement

Working capital has fallen from 268 days to 255 days as inventories and debtors have declined. Current debt equity at 0.6x is comfortable, despite being high compared to peers.

Earnings Call Takeaways

1) 2 more strengths of Tarka (Branded sales - US\$16m) have been approved by the USFDA and Glenmark may potentially launch this product in the market. 2) 80% of products filings pending approval with the USFDA belong to the niche generic categories of dermatology, modified releases, hormones and controlled substances v/s 20% of the current portfolio.

VALUATIONS AND RECOMMENDATION

Valuations are reasonable at 17x FY11e FD EPS and are at a discount to the sector. We believe US business recovery is round the corner. However, given the near term uncertainty over the NCE R&D pipeline and milestones thereon a cost basis method is more appropriate way to value the NCE R&D effort. We add back the NCE R&D expense to arrive at an EPS of Rs18.9 and Rs21.8 for FY11E and FY12E respectively. At 18x June'11 earnings (15% discount to the sector) our target price stands at Rs353. We re-iterate 'BUY' recommendation.

KEY FINANCIALS (Rs mn)

	FY08	FY09	FY10P	FY11E	FY12E
Net Sales	17,704	21,160	24,653	29,661	33,837
YoY Gr.(%)	59.2	19.5	16.5	20.3	14.1
Op. Profit	5,617	4,549	5,969	7,825	8,834
Op. Marg.(%)	31.7	21.5	24.2	26.4	26.1
Adj. Net Profit	4,274	1,916	3,123	4,292	5,088
YoY Gr.(%)	126.5	(55.2)	63.0	37.4	18.6

KEY RATIOS

Dil. EPS (Rs)	15.9	7.1	11.6	15.9	18.8
ROCE (%)	22.8	10.4	11.8	12.4	12.7
RoE (%)	27.0	12.3	15.8	16.5	16.4
PER (x)	17.0	37.9	23.4	17.0	14.3
EV/ Net Sales (x)	4.5	4.4	3.7	2.9	2.5
EV/EBDITA (x)	14.3	20.3	15.1	11.1	9.5

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar-10
Net Sales	5,903	6,416	7,091
YoY Gr.(%)	5.5	10.4	44.4
Op. Profit	1,685	1,822	1,817
OPM (%)	28.5	28.4	25.6
Adj. Net Profit	809	697	1,026
YoY Gr. (%)	(15.0)	(6.3)	33.5

STOCK DATA

Market cap	Rs73bn
Book Value per share	Rs88
Shares O/S (F.V. Rs1)	270mn
Free Float	51.6%
Avg Trade Value (6 months)	Rs290mn
52 week High/Low	Rs304/199
Bloomberg Code	GNP IN
Reuters Code	GLEN.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	3.0	9.6	15.9
Relative	6.3	5.8	(1.6)

RELATIVE PERFORMANCE

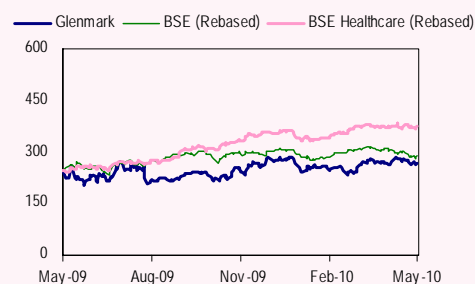


Exhibit 1 - Q4FY10 Earnings Summary (Rs mn)

Year Ended March 31	Q4FY09	Q4FY10	% ch YoY	Q3FY10	% Ch QoQ	FY09	FY10	% ch YoY	PINC Comments
Net sales	4,911	7,091	44.4	6,184	14.7	20,930	24,615	17.6	US and India drive growth
R&D Income	-	-		232		-	232		
Other operating Income	247	34		67	(49.7)	285	272		Consists of exports benefits; Lump in Q4 FY09 is surprising
Net Revenue	5,158	7,125	38.1	6,483	9.9	21,215	25,120	18.4	
Material cost	1,489	2,379	59.8	2,021	17.7	5,946	8,061	35.6	
<i>% of Net Sales</i>	<i>30.3</i>	<i>33.5</i>	<i>323 bps</i>	<i>32.7</i>	<i>85 bps</i>	<i>28.4</i>	<i>32.7</i>	<i>434 bps</i>	
Staff cost	746	804	7.8	919	(12.5)	3,123	3,425	9.7	Current quarterly run rate to be maintained for the full year
Other exp	1,809	2,126	17.5	1,721	23.5	6,012	6,706	11.6	In line with growth in business volumes
Total Expenditure	4,043	5,308	31.3	4,661	13.9	15,080	18,193	20.6	
EBITDA (Excl'd Milestones)	1,114	1,817	63.0	1,590	14.3	6,135	6,695	9.1	Margins in emerging markets improve on currency devaluation
<i>EBITDA Margins (%)</i>	<i>22.7</i>	<i>25.6</i>	<i>293 bps</i>	<i>25.7</i>	<i>-9 bps</i>	<i>29.3</i>	<i>27.2</i>	<i>-211 bps</i>	<i>Operating leverage in play</i>
EBITDA (Including Milestones)	1,114	1,817	63.0	1,822	(0.3)	6,135	6,927	12.9	
Interest	719	378	(47.5)	368	2.8	1,405	1,640	16.8	Interest cost will fall with the recent equity raising
Depreciation	296	169	(42.9)	363	(53.5)	1,027	1,206	17.5	Higher depreciation on the back of capacity expansion
Other income	847	38	(95.5)	13	190.6	1,159	217	(81.2)	
PBT	946	1,308	38.3	1,104	18.5	4,862	4,298	(11.6)	
One time Income/(Expenses)	(2,470)	-	na	(120)	nm	(2,160)	(460)	na	
PBT after extra-ordinary	(1,523)	1,308	(185.9)	984		2,702	3,838	42.0	
Tax	(316)	282	(189.1)	43	554.1	754	528	(30.0)	Guidance of 14-15% in FY11 and FY12
<i>Effective Tax rate</i>	<i>20.8</i>	<i>21.5</i>	<i>79 bps</i>	<i>4.4</i>	<i>1717 bps</i>	<i>27.9</i>	<i>13.8</i>	<i>-1415 bps</i>	
Reported Net Profit	(1,207)	1,026	(185.0)	941	9.1	1,948	3,311	69.9	
Adjusted PAT (Excl. Milestones, Net of Tax)	769	1,026	33.5	823	24.7	4,108	3,679	(10.5)	Assuming a tax rate of 8% on milestones and tax shield of 20% on extraordinary items

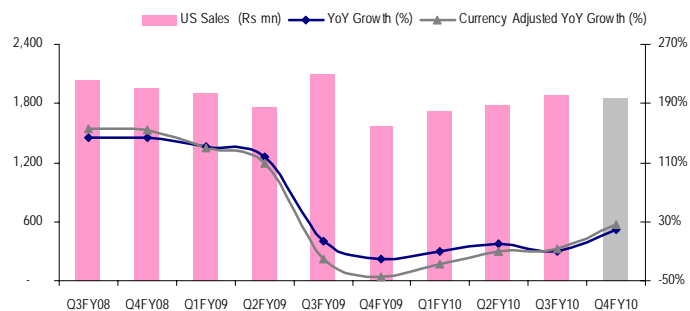
Source: Company, PINC Research

Exhibit 2 - Q4FY10 Sales Mix (Rs mn)

Year Ended March 31	Q4FY09	Q4FY10	% ch YoY	Q3FY10	% Ch QoQ	FY09	FY10	% ch YoY	PINC Comments
Formulations	32%	26%		30%		35%	29%		
US	1,564	1,852	18.5	1,886	(1.8)	7,338	7,230	(1.5)	Three products launched, 13 filled in FY10, traction to improve, currently 53 products sold in the market and 50 pending approvals
<i>% of total Formulations</i>	<i>35.5</i>	<i>29.0</i>		<i>34.9</i>		<i>38.6</i>	<i>32.9</i>		
Europe	458	557	21.7	417	33.5	1,143	1,662	45.4	Two launches in UK, branded generics in Europe grew 20%
<i>% of total Formulations</i>	<i>10.4</i>	<i>8.7</i>		<i>7.7</i>		<i>6.0</i>	<i>7.6</i>		
Latin America	345	426	23.6	356	19.6	1,980	1,704	(14.0)	6 Oncology products launched in Argentina, branded generics in Brazil grew 25%, traction to improve from here onwards
<i>% of total Formulations</i>	<i>7.8</i>	<i>6.7</i>		<i>6.6</i>		<i>10.4</i>	<i>7.7</i>		
Rest of World	423	1,370	223.9	906	51.2	2,355	3,864	64.1	Growth in Russia, CIS and Asia
<i>% of total Formulations</i>	<i>9.6</i>	<i>21.4</i>		<i>16.7</i>		<i>12.4</i>	<i>17.6</i>		
India	1,617	2,184	35.1	1,843	18.5	6,173	7,529	22.0	7 new product launches with improving traction in Derma and Cardiology with growth across most key brands
<i>% of total Formulations</i>	<i>36.7</i>	<i>34.2</i>		<i>34.1</i>		<i>32.5</i>	<i>34.2</i>		
Total Formulations	4,406	6,389	45.0	5,408	18.1	18,989	21,988	15.8	US and India drive growth
<i>% of Total revenue</i>	<i>89.7</i>	<i>90.1</i>		<i>84.3</i>		<i>90.5</i>	<i>88.5</i>		
API	505	703	39.1	776	(9.4)	1,997	2,627	31.6	Three new products launched, Perendopril to be a large opportunity
<i>% of Total revenue</i>	<i>10.3</i>	<i>9.9</i>		<i>12.1</i>		<i>9.5</i>	<i>10.6</i>		
Total Sales	4,911	7,091	44.4	6,184	14.7	20,986	24,615	17.3	
Outlicensing revenues	-	-		232		-	232		
<i>% of Total revenue</i>	<i>-</i>	<i>-</i>		<i>3.6</i>		<i>-</i>	<i>0.9</i>		
Consolidated Revenue	4,911	7,091	44.4	6,416	10.5	20,986	24,848	18.4	

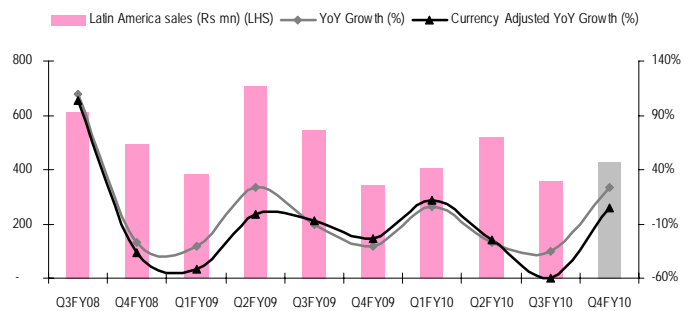
Source: Company, PINC Research

Exhibit 3 - US Sales Growth Performance (%)



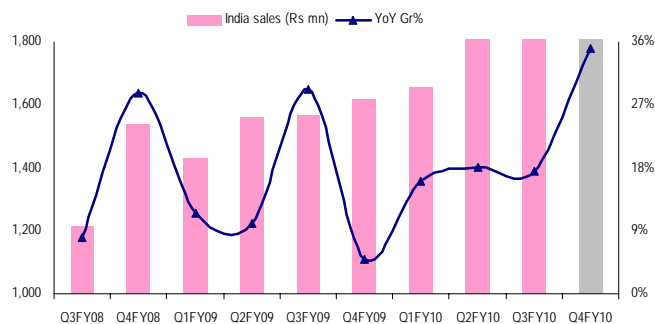
Source: PINC Research, Company

Exhibit 4 - LAM Sales Growth Performance (%)



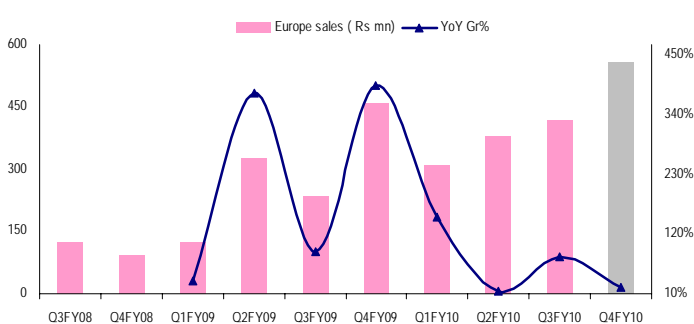
Source: PINC Research, Company

Exhibit 5 - India Sales Growth Performance (%)



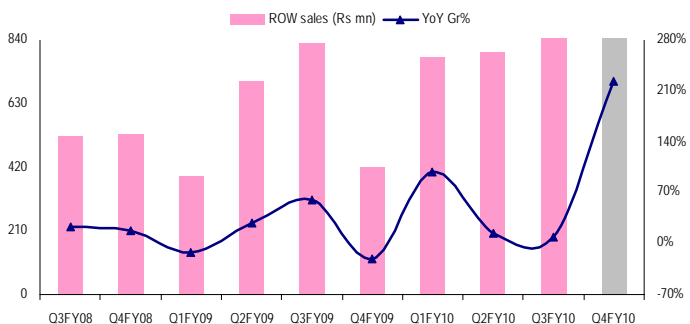
Source: PINC Research, Company

Exhibit 6 - Europe Sales Growth Performance (%)



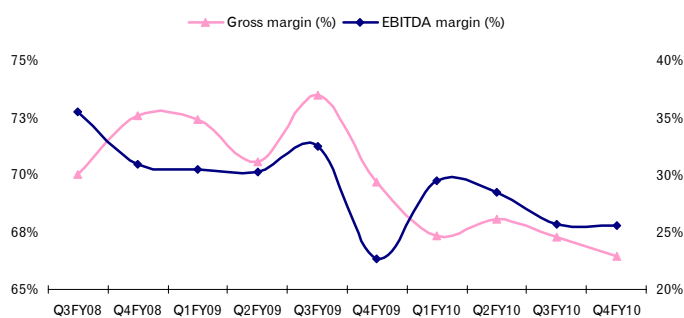
Source: PINC Research, Company

Exhibit 7 - ROW Sales Growth Performance (%)



Source: PINC Research, Company

Exhibit 8 - Gross and EBITDA margin (%)



Source: PINC Research, Company

Year Ended March (Figures in Rs mn)

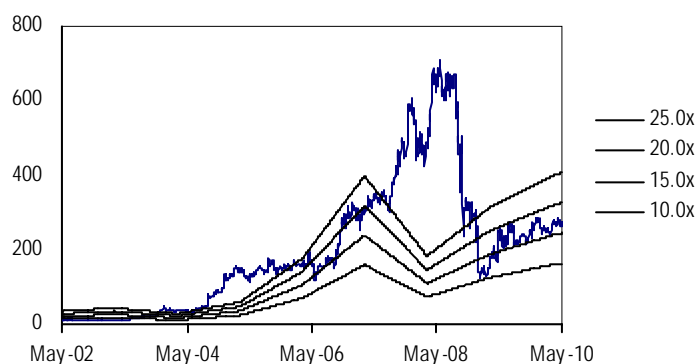
Income Statement	FY08	FY09	FY10P	FY11E	FY12E
Recurring sales	17,704	21,160	24,653	29,661	33,837
Growth (%)	59.2	19.5	16.5	20.3	14.1
Milestone Payments	2,403	0	232	940	-
Total Revenues	20,107	21,160	24,885	30,601	33,837
Recurring EBITDA	5,617	4,549	5,969	7,825	8,834
Growth (%)	95.9	(19.0)	31.2	31.1	12.9
Depreciation	716	1,026	1,206	1,403	1,463
Other Income	196	1,740	489	70	35
EBIT	5,097	5,263	5,252	6,492	7,406
Interest Paid	637	1,405	1,640	1,349	1,349
PBT (before E/o items)	4,460	3,858	3,612	5,143	6,058
Tax Provision	499	754	489	851	969
E/o income/(loss)	-	1,170	-	-	-
Reported Net Profit	6,364	1,917	3,356	5,232	5,088
Recurring Net Profit	4,274	1,916	3,123	4,292	5,088
Growth (%)	126.5	(55.2)	63.0	37.4	18.6
Recurring EPS (Rs)	15.9	7.12	11.6	15.9	18.8
Diluted EPS Growth (%)	127.0	(55.3)	62.3	37.5	18.6

Cash Flow Statement	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	7,115	2,689	3,845	6,083	6,058
Depreciation	717	1,026	1,206	1,403	1,463
Total Tax Paid	(885)	(1,395)	(415)	(779)	(775)
Chg in working capital	(3,846)	(3,877)	(2,441)	(1,867)	(2,819)
Other operating activities	617	1,714	1,151	1,279	1,314
Cash flow from oper (a)	3,718	158	3,345	6,119	5,240
Capital Expenditure	(5,174)	(9,561)	(3,995)	(1,000)	(1,000)
Chg in investments	(3)	7	-	-	-
Other investing activities	79	52	489	70	35
Cash flow from inv.(b)	(5,099)	(9,502)	(3,506)	(930)	(965)
Free cash flow (a+b)	(1,381)	(9,344)	(160)	5,189	4,275
Equity raised/(repaid)	1,987	351	19	(0)	-
Debt raised/(repaid)	471	8,224	(2,250)	-	-
Change in Minority Int	15	(1)	-	-	-
Dividend (incl. Tax)	(201)	-	(134)	(166)	(166)
Other financing activities	(383)	(81)	(1,640)	(1,349)	(1,349)
Cash flow from fin. (c)	1,888	8,492	(4,004)	(1,515)	(1,514)
Net chg in cash (a+b+c)	507	(851)	(4,165)	3,675	2,761

Balance Sheet	FY08	FY09	FY10P	FY11E	FY12E
Equity Share Capital	249	251	270	270	270
Reserves & surplus	14,930	15,731	23,282	28,227	33,150
Shareholders' funds	15,179	15,982	23,552	28,496	33,419
Minorities interests	15	32	130	130	130
Total Debt	9,909	20,943	18,694	18,694	18,694
Capital Employed	25,103	36,957	42,376	47,320	52,243
Net fixed assets	12,557	21,117	23,905	23,502	23,040
Cash & Cash Eq.	1,565	715	1,070	4,745	7,506
Net Other current assets	11,738	15,513	17,954	19,821	22,640
Investments	188	181	181	181	181
Net Deferred tax Assets	(946)	(569)	(710)	(905)	(1,099)
Total Assets	25,103	36,957	42,401	47,345	52,268

Key Ratios	FY08	FY09	FY10P	FY11E	FY12E
OPM (%)	31.7	21.5	24.2	26.4	26.1
Net Margin (%)	24.1	9.1	12.7	14.5	15.0
Div. Yield (%)	0.3	0.1	0.1	0.2	0.2
Net debt/Equity (x)	0.5	1.3	0.7	0.5	0.3
Net Working Capital (days)	213.1	267.6	263.3	236.4	244.2
ROCE (%)	22.8	10.4	11.8	12.4	12.7
RoE (%)	27.0	12.3	15.8	16.5	16.4
EV/Net Sales (x)	4.5	4.4	3.7	2.9	2.5
EV/EBITDA (x)	14.3	20.3	15.1	11.1	9.5
PER (x)	17.0	37.9	23.4	17.0	14.3
PCE (x)	14.5	24.7	16.8	12.8	11.1
Price/Book (x)	4.8	4.5	3.1	2.6	2.2

P/E Band



Key Assumptions	FY08	FY09	FY10P	FY11e	FY12e
US Sales (% Chng YoY)	155.5	30.1	(1.5)	13.9	12.0
India Sales (% Chng YoY)	27.1	12.6	22.6	17.7	14.7
Latin America (% Chng YoY)	66.0	(17.6)	(13.9)	18.6	2.7
ROW (% Chng YoY)	8.6	15.1	64.1	34.9	20.0
APIs (% Chng YoY)	48.6	0.7	35.0	20.0	8.0
Milestones (Rs mn)	2,403	0	232	940	0

T E A M

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