

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↔

- Our REDUCE rating is counter consensus.
- We are the first on the street to discount any upside from Oglemilast.
- We believe that the company will miss the aggressive guidance.

**Net Profit 09..... INR6.8b**  
..... (Unchanged)

**Diff from Consensus(10.5%)**  
Consensus (mean) ..... INR7.6b  
Consensus (momentum) ..... ↓

**Target Price .....INR208.00**  
..... (Unchanged)

**Diff from Consensus(61.6%)**  
Consensus (median) ... INR542.00  
Consensus (momentum) ..... ↓

**Current Price.... INR260.05**  
Upside/(Downside)..... (20.0%)

**REDUCE**  
(Unchanged)

**Recs in the Market**

Positive..... 17  
Neutral..... 0  
Negative ..... 2  
Consensus (momentum) ..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Glenmark on its way to miss its annual guidance for FY09.
- The inventory cycle likely to worsen in Latin America in line with the Business environment.
- Guidance miss or probable downward revision not completely in the price.

## Sell the noise if any

### Event

Glenmark will miss its annual guidance for FY09 in our view. The quarterly results, to be announced on 27 January 2009 will reinforce this view. In our view, the FY10 guidance looks too aggressive. Base generic business guidance for FY09 implies that 2HFY09 growth should be +50% in LatAm (-6% y-y in 1H) and + 80% in semi regulated markets: which seems impossible, given the pace of approvals and current product pipeline. The R&D out licensing income guidance miss is a certainty, given that company typically hasn't waited for the quarter to announce a significant deal, if any.

What happened during the quarter: The only noteworthy development comes from ROW(Rest Of the World) geography for the quarter, for possible launch of Crofelemor, a FY10 opportunity (USD80m) and likely dilutive margins (15% distributor kind of margins).

For the entire year, the company has guided USD69m to out licensing income, which can't be achieved without signing new agreements with new partners. The company also runs the risk of worsening of the inventory cycle in Latin America (Argentina and Germany) and writes down (various industry participants confirm this for the sub-segment).

### Impact on thesis

It's not in price yet: Given the sharp de-rating of the stock, many investors are arguing that the guidance miss is already in the price, we dispute the view on three counts:

- Adjusted for capitalized brands and patents goodwill: The stock is not cheap, it trades in line with peer group at a multiple of 11x.
- Pipeline can't be free: Either the pipeline produces value, or the focus can be a negative drag on the company's base business, as pursuing any credible R&D programmed involves real costs.
- The company likely to be a victim of the flight to conservative accounting trade.

### Anmol Ganjoo

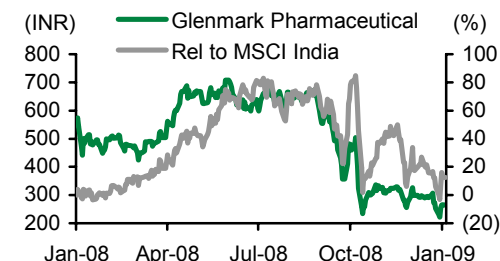
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### Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	19,812	23,122	26,864	33,092
Reported net profit	6,321	6,862	7,791	9,894
Recurring net profit	6,321	6,862	7,791	9,894
Previous rec net profit	6,321	6,862	7,791	9,894
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	24.96	26.83	30.40	38.53
Prev rec EPS (INR)	24.96	26.83	30.40	38.53
Rec EPS growth (%)	115.9	7.5	13.3	26.7
Recurring P/E (x)	10.4	9.7	8.6	6.7
Dividend yield (%)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	8.3	7.8	6.8	5.3
Price/book (x)	4.2	2.9	2.2	1.6
ROE (%)	57.4	36.5	29.6	27.8
Net debt/equity (%)	54.9	39.4	24.4	10.9

Sources: Glenmark Pharmaceutical; BNP Paribas estimates

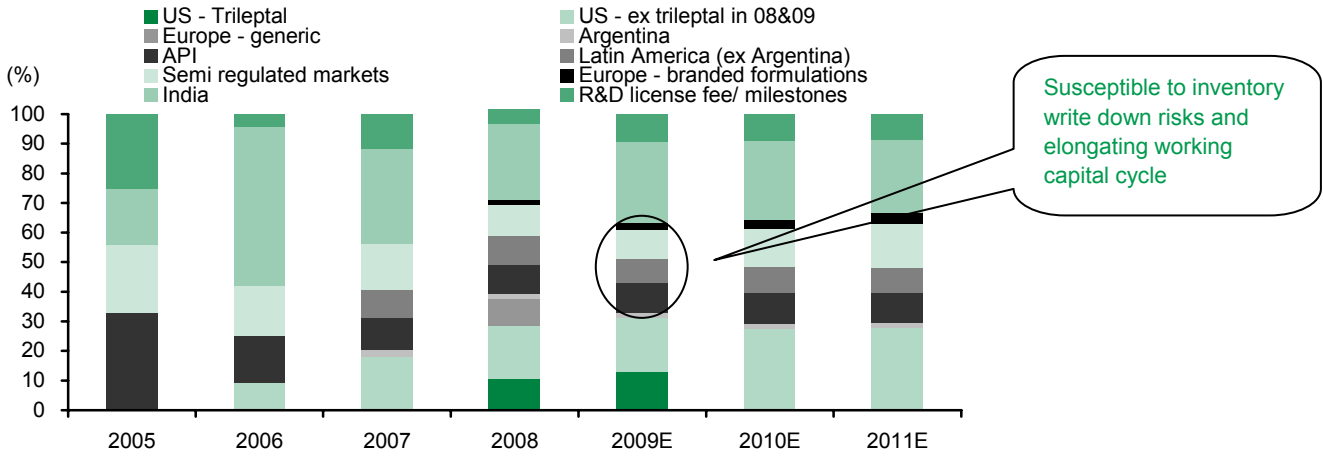
### Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	1,362
12m avg daily turnover (USD m)	6.5
Free float (%)	48
Major shareholder	Saldanha family trust (52%)
12m high/low (INR)	710.10/221.35
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

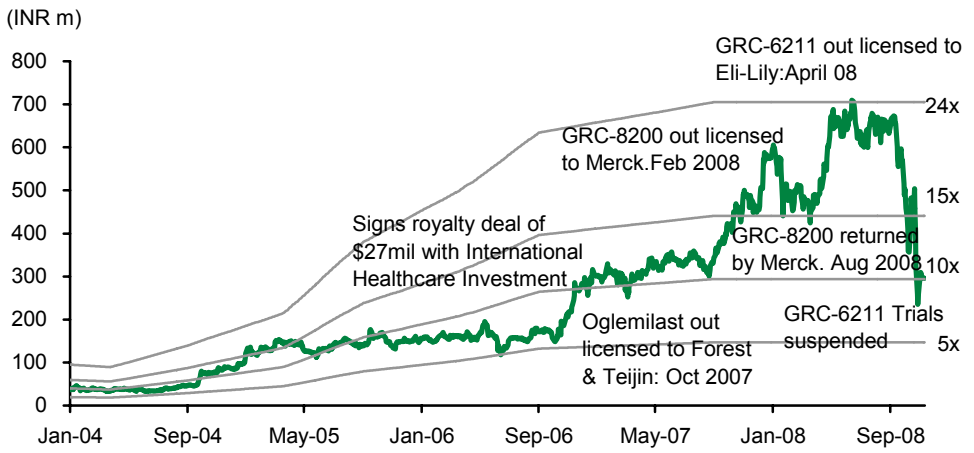
Source: Datastream

**Exhibit 1: Revenue Across Geographic And Business Sub-Segments**



Sources: Bloomberg; BNP Paribas estimates

**Exhibit 2: Stock Has Strong Correlation On The Out-licensing Deals**



Sources: Bloomberg; BNP Paribas estimates

According to street SOTP valuation methodology R&D pipeline historically contributed around 33 % of the Consensus Target Price .This in our view constitutes significant risks to the expectations built around the stock notwithstanding the recent derating.The street estimates for the full year are back ended with R&D income and base effect on account of milestone income of \$45 mn in 3Q08 are likely to amplify the disappointment on the R&D front of the business.

## FINANCIAL STATEMENTS

## Glenmark Pharmaceuticals

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	12,185	19,812	23,122	26,864	33,092
Cost of sales ex depreciation	(3,235)	(5,534)	(6,303)	(7,431)	(9,411)
<b>Gross profit ex depreciation</b>	<b>8,950</b>	<b>14,278</b>	<b>16,819</b>	<b>19,432</b>	<b>23,681</b>
Other operating income	-	-	-	-	-
Operating costs	(4,667)	(6,230)	(7,777)	(8,872)	(10,752)
<b>Operating EBITDA</b>	<b>4,283</b>	<b>8,048</b>	<b>9,042</b>	<b>10,560</b>	<b>12,928</b>
Depreciation	(423)	(717)	(911)	(1,230)	(1,524)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>3,860</b>	<b>7,331</b>	<b>8,131</b>	<b>9,330</b>	<b>11,404</b>
Net financing costs	(398)	(710)	(654)	(716)	(641)
Associates	-	-	-	-	-
Recurring non operating income	151	494	289	240	480
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>3,613</b>	<b>7,115</b>	<b>7,766</b>	<b>8,854</b>	<b>11,243</b>
Tax	(513)	(794)	(905)	(1,062)	(1,349)
<b>Profit after tax</b>	<b>3,101</b>	<b>6,321</b>	<b>6,862</b>	<b>7,791</b>	<b>9,894</b>
Minority interests	-	(0)	-	-	-
Preferred dividends	(8)	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>3,093</b>	<b>6,321</b>	<b>6,862</b>	<b>7,791</b>	<b>9,894</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>3,093</b>	<b>6,321</b>	<b>6,862</b>	<b>7,791</b>	<b>9,894</b>
<b>Per share (INR)</b>					
Recurring EPS *	11.56	24.96	26.83	30.40	38.53
Reported EPS	12.99	25.84	27.45	31.05	39.07
DPS	0.49	0.82	0.82	0.82	0.82
<b>Growth</b>					
Revenue (%)	74.7	62.6	16.7	16.2	23.2
Operating EBITDA (%)	206.8	87.9	12.4	16.8	22.4
Operating EBIT (%)	231.7	89.9	10.9	14.7	22.2
Recurring EPS (%)	260.7	115.9	7.5	13.3	26.7
Reported EPS (%)	256.9	98.9	6.2	13.1	25.8
<b>Operating performance</b>					
Gross margin inc depreciation (%)	70.0	68.4	68.8	67.8	67.0
Operating EBITDA margin (%)	35.1	40.6	39.1	39.3	39.1
Operating EBIT margin (%)	31.7	37.0	35.2	34.7	34.5
Net margin (%)	25.4	31.9	29.7	29.0	29.9
Effective tax rate (%)	14.2	11.2	11.7	12.0	12.0
Dividend payout on recurring profit (%)	4.2	3.3	3.1	2.7	2.1
Interest cover (x)	10.1	11.0	12.9	13.4	18.5
Inventory days	241.0	221.1	273.7	290.0	276.0
Debtor days	142.7	126.9	151.3	163.5	160.0
Creditor days	na	na	na	na	na
Operating ROIC (%)	19.8	24.6	19.4	17.8	18.1
Operating ROIC - WACC (%)	3.6	8.4	3.2	1.6	1.9
ROIC (%)	20.3	26.0	19.9	18.1	18.8
ROIC - WACC (%)	4.1	9.8	3.7	1.9	2.6
ROE (%)	58.5	57.4	36.5	29.6	27.8
ROA (%)	20.6	28.0	21.8	19.9	20.8

Post Trileptal exclusivity benefit the base business revenues to taper off

Operating EBITDA margins skewed by capitalization of R&D expenses on account of acquired brands and patents

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Glenmark Pharmaceutical; BNP Paribas estimates

<b>Cash Flow (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	3,093	6,321	6,862	7,791	9,894
Depreciation	423	717	911	1,230	1,524
Associates & minorities	-	0	-	-	-
Other non-cash items	680	526	365	476	161
<b>Recurring cash flow</b>	<b>4,195</b>	<b>7,563</b>	<b>8,138</b>	<b>9,498</b>	<b>11,579</b>
Change in working capital	(3,263)	(3,846)	(3,588)	(2,623)	(4,249)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(2,712)	(5,176)	(5,000)	(5,000)	(5,000)
<b>Free cash flow to equity</b>	<b>(1,780)</b>	<b>(1,459)</b>	<b>(450)</b>	<b>1,874</b>	<b>2,330</b>
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(117)	(201)	(205)	(206)	(207)
Non recurring cash flows	-	(1)	-	-	-
<b>Net cash flow</b>	<b>(1,896)</b>	<b>(1,660)</b>	<b>(655)</b>	<b>1,669</b>	<b>2,123</b>
Equity finance	311	2,002	2	1	2
Debt finance	1,577	166	411	(1,418)	(2,044)
<b>Movement in cash</b>	<b>(8)</b>	<b>508</b>	<b>(242)</b>	<b>251</b>	<b>81</b>

Glenmark is yet to be free cash flow positive due to the high working capital and R&D related capital expenditure

<b>Per share (INR)</b>					
Recurring cash flow per share	17.62	30.92	32.56	37.85	45.72
FCF to equity per share	(7.47)	(5.96)	(1.80)	7.47	9.20

<b>Balance Sheet (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	9,997	14,945	19,690	23,003	28,449
Working capital liabilities	(2,395)	(3,207)	(4,365)	(5,054)	(6,251)
<b>Net working capital</b>	<b>7,602</b>	<b>11,738</b>	<b>15,325</b>	<b>17,949</b>	<b>22,198</b>
Tangible fixed assets	8,104	12,557	16,646	20,416	23,891
<b>Operating invested capital</b>	<b>15,706</b>	<b>24,295</b>	<b>31,971</b>	<b>38,364</b>	<b>46,089</b>
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	179	188	188	188	188
<b>Invested capital</b>	<b>15,885</b>	<b>24,483</b>	<b>32,159</b>	<b>38,552</b>	<b>46,277</b>
Cash & equivalents	(1,066)	(1,566)	(1,324)	(1,575)	(1,655)
Short term debt	-	-	-	-	-
Long term debt *	9,367	9,909	10,148	8,947	6,127
<b>Net debt</b>	<b>8,301</b>	<b>8,344</b>	<b>8,824</b>	<b>7,372</b>	<b>4,471</b>
Deferred tax	720	946	946	946	946
Other liabilities	-	-	-	-	-
Total equity	6,864	15,179	22,375	30,219	40,845
Minority interests	-	15	15	15	15
<b>Invested capital</b>	<b>15,885</b>	<b>24,483</b>	<b>32,159</b>	<b>38,552</b>	<b>46,277</b>

\* Includes convertibles and preferred stock which is being treated as debt

<b>Per share (INR)</b>					
Book value per share	28.83	62.05	89.52	120.42	161.27
Tangible book value per share	28.83	62.05	89.52	120.42	161.27

<b>Financial strength</b>					
Net debt/equity (%)	120.9	54.9	39.4	24.4	10.9
Net debt/total assets (%)	42.9	28.5	23.3	16.3	8.3
Current ratio (x)	4.6	5.1	4.8	4.9	4.8
CF interest cover (x)	3.3	6.2	8.0	10.6	12.4

<b>Valuation</b>					
	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	22.5	10.4	9.7	8.6	6.7
Recurring P/E @ target price (x) *	18.0	8.3	7.8	6.8	5.4
Reported P/E (x)	20.0	10.1	9.5	8.4	6.7
Dividend yield (%)	0.2	0.3	0.3	0.3	0.3
P/CF (x)	14.8	8.4	8.0	6.9	5.7
P/FCF (x)	neg	neg	neg	34.8	28.3
Price/book (x)	9.0	4.2	2.9	2.2	1.6
Price/tangible book (x)	9.0	4.2	2.9	2.2	1.6
EV/EBITDA (x) **	15.6	8.3	7.8	6.8	5.3
EV/EBITDA @ target price (x) **	12.8	6.9	6.4	5.6	4.4
EV/invested capital (x)	4.4	2.9	2.3	1.9	1.5

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Glenmark Pharmaceutical; BNP Paribas estimates

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All share prices are as at market close on 19 January 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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