

13 July 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

Buy

Target price
Rs350.00

Price
Rs313.60

Equity | India | Pharmaceuticals

Flashnote

Glenmark Pharma

Momentum picking up in US markets

Glenmark received an approval for Ursodiol tablets which adds on to its existing limited competition product pipeline of Oxycodone and generic Malerone. With momentum picking up in Oral Contraceptives and R&D milestone payment also on track, we continue to see upside potential in the stock.

List of limited competition products expands with approval of Ursodiol tablets

- Glenmark has received final USFDA approval for Ursodiol tablets (generic version of Urso 250 and Urso Forte tablets by Axacan) indicated for the treatment of patients with primary biliary cirrhosis (PBC) where it is used to dissolve gallstones in patients who do not want surgery.
- Sales achieved for Ursodiol tablets were US\$60m of which branded sales was US\$15m and generic sales by Teva was US\$45m -as per IMS for 12 months ending March 2011.
- Glenmark would be the 3rd player to market these tablets (we however note that there is greater competition in the capsule market) thereby making this a limited competition drug. We have assumed 30% price erosion on the generic market of US\$45mn and 20% market share thus expecting the product to add US\$8mn to its US revenues and US\$4.5mn of PAT on an annualised basis.
- This adds on the existing limited competition product pipeline for Glenmark - Oxycodone (ramping up market share now) and generic Malerone (expected launch in Sept-October 2011)

Momentum picking up in OCs

- The recent approval of Norgestimate and Ethinyl Estradiol tablets (gTri-Cyclen) marks Glenmark's 4th oral contraceptive (OC) product and 5th hormone product approval for the US market. As per IMS, this product has total market sales of US\$226m for 12 month period ending March 2011. This is already a generic product but marketed as branded generics due to limited competition. There are only 3 players in the market - Ortho McNeil Janssen Pharmaceutical, a division of Johnson & Johnson (innovator), Teva and Watson. Glenmark

(Continued on page 2)

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	21160	25006	29491	35749	39467
EBITDA (Rsm)	4550	6196	5923	8988	8178
Reported net profit (Rsm)	1917	3245	4578	6331	5603
Normalised net profit (Rsm)	3086	3245	4578	6331	5603
Normalised EPS (Rs)	12.12	12.00	16.90	23.38	20.69
Dividend per share (Rs)	0.40	0.40	0.40	0.40	0.40
Dividend yield (%)	0.13	0.13	0.13	0.13	0.13
Normalised PE (x)	25.87	26.13	18.55	13.42	15.16
EV/EBITDA (x)	23.1	16.5	17.5	11.4	12.4
Price/book value (x)	5.00	3.60	4.17	3.20	2.65
ROIC (%)	10.1	9.49	8.29	14.0	11.0

Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Mar, fully diluted

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Important disclosures can be found in the Disclosures Appendix.

expects to launch the product soon and start monetising the same.

- With this approval, Glenmark would be addressing total market size of US\$365m (as the earlier 4 female hormonal product approvals were addressing small market sales of only US\$140mn). Glenmark remains the only Indian company to be granted ANDA approval for an OC product. Glenmark indicates that it had made 15 filings as of now (which has 5 approvals now) - the remaining 10 filing would address market sales of US\$580mn. The other approvals are:
 - a) Heather tablets: The Company received approval in April 2010 for Heather tablets (gNor-QD) tablets which had achieved sales of US\$38mn in 2009.
 - b) Norethindrone: The Company received approval in July 2010 for Norethindrone 0.35mg tablets, g(Micronor) which had reported total sales of US\$43mn for the 12 month period ending March 2010.
 - c) Norethindrone Acetate: The company received approval in July 2010 for Norethindrone Acetate 5 mg tablets, g(Aygestin) which had reported sales of US\$27mn for the 12 month period ending March 2010.
 - d) Norethindrone and Ethinyl Estradiol: The company received approval in March 2011, the generic version of Ovcon 35 tablets marketed under the trade name Brielly. Sales were US\$30mn for the 12 month period ending December 2010.

R&D milestone payment also on track

- In May 2011, Glenmark out-licensed its GBR 500 molecule to Sanofi Aventis, the first novel biologics out-licensing deal by an Indian pharma company, with an upfront payment of US\$50mn subject to customary conditions to be taxed at 9-10% under Swiss norms. Potential milestone receipts could total US\$613mn plus royalty payments and rights to sell in a few markets (India, etc).
- Management expects commercialisation of this molecule in 2017. We ascribe a value of Rs20/share after applying a 20% success probability rate and building in a delay of three years in commercialisation.
- Company earlier had guided to receive the upfront milestone of US\$50m in 2 tranches - US\$ 25m by end of June 2011 and the remaining US\$ 25m in July 2011. We note that this payment schedule has been adhered to which leads to optimism that its other R&D milestone payments would also be on track.
- Thus Glenmark's GBR 500 licensing deal with Sanofi Aventis re-validates its business model of investing in innovative R&D. Glenmark seems well poised to benefit from the reviving interest in in-licensing from big pharma as we believe its NCE pipeline is not fully priced in yet.

Reiterate Buy with TP of Rs350

- We maintain our Buy rating with TP of Rs350 - base business at 18.2x FY12F PE (a 15% discount to its peers), which yields a value of Rs293/share. To this we add Rs54/share for its NCE pipeline and Rs3.5/share for one-off Para IV products.

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	21160	25006	29491	35749	39467
Cost of sales	-8751	-10193	-13260	-14907	-17365
Operating costs	-7859	-8617	-10308	-11854	-13924
EBITDA	4550	6196	5923	8988	8178
DDA & Impairment (ex gw)	-1027	-1206	-947.0	-1036	-1179
EBITA	3523	4990	4976	7952	6999
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	3523	4990	4976	7952	6999
Net interest	-1457	-1655	-1566	-1630	-1498
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1793	504.5	1405	1126	1250
Reported PTP	3858	3839	4815	7448	6751
Taxation	-754.1	-528.7	-237.0	-1117	-1148
Minority interests	-18.1	-65.6	0.00	0.00	0.00
Exceptionals (post-tax)	-1170	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	1917	3245	4578	6331	5603
Normalised Items Excl. GW	-1170	0.00	0.00	0.00	0.00
Normalised net profit	3086	3245	4578	6331	5603

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	714.8	1070	1986	2010	1486
Other current assets	20077	23140	25204	28451	33087
Tangible fixed assets	21117	23881	22123	23554	24394
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	181.2	181.2	188.0	188.0	188.0
Total assets	42089	48273	49501	54202	59155
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	4563	5186	7746	7720	9014
Long term debt (3)	20943	18694	21117	19639	17821
Oth non-current liab	569.3	710.1	0.00	0.00	0.00
Total liabilities	26076	24590	28862	27359	26835
Total equity (incl min)	16013	23682	20639	26844	32321
Total liab & sh equity	42089	48273	49501	54202	59155
Net debt	20229	17624	19130	17629	16335

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4550	6196	5923	8988	8178
Change in working capital	-3775	-2441	496.1	-3273	-3342
Net interest (pd) / rec	-1457	-1655	-1566	-1630	-1498
Taxes paid	-754.1	-528.7	-237.0	-1117	-1148
Other oper cash items	-112.6	598.2	835.6	1126	1250
Cash flow from ops (1)	-1550	2169	5452	4094	3440
Capex (2)	-7145	-3370	0.00	-3000	-2500
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-2075	-553.6	663.0	533.8	480.4
Cash flow from invest (3)	-9220	-3923	663.0	-2466	-2020
Incr / (decr) in equity	1.79	19.3	0.00	0.00	0.00
Incr / (decr) in debt	11034	-2250	2423	-1478	-1818
Ordinary dividend paid	-117.2	-126.0	-126.2	-126.2	-126.2
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-999.7	4466	-7495	0.00	0.00
Cash flow from fin (5)	9919	2109	-5199	-1604	-1944
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incl/(decr) cash (1+3+5+6)	-850.2	355.4	916.0	23.3	-523.8
Equity FCF (1+2+4)	-8694	-1200	5452	1094	940.1

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 13 Jul 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	820 (12)	536 (4)
Hold	414 (8)	225 (4)
Sell	85 (5)	51 (0)
Total (IB%)	1319 (10)	812 (3)

Source: RBS

Trading recommendations (as at 13 Jul 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Trading Sell	1 (0)	1 (0)
Total (IB%)	2 (0)	2 (0)

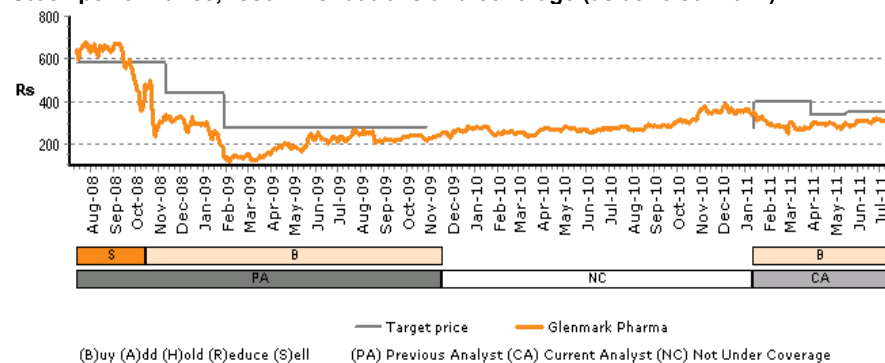
Source: RBS

Valuation and risks to target price

Glenmark Pharma (RIC: GLEN.BO, Rec: Buy, CP: Rs313.60, TP: Rs350.00): Our target price is based on a sum-of-the-parts valuation. Key downside risks are: 1) any setback in the GRC 15300, GBR 500 and Crofelemer trials; 2) unfavourable currency movements; 3) regulatory setbacks; and 4) a deterioration in the working capital cycle.

Glenmark Pharma coverage data (GLEN.BO, GNP IN)

Stock performance, recommendations and coverage (as at 13 Jul 2011)



(B)uy (A)dd (H)old (R)educer (S)ell (PA) Previous Analyst (CA) Current Analyst (NC) Not Under Coverage

Prakash Agarwal started covering this stock on 12 Jan 11. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 12 Jul 2011)

	(1M)	(3M)	(12M)
Price (Rs)	311.9	293.9	275.8
Absolute (%)	0.6	6.7	13.7
Rel market (%)	-0.2	11.7	10.8
Rel sector (%)	-1.3	4.1	0.6

Source: Bloomberg
Market: Sensex
Sector: Pharmaceuticals

Regulatory disclosures

None

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