

July 28, 2010

Glenmark Pharma (GLEPHA)

Rs 285

WHAT'S CHANGED...

PRICE TARGET	Unchanged at Rs 325
EPS (FY11E)	Changed from Rs 15.9 to Rs 15.4
EPS (FY12E)	Changed from Rs 21.7 to Rs 20.7
RATING.....	Changed from Strong Buy to Buy

Long-term growth outlook intact...

Glenmark Pharma's (GPL) Q1FY11 results were below our estimates. Consolidated net sales grew 25% YoY (including licensing income of ~Rs 90 crore) to Rs 682 crore (vs. our estimate of Rs 731 crore) on account of ~10% YoY growth in the generics business and ~37% YoY growth in the speciality business. GPL registered EBITDA and net profit margin of ~32% and ~28%, respectively. However, excluding licensing income, sales and EBITDA grew at a slower rate of ~9% and ~7% YoY, respectively, registering EBITDA margin of ~22% and net profit margin of ~11%. The US business reported subdued growth of ~6% YoY to Rs 183 crore. The domestic business grew ~17% YoY to Rs 194 crore on new product launches and good growth in brands such as Ascoril, Candid B, Telma and Telma-H. In the backdrop of better growth guidance given by the management, we have maintained our target price of Rs 325 on the stock with a BUY rating.

■ Highlights for the quarter

During the quarter, domestic formulation sales grew ~17% YoY. Ascoril, Candid B, Telma and Telma H (among top 300 brands) registered strong growth rates. Glenmark has 56 products in the US market with 50 pending ANDAs. GPL received ~Rs 90 crore as milestone payment from Sanofi Aventis on account of out-licensing GRC 15300. The company filed four ANDAs during the quarter. GPL launched Tarka (generic of Abbott/Sanofi-Aventis), at risk.

Valuations

Glenmark continues to have a strong NCE and ANDA pipeline with 11 Para-IVs and four FTFs. Out-licensing of GRC 15300 to Sanofi-Aventis highlights the company's underlying strength in its R&D capability. The likely at-risk launch of Tarka in FY11E coupled with likely launches of Malarone and Oxycodone in FY12E will add further upside to the stock. The management has guided for sales growth in excess of 25% for FY11. At 13.8x FY12E EPS, the current valuation discounts the generics business only. We remain confident on GPL's DDR capability and rate the stock as **BUY**. We continue to value GPL at Rs 325, based on ~16x FY12E EPS.

Exhibit 1: Performance Highlights

(Rs Crore)	Q1FY11A	Q1FY11E	Q1FY10	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
Net Sales	681.9	731.1	543.7	641.7	25.4	6.3
EBITDA	219.5	238.7	121.4	163.6	80.9	34.2
EBITDA Margin (%)	32.2	32.6	22.3	25.5		
Depreciation	32.7	30.5	31.2	36.3	5.1	-9.9
Interest	27.7	41.2	43.8	36.8	-36.7	-24.6
Reported PAT	155.5	145.2	53.5	94.1	191.0	65.3
EPS (Rs)	5.8	5.4	2.0	3.5		

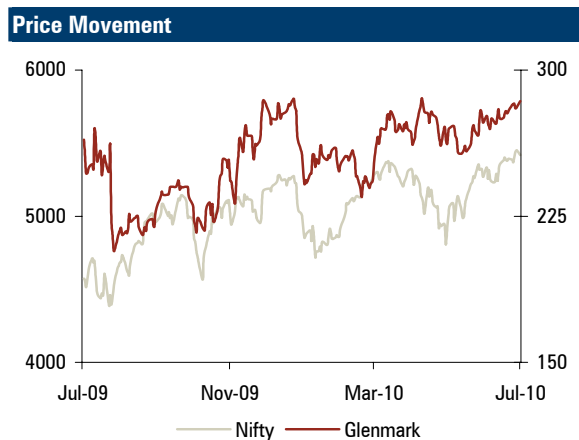
Source: Company, ICICIdirect.com Research

Rating Matrix	
Rating	: Buy
Target	: Rs 325
Target Period	: 12-15 months
Potential Upside	: 14 %

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	2093.0	2484.9	2876.5	3345.2
EBITDA	455.0	619.6	762.6	933.4
Net Profit	191.7	328.5	414.4	557.6

Valuation Summary				
	FY09	FY10	FY11E	FY12E
EPS (Rs)	7.7	12.2	15.4	20.7
PE (x)	37.2	23.4	18.5	13.8
Target PE (x)	42.5	26.7	21.2	15.7
EV to EBITDA (x)	21.3	15.2	12.1	9.7
Price to book (x)	4.5	3.3	3.3	2.8
RoNW (%)	19.4	13.9	18.0	20.3
RoCE (%)	16.4	14.6	17.2	19.7

Stock Data	
Market Capitalisation (Rs Cr)	7678.2
Debt (FY10), (Rs Cr)	1869.4
Cash (FY10), (Rs Cr)	107.4
EV (Rs Cr)	9440.2
52 week H/L	304/202
Equity capital (Rs Cr)	27.0
Face value (Rs)	1.0
MF Holding (%)	3.8
FI Holding (%)	27.6



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Result Analysis

■ Topline growth below estimates

GPL's topline grew by ~25% YoY (including licensing income) in Q1FY11 to Rs 682 crore on account of ~37% YoY growth in the speciality business and ~10% YoY growth in the generic business. The robust performance of the speciality business was on account of one-time licensing income of Rs 90 crore from Sanofi Aventis and ~17% YoY growth in the Indian formulation business. In the generics space, the US business grew at a slower rate of 6% YoY to Rs 183 crore (we estimated Rs 189 crore), which we believe was on account of fewer product launches. With strong growth from the domestic business and semi-regulated markets, we expect the specialty business to grow by 18% CAGR in FY10-12E contributing ~60% to overall sales.

We remain confident about the US business as Glenmark now has 56 products in the US market with 50 pending ANDAs. It has 11 Para-IV filings of which four are sole FTFs. Going ahead, higher ANDA launches and monetisation of strong FTF pipeline will lead the base business of the US to grow at ~10% CAGR through FY10-12E.

Glenmark's domestic business continues to remain the key growth driver. During Q1FY11, domestic sales increased by ~17% YoY to Rs 194 crore on account of new product launches and strong growth in Ascoril, Candid B, Telma and Telma-H. We expect the domestic business to grow at ~18% through FY10-12E to Rs 1047 crore.

Overall, we expect consolidated revenues to grow at 16% CAGR in FY10-12E to Rs 3345 crore.

Exhibit 2: Business highlights

(Rs Crore)	Q1FY11	Q1FY10	YoY %	Q4FY10	QoQ %
Generics Business					
US	183.0	172.1	6.4	185.2	-1.2
Europe	10.4	4.1	150.8	9.8	6.2
Latin America	7.5	6.8	10.4	8.0	-6.1
API	62.7	55.7	12.6	70.3	-10.8
Total Generics Business	263.6	238.7	10.4	273.3	-3.5
Speciality Business					
Latin America	40.6	33.5	21.1	34.6	17.4
SRM (Africa, Asia & CIS)	73.3	78.6	-6.7	137.0	-46.5
Europe	21.2	26.9	-21.3	45.9	-53.8
India Formulations	193.6	165.9	16.7	218.4	-11.4
Total Speciality Business	328.8	305.0	7.8	435.9	-24.6
Out-Licensing Income	89.5	0.0		0.0	
Speciality Business (incl. out-licensing)	418.3	305.0	37.1	435.9	-4.0
Total Revenues (excl. licensing income)	592.4	543.7		709.1	-16.5
Total Revenues (incl. licensing income)	681.9	543.7	25.4	709.1	-3.8

Source: Company, ICICIdirect.com Research

Exhibit 3: Impact of out-licensing income on Q1FY11

	With Licensing Income	Without Licensing Income
Net Sales (Rs Cr)	681.9	592.4
EBITDA (Rs Cr)	219.5	130.0
EBITDA margin (%)	32.2	21.9

Source: Company, ICICIdirect.com Research

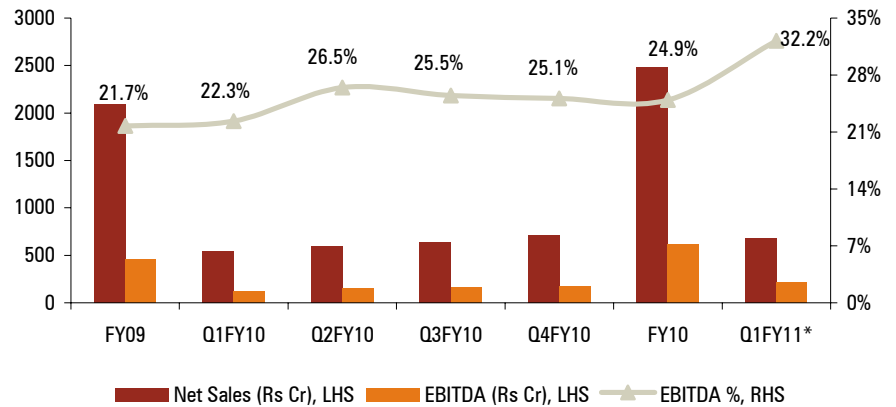
GPL's topline grew ~25% YoY (including licensing income) in Q1FY11 to Rs 682 crore on account of ~37% YoY growth in the speciality business and ~10% YoY growth in the generic business

For Q1FY11, the operating margins were at ~32%. This was on account of one-time milestone payment of ~Rs 90 crore from out-licensing of GRC 15300 molecule. Excluding the one-time impact, operating profits grew ~7% YoY clocking operating margin of ~22%

Operating margin at ~32% in Q1FY11

For Q1FY11, operating margins were at ~32%. This was on account of one-time milestone payment of ~Rs 90 crore from out-licensing of GRC 15300 molecule. Excluding the one-time impact, operating profits grew by ~7% YoY clocking operating margin of ~22%. We expect the consolidated operating profit to grow at a CAGR of ~23% through FY10-12E, leading to margin expansion by 297 bps over FY10-12E.

Exhibit 4: EBITDA margin trend



Source: Company, ICICIdirect.com Research

* Higher EBITDA margin on account of out-licensing income from Sanofi Aventis, ~Rs 90 crore

Lower interest and depreciation charge boosts bottomline

Glenmark's net profit in Q1FY11 stood at Rs 156 crore on account of: - i) higher EBITDA of Rs 220 crore ii) savings in interest cost due to restructuring and repayment of debt and ii) lower depreciation charge. The bottomline was also aided by forex gain of ~Rs 9 crore and export incentive of ~Rs 11 crore.

The net debt position for Glenmark stood at ~Rs 1600 crore (~Rs 1762 crore in Q4FY10). As a consequence, the interest cost declined by ~37% YoY in Q1FY11 leading to margin expansion by ~1300 bps.

Exhibit 5: Common size profit and loss account

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Net Sales	100	100	100	100	100
Depreciation	5.7	6.1	5.7	2.4	4.8
Interest	8.1	7.7	5.7	5.3	4.1
PBT	9.9	17.1	15.3	18.4	27.1
Tax (% to PBT)	0.9	19.6	4.5	21.5	16.0
Net Profit	9.8	13.7	14.7	14.5	22.8

Source: Company, ICICIdirect.com Research

Glenmark's net profit in Q1FY11 stood at Rs 156 crore on account of higher EBITDA, lower interest and depreciation charges and higher other income

Valuation

Glenmark continues to have a strong NCE and ANDA pipeline with 11 Para-IVs and four FTFs. Out-licensing of GRC 15300 to Sanofi-Aventis highlights the company's underlying strength in its R&D capability. The licensing deal with Par Pharma for generic Zetia (\$1.4 billion annual sales) drug will act as a potential trigger in the long run. The likely at-risk launch of Tarka in FY11E coupled with likely launches of Malarone and Oxycodone in FY12E will add further upside to the stock. The management has guided for sales growth in excess of 25% for FY11. The outlook for the base business is improving.

At 13.8x FY12E EPS, the current valuation discounts the generics business only. With an overall improvement expected in the company's fundamentals, we believe the risk-reward ratio for Glenmark remains quite favourable at current levels. The out-licensing deal with Sanofi-Aventis has led to a revival of investor sentiments in the R&D pipeline. We remain confident on GPL's DDR capability and rate the stock as **BUY**. We continue to value GPL at Rs 325, based on ~16x FY12E EPS.

Exhibit 6: Valuation Table

	Sales (Rs Cr)	Sales Gr (%)	EPS (Rs)	EPS Gr (%)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY09	2093.0	5.9	7.7	-69.9	37.2	21.3	19.4	16.4
FY10	2484.9	18.7	12.2	59.1	23.4	15.2	13.9	14.6
FY11E	2876.5	15.8	15.4	26.1	18.5	12.1	18.0	17.2
FY12E	3345.2	16.3	20.7	34.6	13.8	9.7	20.3	19.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Alembic										
Idirect Code	ALECHE	CMP	58	FY08	1003.2	8.0	7.3	8.3	32.6	19.1
		Target	46	FY09	1116.1	3.4	18.2	10.0	20.1	11.3
MCap	807.9	Upside (%)	-21	FY10	1138.2	3.0	19.7	10.7	11.7	9.7
				FY11E	1223.9	4.1	14.3	8.8	14.5	11.3
Biocon										
Idirect Code	BIOCON	CMP	319	FY09	1608.7	12.0	26.6	21.4	11.4	13.2
		Target	335	FY10	2367.8	14.7	21.9	14.4	12.4	15.6
MCap	6420.0	Upside (%)	5	FY11E	2701.9	17.1	18.7	12.2	13.2	16.7
				FY12E	3085.7	20.2	15.9	10.3	13.9	17.5
Dishman										
Idirect Code	DISHPHA	CMP	218	FY09	1062.4	18.2	12.0	9.3	20.9	13.6
		Target	218	FY10	915.4	14.6	15.0	12.2	15.0	9.1
MCap	1759.2	Upside (%)	0	FY11	1075.3	19.6	11.2	9.3	17.1	11.1
				FY12E	1256.5	21.4	10.2	7.8	16.4	11.9
IPCA Labs										
Idirect Code	IPCLAB	CMP	279	FY09	1283.8	8.1	34.6	4.5	16.0	19.6
		Target	311	FY10	1559.6	16.4	17.0	3.5	23.7	20.5
MCap	3490.6	Upside (%)	11	FY11E	1878.0	19.9	14.0	2.8	23.1	22.5
				FY12E	2237.2	23.9	11.7	2.2	22.4	24.1
Piramal Health										
Idirect Code	NICPIR	CMP	485	FY09	3281.1	15.1	32.0	19.6	24.0	17.7
		Target	589	FY10	3671.1	23.1	21.0	15.4	28.3	18.8
MCap	10530.5	Upside (%)	21	FY11E	4102.8	25.3	19.2	13.3	25.4	20.9
				FY12E	4633.3	30.5	15.9	11.3	25.3	22.7
Sun Pharma										
Idirect Code	SUNPHA	CMP	1766	FY09	4271.4	88.1	20.1	18.8	25.9	28.5
		Target	1644	FY10	4019.8	65.2	27.1	25.5	17.8	19.6
MCap	36577.0	Upside (%)	-7	FY11E	4464.8	71.7	24.6	22.6	16.8	18.8
				FY12E	5151.8	82.2	21.5	18.8	16.7	18.5
Glenmark										
Idirect Code	GLEPHA	CMP	285	FY09	2093.0	7.7	37.2	21.3	19.4	16.4
		Target	325	FY10	2484.9	12.2	23.4	15.2	13.9	14.6
MCap	7678.2	Upside (%)	14	FY11E	2876.5	15.4	18.5	12.1	18.0	17.2
				FY12E	3345.2	20.7	13.8	9.7	20.3	19.7
Lupin										
Idirect Code	LUPIN	CMP	1951	FY08	2706.4	49.8	39.2	38.9	31.9	22.2
		Target	2101	FY09	3775.9	61.3	31.8	26.7	35.6	23.6
MCap	17295.8	Upside (%)	8	FY10	4740.5	78.7	24.8	21.3	33.0	25.8
				FY11E	5930.3	93.0	21.0	16.0	27.2	25.4
				FY12E	6997.7	116.7	16.7	12.5	24.9	24.7
Unichem Labs										
Idirect Code	UNILAB	CMP	454	FY09	735.2	30.0	15.1	11.5	22.3	23.2
		Target	486	FY10	765.5	36.9	12.3	8.8	23.3	25.7
MCap	1635.1	Upside (%)	7	FY11E	895.2	41.6	10.9	7.1	22.1	25.9
				FY12E	1044.4	49.8	9.1	5.8	22.4	26.2
Indoco Remedies										
Idirect Code	INDREM	CMP	428	FY09	350.6	25.6	16.7	11.9	11.3	10.9
		Target	432	FY10	398.3	34.2	12.5	10.0	13.3	11.1
MCap	525.6	Upside (%)	1	FY11E	461.4	43.3	9.9	7.7	14.5	13.3
				FY12E	530.9	49.1	8.7	6.4	14.3	13.8

Source: Company, ICICIdirect.com Research

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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