

# Analyst meet highlights

## Base business guidance raised; No change to MLe

At the analyst meet yesterday, Glenmark increased profit guidance for FY08E by 9% (US\$125mn) and provided 20%+ profit growth outlook for FY09E. The increased guidance is due to more bullish outlook in base business while milestone guidance of US\$69mn remains. We maintain estimates which was already ahead management guidance. Maintain Neutral.

## Management guides on four research deliverables for FY08E

In FY08E, Glenmark expects to deliver - (a) two more out-licensing deals of which one could be announced shortly (pain management; VR1) (b) US\$69mn total milestones in FY08E and FY09E; (c) progress of GRC 8200 (diabetes) and Oglemilast into Phase II and (c) initiate Phase I trials on 3 NCE compounds. In our view, any delays/ disappointments on this could impact the stock negatively.

## Likely more clarity on Oglemilast (asthma) progress by 3Q

Replying to concerns on milestone delay for Oglemilast from Forest Labs, Glenmark expects Forest to submit additional pre-clinical toxicity data in few months. FDA clearance for starting Phase II B likely by 3QFY08.

## Strong core business outlook but likely priced in

Glenmark expects core business revenues to grow 40% in FY08E driven by US and Latam. We think valuations adequately factor the strong growth outlook.

## 4Q performance highlights

Glenmarks 4Q revenues were in line with MLe but net profit was 46% ahead of MLe driven by near 10% increase in EBITDA margin (29%) attributed to a richer product-mix with US business growing at 150% YoY and Latam growth at 69%.

### Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	1,063	865	3,097	5,232	6,604
EPS	8.43	6.86	24.56	41.50	52.38
EPS Change (YoY)	163.9%	-18.6%	258.1%	69.0%	26.2%
Dividend / Share	6.50	6.50	6.50	6.50	6.50
Free Cash Flow / Share	(26.51)	(22.41)	8.12	32.59	54.78

### Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	80.34x	98.74x	27.57x	16.32x	12.93x
Dividend Yield	0.960%	0.960%	0.960%	0.960%	0.960%
EV / EBITDA*	56.57x	64.58x	20.68x	12.17x	9.69x
Free Cash Flow Yield*	-1.84%	-3.11%	1.13%	4.81%	8.09%
EV / Sales	19.48x	13.75x	8.28x	6.13x	5.11x

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.



Visalakshi Chandramouli >> +91 22 6632 8660

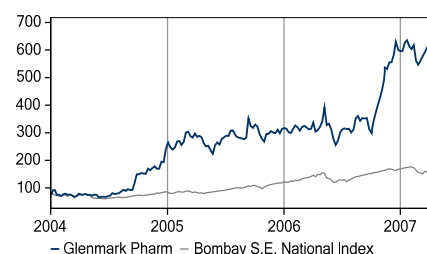
Research Analyst  
DSP Merrill Lynch (India)  
visalakshi\_c@ml.com

Arvind Bothra >> +91 22 6632 8685

Research Analyst  
DSP Merrill Lynch (India)  
arvind\_bothra@ml.com

### Stock Data

Price	Rs677.30
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs228.00-Rs709.25
Mrkt Val / Shares Out (mn)	US\$2,074 / 126.1
Average Daily Volume	228,246
ML Symbol / Exchange	XVQWF / BSE
Bloomberg / Reuters	GNP IN / GLEN.BO
ROE (2007E)	59.0%
Net Dbt to Eqty (Mar-2006A)	160.2%
Est. 5-Yr EPS / DPS Growth	30.0% / 0%
Free Float	45.1%



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26 April 2007

# *iQprofile*<sup>SM</sup> Glenmark Pharmaceuticals

## Key Income Statement Data (Mar)

(Rs Millions)	2005A	2006A	2007E	2008E	2009E
Sales	5,431	6,705	12,083	17,338	21,106
Gross Profit	3,439	3,770	8,200	12,500	15,389
Sell General & Admin Expense	(1,532)	(2,135)	(3,244)	(4,303)	(5,213)
Operating Profit	1,401	1,139	3,854	6,759	8,573
Net Interest & Other Income	(129)	(19)	(244)	(321)	(230)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,272	1,120	3,610	6,438	8,343
Tax (expense) / Benefit	(202)	(241)	(500)	(1,185)	(1,717)
Net Income (Adjusted)	1,063	865	3,097	5,232	6,604
Average Fully Diluted Shares Outstanding	126	126	126	126	126

## Key Cash Flow Statement Data

Net Income (Reported)	1,070	879	3,111	5,253	6,625
Depreciation & Amortization	164	232	426	514	563
Change in Working Capital	(1,265)	(1,605)	(2,404)	(2,474)	(1,540)
Deferred Taxation Charge	45	102	316	348	383
Other Adjustments, Net	345	286	438	1,168	1,575
Cash Flow from Operations	360	(106)	1,887	4,809	7,606
Capital Expenditure	(1,930)	(2,552)	(923)	(700)	(700)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(5)	(44)	(760)	(2,054)	(4,747)
Cash Flow from Investing	(1,935)	(2,596)	(1,683)	(2,754)	(5,447)
Shares Issue / (Repurchase)	119	0	15	0	0
Cost of Dividends Paid	(83)	(83)	(82)	(82)	(82)
Cash Flow from Financing	2,767	2,485	(958)	(1,948)	(2,092)
Free Cash Flow	(1,571)	(2,658)	964	4,109	6,906
Net Debt	3,102	6,298	6,905	6,438	6,309
Change in Net Debt	2,036	3,195	607	(466)	(129)

## Key Balance Sheet Data

Property, Plant & Equipment	3,503	5,805	6,302	6,488	6,624
Other Non-Current Assets	20	16	14	13	12
Trade Receivables	2,376	3,816	5,739	7,755	9,019
Cash & Equivalents	1,273	1,056	302	408	475
Other Current Assets	1,925	2,739	5,101	8,612	14,403
Total Assets	9,096	13,432	17,458	23,276	30,533
Long-Term Debt	4,375	7,354	7,207	6,847	6,784
Other Non-Current Liabilities	309	420	428	437	446
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,122	1,728	2,849	3,847	4,615
Total Liabilities	5,806	9,502	10,484	11,131	11,845
Total Equity	3,290	3,931	6,974	12,145	18,689
Total Equity & Liabilities	9,096	13,432	17,458	23,276	30,533

## *iQmethod*<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	20.7%	10.1%	26.3%	33.2%	30.9%
Return On Equity	39.9%	25.4%	59.0%	55.9%	43.4%
Operating Margin	30.8%	17.7%	36.1%	46.8%	49.5%
EBITDA Margin	28.8%	20.4%	35.4%	41.9%	43.3%

## *iQmethod*<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.3x	-0.1x	0.6x	0.9x	1.2x
Asset Replacement Ratio	11.8x	11.0x	2.2x	1.4x	1.2x
Tax Rate (Reported)	15.8%	21.5%	13.8%	18.4%	20.6%
Net Debt-to-Equity Ratio	94.3%	160.2%	99.0%	53.0%	33.8%
Interest Cover	8.1x	7.7x	9.5x	13.7x	18.0x

## Key Metrics

Sales Growth (YoY)	40.2%	41.7%	66.0%	35.1%	20.0%
EBITDA Growth (YoY)	126.5%	-12.4%	212.2%	69.9%	25.6%
Net Income Growth (YoY)	163.9%	-18.6%	258.1%	69.0%	26.2%
Net Profit Margin	19.6%	12.9%	25.6%	30.2%	31.3%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.

## Company Description

Glenmark Pharmaceuticals ranks among India's fastest growing pharma companies. It has four strategic business units - domestic formulations, R&D, active pharmaceutical ingredients (APIs) and international formulations. International business accounts for 29% of overall revenues. Glenmark's international foray is aided by cash flows generated from out-licensing of its research molecule, GRC-3886 for asthma/COPD.

## Stock Data

Price to Book Value	12.6x
Market Cap (US\$ mn)	2,074

## Analyst Meet Highlights

### Base business update

Glenmark has provided guidance for base business to grow at a healthy 37% CAGR to US\$470mn by FY09E (vs US\$250mn in FY07). Key highlights are:

- Likely scale-up of US generics business to US\$90mn in FY08E and US\$130mn in FY09E (vs. US\$50mn in FY07). This is likely to be driven by the launch of several of the 36 ANDAs pending approval, including 2 para IV filings and strategic partnerships. The management expects 15-20 product launches and 6-7 product approvals in FY08E apart from 8-10 third-party ANDAs
- The company plans to expand in the European market through the inorganic route and consolidate its acquisition of Medicamenta, a Czech marketing co.
- Likely scale-up of the Latam operations to US\$60mn by FY09E (vs US\$32mn in FY07) driven by increased dossier approvals.
- The company would expand its presence the product line in semi-regulated markets (SRM) and expects to achieve over 60% growth for FY08
- 15% growth outlook for India operations driven by increased chronic focus, new launches, in-licensing and increased field force
- Guidance of 25% revenue growth in API business with expectations of 12-14 DMFs in FY08E the year, increased supplies to regulated markets
- Glenmark's consolidated profit guidance is US\$125mn and US\$150mn for FY08E and FY09E respectively.

### Update on R&D progress

Key highlights of the status of the company's pipeline are provided below:

Table 1: Details of Glenmark's Research Progress

Compound	Target	Primary Indications	Status
GRC 3886 (Oglemilast)	PDE 4	Asthma, COPD	Completed Ph II trial for exercise induced asthma; Phase II for Asthma, COPD likely to be initiated soon; Survey by R&D Directions classified the molecule as one of the Great 100 Investigational Drugs
GRC 8200	DPP IV	Diabetes (Type II)	Ph II clinical development in progress; Glenmark retains exclusive marketing rights for India and will co-commercialise the drug in Rest of the World; Euro190mn tie - up with Merck KGaA of Germany in Oct 06 for US, Europe, Japan; Received Euro25 mn already
GRC 6211	VR 1	Osteoarthritis, Dental Pain, Incontinence, Neuropathic Pain	Glenmark follows in progress with this molecule after Merck licensed compound from Neurogen (currently in Ph II) and Pfizer licensed compound from Renovis (currently in pre-clinicals); Glenmark currently in discussions for potential licensing in regulated markets; Ph IIA studies to be initiated in Q1FY08; With only Pfizer ahead of it, the company has potential to benefit from an early launch

Source: Company Data

## Variance Analysis

Table 2: Glenmark Pharmaceuticals: Quarterly results, March fiscal year ends

Year to Mar (Rs mn)	Mar-06	Mar-07	QoQ	Comments
Domestic formulations	1,183	1,197	1%	Flat domestic formulations growth attributed to high base effect; outlook remains robust given new launch plans and impact of facility commissioning
API (domestic+ exports)	311	356	14%	Growth in regulated markets and new product introductions
Rest of World	270	454	68%	Strong growth seen in semi-regulated markets fuelled by growth in Russia and acquisitions in South Africa
US Generics	323	803	149%	Sharp growth in US revenues at US\$18mn is ahead of expectations driven by launch of new controlled substance product, strong performance of the base business, higher market share and relatively stable pricing (except for new launches). Glenmark expects US generic revenues of US\$m in FY08E noting 36 ANDAs pending approval (inclusive for partners)
Latin America	390	676	73%	Extended range of products from Servycal and received approvals to market 37 products
Revenues from Key Subsidiaries	2,478	3,486	41%	
<b>Gross sales</b>	1,801	3,486	94%	Overall revenues in line with Me
Excise duty	138	95	-31%	
<b>Net sales</b>	1,663	3,391	104%	
Cost of raw materials	653	998	53%	
% of Net Sales	39%	29%	-25%	
Staff costs	166	409	146%	Ramp up of field force across markets
% of Net Sales	10%	12%	21%	
SG&A expenses	504	973	93%	Entered newer markets leading to increased initial marketing expenditure
% of Net Sales	30%	29%	-5%	
Total expenditure	1,324	2,380	80%	
<b>EBITDA</b>	339	1,010	198%	Sharp 10% increase in EBITDA (YoY) attributed improved product-mix, higher margins in international business and lower SG &A costs
<i>EBITDA margin (%) (core business)</i>	19	29	54%	
Other income	26	77	198%	
<b>Operating profits</b>	365	1,087	198%	
Interest	(12)	(147)	1151%	
Depreciation	(37)	(124)	236%	
<b>Pre-tax profits</b>	317	817	158%	
Tax	(66)	(184)	179%	
<b>Net income (Consolidated)</b>	251	632	152%	

Source: Company Data, ML Research

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26 April 2007

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

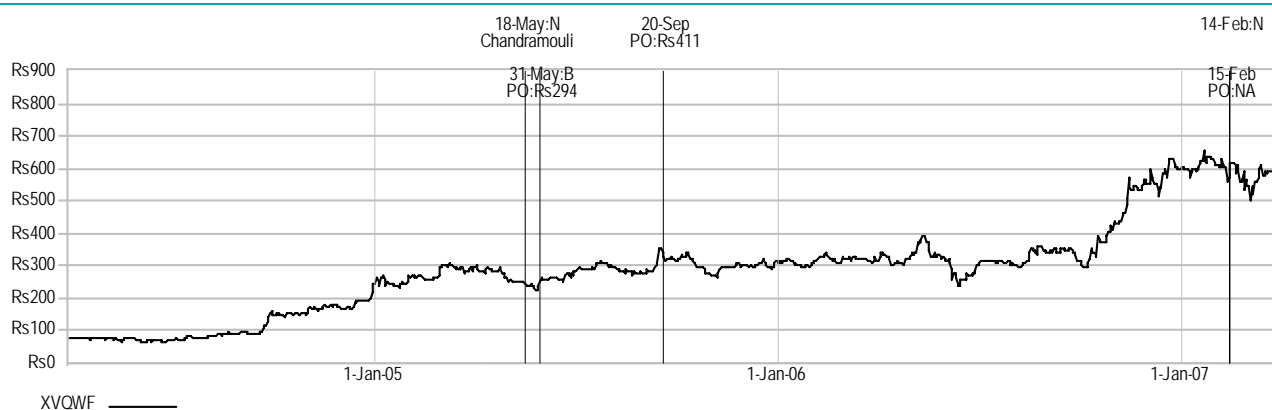
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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	97	46.86%	Buy	25	27.78%
Neutral	100	48.31%	Neutral	32	34.41%
Sell	10	4.83%	Sell	3	33.33%

### Investment Rating Distribution: Global Group (as of 31 Mar 2007)

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Neutral	1615	46.69%	Neutral	446	30.65%
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