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Q4 FY07  
Result Update

# Glenmark Pharmaceuticals

Not Rated

Rs 638

April 30, 2007

## Rewards from research

Company Details		Result Snapshot	
Market Cap:	Rs 76,560m	<p>Glenmark Pharmaceuticals (GPL) has reported excellent results for Q4FY07 and for FY07. On a consolidated basis, the Net sales for FY07 grew by 74%, operating margin by 1580bps -from 19.7% to 35.5% and net profit by 254%.</p> <p>The company has a strong pipeline of research products and is likely to out license two of its molecules in FY08. GPL expects \$69m revenues each from out licensing in FY08 and FY09.</p> <p>Though the stock is fairly valued at the current price, the announcement of a licensing deal may lead to re-rating of the stock.</p>	
52 Week High/Low:	Rs 709 / 228		
Bloomberg Code:	GNP@IN		
Reuters Code:	GLEN.BO / NS		
Shares O/s:	120m		
Average Volume (3 months):	0.5m		
Price Performance			
(%)	1m	3m	12m
Absolute	3.9	0.4	98.7
Relative to Sensex	(3.2)	3.0	81.3

## Quarterly Table

(Rs m)

Y/e March	Q4FY07	Q3FY07	FY06	FY07	yoy gr. (%)
<b>Net sales</b>	<b>3,391</b>	<b>4,380</b>	<b>6,952</b>	<b>12,070</b>	<b>73.6</b>
<b>Expenditure</b>					
Raw materials	998	854	2,450	3,251	32.7
<i>as % of net sales</i>	<i>29.4</i>	<i>19.5</i>	<i>35.2</i>	<i>26.9</i>	
Personnel expenses	409	371	940	1,505	60.1
<i>as % of net sales</i>	<i>12.1</i>	<i>8.5</i>	<i>13.5</i>	<i>12.5</i>	
Other expenses	973	828	2,190	3,034	38.5
<i>as % of net sales</i>	<i>28.7</i>	<i>18.9</i>	<i>31.5</i>	<i>25.1</i>	
Total Expenditure	2,380	2,053	5,580	7,790	
<b>OPBDIT</b>	<b>1,011</b>	<b>2,327</b>	<b>1,372</b>	<b>4,280</b>	<b>212.0</b>
<i>OP Margin (%)</i>	<i>29.8</i>	<i>53.1</i>	<i>19.7</i>	<i>35.5</i>	
Other income	77	31	128	161	25.8
<b>PBDIT</b>	<b>1,088</b>	<b>2,358</b>	<b>1,500</b>	<b>4,441</b>	<b>(66.2)</b>
Depreciation	124	119	233	426	82.8
Interest	147	100	147	404	174.8
<b>PBT</b>	<b>817</b>	<b>2,139</b>	<b>1,120</b>	<b>3,611</b>	<b>222.4</b>
Prov. For tax	184	230	241	500	107.5
<i>% of PBT</i>	<i>22.5</i>	<i>10.8</i>	<i>21.5</i>	<i>13.8</i>	
<b>PAT</b>	<b>633</b>	<b>1,909</b>	<b>879</b>	<b>3,111</b>	<b>253.9</b>
Extraordinary item	-	20	-	-	NA
<b>Reported PAT</b>	<b>633</b>	<b>1,889</b>	<b>879</b>	<b>3,111</b>	<b>253.9</b>

The company commenced publishing the consolidated quarterly results from Q1FY07 onwards and hence the Q4FY06 results are not available for comparison.

(Stock price as on April 27, 2007)



## Result Highlights

### Geographical Revenues

*(Rs m)*

Y/e March	Q4FY07	Q4FY06	yoy gr. (%)	FY06	FY07	yoy gr. (%)
<b>Formulations</b>						
US	803	323	148.6	572	2,207	285.8
Latin America	676	390	73.3	764	1,421	86.0
Semi regulated markets	454	270	68.1	1,056	1,789	69.4
India	1,197	1,183	1.2	3,937	4,290	9.0
<b>Total formulations</b>	<b>3,130</b>	<b>2,166</b>	<b>44.5</b>	<b>6,329</b>	<b>9,707</b>	<b>53.4</b>
API	356	162	119.8	981	1,318	34.4
Base business	3,486	2,328	49.7	7,310	11,025	50.8
Out licensing NCE	-	-	NA	266	1,395	424.4
<b>Total revenues</b>	<b>3,486</b>	<b>2,328</b>	<b>49.7</b>	<b>7,576</b>	<b>12,420</b>	<b>63.9</b>

### US market-good growth

The sale of formulations in US during Q4FY07 jumped by 149% and during FY07 by 286% on YoY basis. The company currently markets 13 products in the US market and has plans to market 25+ products in FY08. With the basket of over 25 products, the company is likely to do well in the US market. GPL and its partners have 36 products undergoing US FDA approval. GPL enjoys EBIDTA margin of 25-28% in the US market. However, the management has indicated that the pricing pressures in the US market will continue. We expect US market to witness pricing pressure in CY07 and with the strengthening of rupee against the dollar; the margins from this market are likely to be under pressure.

### Latin America

GPL has reported 73% growth during the quarter and 86% growth during FY07 in Latin America. The company has filed 24 dossiers in Brazil and has launched 10 products in FY07. It has acquired Servycal in Argentina, which is specialized in oncology products. Servycal has launched 4 products in Latin America and the company is likely to maintain the growth momentum. We expect the company to maintain the strong growth momentum in CY07 too.

### Semi regulated markets (SRM)

In the SRM, the company has reported 68% growth during the quarter and 69% growth during the year. GPL has 147 registrations and has filed for 62 registrations in several markets during the Q4FY07. In FY07, it has commenced operations in 9 new countries and has now presence in 80 countries. With the increase in the number of filings and coverage of additional geographies, we expect the SRM business to do well in the current year.

### Domestic market

In the domestic market, the company has not performed well. The revenues grew by 1% during the quarter (due to pipeline inventory issues) and by 9% during the year. GPL launched 5 new products in the domestic market including Halovate (Halobetasol- a topical cortecosteroid) for the first time in India. The company's Baddi facility has manufactured goods worth Rs 2.3bn during FY07 and has gained from the excise and income tax benefits. During FY07, the company commissioned its manufacturing facility at Goa for oncology products. The company's growth in the domestic market was way below the industry growth of around 16% during the quarter.



However, with the overcoming of supply chain issues, the company is likely to be on a growth path in the domestic market.

## Europe

GPL has filed 3 products in Europe. Recently, it has acquired majority stake (>90%) in Medicamenta, which has operations in Czech and Slovakia. Medicamenta has 29 products in its portfolio. The company expects revenues of \$ 8m (Rs 335m) in FY08 from the European operations. The acquisition has helped GPL to have presence in the fastest growing markets of Czech and Slovakia. The company is likely to introduce its own products through the distribution channel of Medicamenta.

## API

GPL has reported excellent growth of 120% for API sales during the quarter and 34% during FY07. The company has commenced sales of API to Russia and Ukraine in Q4FY07. GPL filed 5 USDMF during the quarter, taking the total of 11 filings in FY07. It has also filed 3 DMF in Canada, 8 in Europe and 5 with EU in FY07. GPL has received UK MHRA approval for its API facility located at Ankleshwar. This facility is being expanded to take care of increasing demand.

## R & D

The company's lead molecule Oglemilast (development partners Forest Labs and Teijin Pharma) and GRC 8200 (development partner Merck, Germany) continue to progress well in Phase II clinical trials. The company has 4 other molecules (1 in Phase I, 1 entering Phase I in Q1FY08, 2 entering Phase I in Q2FY08). The company has completed pre-clinical studies for GRC 6211 for pain indications and the company hopes to launch this molecule in 2011 and is currently scouting for partner for licensing this molecule.

The biological research center at Switzerland employs over 25 scientists. The company has entered into funded research agreement with Dyax Corp. for discovery on therapeutic antibodies. The company expects 3 highly promising New Biological entities (NBEs) coming out from this collaboration. GPL has plans to bring at least 1 molecule in pre-clinical by 2009. This is likely to open up another revenue stream for the company.

## Financials & Valuations

On a consolidated basis, GPL's net sales for FY07 grew by 74% due to excellent growth of 286% in the US market. The company has also performed well in the Latin America and SRM where it has reported growth of 86% and 69% respectively. However, GPL reported a single digit growth of 9% in the domestic market, which contributes 35% of its consolidated revenues. Currently, international operations for the company account for 55% revenues whereas 45% of the revenues are generated from the Indian operations.

GPL's operating margin for FY07 grew by 1580 bps-- from 19.7% to 35.5% mainly due to the \$31m receipt from Merck, Germany for licensing its GRC 8200 molecule. The company's material cost for FY07 declined by 830 bps --from 35.2% to 26.9% of net sales, with the receipt of milestone payments from Merck. However, the material cost was in the region of 29-33% during the other quarters where there was no milestone payment. GPL's personnel expenses during FY07 declined by 100bps-- from 13.5% to 12.5% of net sales, due to the higher sales growth. Other expenses declined by 640bps from 31.5% to 25.1% of net sales with the strong sales growth and control over the expenses.



GPL's depreciation increased by 83% during FY07 with the commencement of Baddi and Goa formulation facilities and expansion of API facility at Ankleshwar. The interest cost for the year was up by 175%-- from Rs 147m to Rs 404m due to the increase in working capital during the year.

The company's PBT for FY07 grew by 222%-- from Rs 1.12bn to Rs 3.61bn mainly due to the higher operating margin arising from the receipt of milestone payments. The provision for tax was up by 108% --from Rs 241m to Rs 500m. The company continues to pay tax under MAT.

GPL's net profit for FY07 jumped by 254%-- from Rs 0.88bn to Rs 3.11bn.

## Future Outlook

GPL has given a sales guidance of \$350m for FY08 and \$469m for FY09 respectively. The major growth driver will be the US market, where the company expects 80% growth in FY08 and 44% growth in FY09. The API business will be another growth driver for which the company expects 57% and 47% growth respectively in FY08 and FY09. GPL has projected a lower growth of 11% and 16% for the domestic market for FY08 and FY09 respectively due to stiff competition and likelihood of price control for some of the products.

The company expects milestone payments of \$69m each for FY08 and FY09. The company has given a net profit guidance of \$65m for FY08 and \$90m for FY09 (excluding milestone payments) and net profit of \$125m and \$150m for FY08 and FY09 respectively (including the milestone payments).

Based on the above, the CMP of Rs 658 discounts FY08E EPS of Rs 23.6 by 27.9x and FY09E EPS of Rs 34.3 by 19.2x (without milestone payments) and discounts the FY08E EPS of Rs 46.5 by 14.2x and FY09E EPS of Rs 57.1 by 11.5x(with milestone payments).

Though the stock is fairly valued at the current price, the announcement of a licensing deal may lead to re-rating of the stock. We feel that though the company has an excellent research pipeline of products, which have promising future, failure of any of these molecules in the clinical trials may lead to substantial correction in the stock price. We plan to do a detailed coverage of the company.



## Key Figures

(in \$ million)

Y/e March	FY07E	FY08E	FY09E
<b>Revenues-Base business</b>			
Formulations-US	50	90	130
Formulations-Latin America	32	42	60
Formulations-semi reg mkt.	41	55	70
Formulations-India	97	108	125
Formulations-total	220	295	385
API	30	47	69
Formulations-Europe	-	8	15
Total sales	250	350	469
<b>Growth rate (%)</b>			
<i>Formulations-US</i>		80.0	44.0
<i>Formulations-Latin America</i>		31.0	43.0
<i>Formulations-semi reg mkt.</i>		34.0	27.0
<i>Formulations-India</i>		11.0	16.0
<i>Formulations-total</i>		34.0	31.0
<i>API</i>		57.0	47.0
<i>Formulations-Europe</i>		NA	88.0
<i>Total sales</i>		40.0	34.0
Net Profit	41	65	90
<i>% growth</i>		59.0	38.0
EPS (Rs)	15.9	23.6	34.3
P/E (CMP Rs 658) (x)	42.6	27.9	19.2
<b>FINANCIAL PROJECTIONS-milestone</b>			
Milestone projections	31.0	69.0	69.0
Net profit-milestone	28.0	60.0	60.0
Total net profit	69.0	125.0	150.0
EPS (Rs)	26.1	46.5	57.1
P/E (CMP Rs 658) (x)	25.9	14.2	11.5

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