

Glenmark Pharmaceuticals Ltd

Hiccups in Para-IV but base business remains strong

Glenmark Pharma (GNP) has lost initial part of the *Tarka* case. The final verdict will take another 4-6 weeks. In worst case, NPV value of *Tarka* will get knocked off from our target price. The impact will be less than 2%. However, reported earnings will fall by 7%/8%/6% in FY11e/12e/13e. No change in base business earnings though. We remain positive GNP on the back of improving base business. Any weakness in the stock price should be a buying opportunity. Reiterate Buy.

Case Background:

Tarka (*Trandolopril+Verapamil*) is an anti-hypertensive drug of Sanofi/Abbott. It had annual sales of USD 60 mn in US market. GNP had a Para-IV FTF on the drug and launched the generic version "at-risk" in 1 June 2010 (last week).

The Verdict:

The US court announced ruling on some parts of the case today. The initial verdict indicates that GNP will have to pay USD 16 mn penalty and obviously stop selling the generic version. The current verdict is not binding, final verdict will take 4-6 weeks.

Earnings Impact:

Our numbers consider generic *Tarka* sales of USD 16/18/15 mn and PAT of USD 11/13/11 mn in FY11e/12e/13e respectively. If GNP discontinues generic *Tarka*, it will reduce reported earnings by 7/8/6% in FY11e/12e/13e. There will be no impact on the base business earnings.

Impact on the Target Price:

We value limited period limited competition opportunities on NPV basis. We have valued *Tarka* at Rs 5.1 per share. If we knock off NPV of *Tarka*, the target price will be revised from Rs 415 to Rs 410 (less than 2%).

Valuations:

The stock is trading at a PER of 17.9x/13.8x FY12e/13e base business earnings. We have valued GNP on a SOTP basis: a) base business at Rs 336 (15x Sept.'12 earnings – a significant discount to frontline pharma given the balance sheet issues), b) the R&D deal with Sanofi at Rs 25 (probability adjusted NPV), c) the *Zetia* deal at Rs 17 (NPV) and d) other limited competition opportunities at Rs 12 (NPV). We maintain our target price of Rs 415.





Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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