

Company Report

Glenmark Pharmaceuticals Ltd

23rd May, 2012

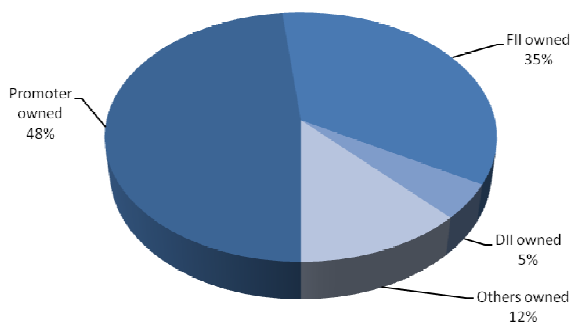
CMP **Rs.355.95**

Target Price **Rs 450.00**

BSE Code	532296
NSE Code	GLENMARK
Market Cap (Rs Cr)	9659.48
52 Week High/Low	386.50/265.00
Industry	Pharmaceuticals
Face Value	Rs1.00
Shares O/S	270573653

EPS	17.02
Book Value	88.77
P/E	20.91
P/B	4.00

Shareholding Pattern



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- As per ORG IMS MAT March 2012 data, Glenmark has gained two rank, from 25th to 23rd. Further, its market share has increased in dermatology from 8.3% to 8.4%, cardiology 2.4% to 2.5% and respiratory from 1.2% to 2.7%.
- Glenmark Pharma has registered excellent numbers for the quarter ending March 2012. The consolidated sales surged to Rs. 1066.20 crore, up 34% for the March 2012 quarter as against Rs. 795.60 crore during the corresponding quarter previous year; helped by healthy growth in the domestic and US market. The Company has registered operating profit of Rs. 221.76 crore for the quarter ended March 2012, zoomed manifold over Rs. 89.28 crore achieved in the corresponding quarter of last year. Virtually every geography (except central and eastern Europe) that the company operates in is profitable at the EBIDTA level. Net profit stood at Rs.150.36 crore as compared to Rs.113.48 crore; an increase of 32.5%. EPS for the quarter stood at Rs.5.56.
- Revenue from the generics business was at Rs. 468.53crore, as against Rs. 316.3 crore, a growth of 48%. The Specialty formulation business revenue was at Rs. 594.38 crore as against Rs. 464.03 crore for the corresponding previous quarter, registering growth of 28%.
- Glenmark, through its arm Glenmark Generics, launched 12 products in the US market in FY12, most of which were in the dermatology and oral contraceptive segments. It, as of March 31, had 78 generic products authorized for distribution in the US market and 38 ANDAs are pending approval with the US FDA.

Valuation

Strong product pipeline, strong geographical growth and firm guidance by company's management provide Glenmark earning potential going ahead. The stock is trading at an attractive valuation at 15.92x and 13.19x of FY12EPS of Rs.22.36 and FY13EPS of Rs.26.99. We initiate a 'BUY' on the stock with a target price of Rs.450 (appreciation of about 26%) for medium to long term investment horizon.

Business Details

Glenmark Pharmaceuticals was incorporated in 1977, entered into the dermatology market by 1979 through the launch of its Candid Cream. It is a leading player in the discovery of new molecules both NCEs (new chemical entity) and NBEs (new biological entity) with eight molecules in various stages of clinical development. It operates in the formulation business in over 95 countries that includes India. The company has a significant presence in branded generics markets across emerging economies including India. It has twelve manufacturing facilities in four countries and has five R&D centres.

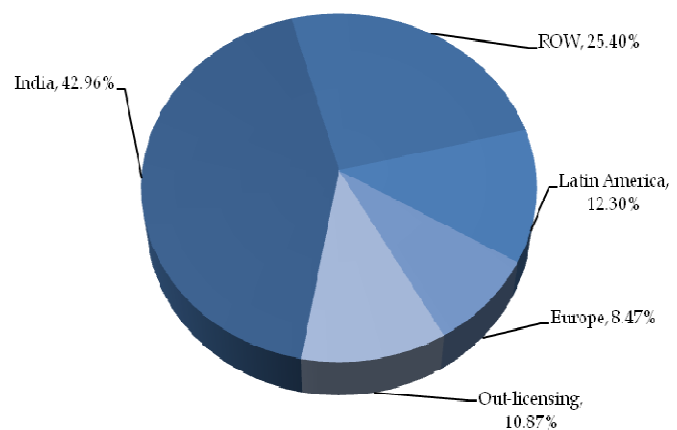
Specialty Business: Drug Discovery: Glenmark's ground-breaking drug discovery effort is primarily focused in the areas of inflammation [asthma/COPD, rheumatoid arthritis etc.], metabolic disorders [diabetes, obesity, etc.] and pain [neuropathic pain and inflammatory pain]. Glenmark has a robust pipeline of 13 molecules in various stages of preclinical & clinical development. Of these, eight molecules are in clinical trials. The molecules in clinical development are focusing on advanced treatments for chronic/debilitating diseases and are potential blockbusters with potential peak sales opportunity for each molecule being in the range of \$1 billion to \$3 billion.

Simultaneously, Glenmark has actively followed the strategy of out-licensing its molecules in clinical development to large multinational pharmaceutical organizations. This out licensing strategy has been successful so far with four deals struck by the organization in the last five years collecting \$115 million (around Rs 500 crore) as upfront and milestone payments.

Specialty Business: Formulations Business: Glenmark's formulations business is currently organized around four regions-India, Latin America, Central Eastern Europe and Semi Regulated Markets of Africa/Asia/CIS. The formulations business focuses on therapeutic areas viz. dermatology, anti-infective, respiratory, cardiac, diabetes, gynecology, CNS, and oncology. India is the largest market in terms of revenue for the organization. The formulations business has five manufacturing facilities; three in India and two overseas. These facilities are approved by several regulatory bodies.

Glenmark Generics Ltd.: Glenmark Generics Limited (GGL) is a subsidiary of Glenmark Pharmaceuticals Limited and aims to become a leading integrated global generics organization. The business comprises of US Generics, Europe generics, the API business and the Oncology business. GGL focuses on developing, manufacturing, selling, and the distribution of generics products through wholesalers, retailers and pharmacy chains etc. GGL focuses on key niche segments including Dermatology, Hormones, Controlled Substances, Oncology, and Modified Release Products.

Revenue share of Speciality business FY12



Strong industry growth driven by exports

Currently, Indian pharma industry's annual market size including export is Rs 1 trillion (US\$ 20.33 billion) with over 8,000 small and medium enterprise (SME) units engaging in this sector, said N R Munjal, the former President, Indian Drug Manufacturers' Association. India's pharmaceutical market grew at 15.7 per cent during December 2011, with growth in key therapy areas, including anti-diabetics, derma and vitamins outperformed the market, according to data compiled by market research firm All India Organisation of Chemists and Druggists (AIOCD). India's pharmaceutical sector is gaining a global leadership position and Indian generics today constitute nearly a fifth of global supplies. The Ministry of Commerce has proposed an ambitious Strategy Plan to double pharmaceutical exports from US\$ 10.4 billion in 2009-10 to US\$ 25 billion by 2013-14.

Export-import growth

	Export		Import	
	Rs. Crores	(% chg.)	Rs. Crores	(% chg.)
2005-06	22,116	23.8	4,551	43.6
2006-07	26,895	21.6	5,852	28.6
2007-08	30,760	14.4	6,713	14.7
2008-09	40,422	31.4	8,675	29.2
2009-10	42,456	5.0	9,959	14.8
2010-11	47,363	11.6	10,826	8.7
2011-12E	61,124	29.1	13,184	21.8
2012-13E	67,265	10.0	14,508	10.0
2013-14E	74,989	11.5	15,612	7.6



Capitalising on the low cost advantage and expertise in process engineering, the pharma companies are using aggressive marketing strategies to increasingly make their presence felt in the global market. This is also visible in the export numbers of the industry. In rupee terms, exports touched Rs.45,138 crore during April-December 2011. This was higher by 32.3 per cent compared to exports in the same period a year ago. A sharp depreciation in rupee vis-a-vis the USD during the period also contributed to the sharp increase in exports. US accounts for a lion's share of the India's drug exports. During April-December 2011, exports to US rose by 34.7 per cent. Exports to UK and Germany grew by 40.96 per cent and 34 per cent, respectively. Exports to Russia and Brazil were up by 48.8 per cent and 24.6 per cent, respectively.

Drug exports from India are likely to grow at 10 per cent per annum in 2012-14. The growth in exports is expected to remain healthy as Indian pharma companies continue to garner a larger market share of the fast growing global generics market. Nearly USD 80 billion worth of patent-protected drugs are expected to go off-patent (including 30 of the best selling US patent protected drugs) by 2012- 13. Around USD 300 billion worth of patents of small and large molecules are likely to go off- patent by 2015.

Flow of investment in pharma industry has continued to remain strong. In 2011-12, 52 new projects were announced in the industry with an investment of over Rs.2,799 crore. Further, around 60 projects entailing an investment of over Rs.5,585 crore were commissioned in 2011-12. JB SEZ's Panoli pharmaceutical SEZ project in Gujarat was the largest project that was commissioned in the industry during the year. The project envisaged a cost of Rs.1,160 crore and was completed in March 2012. Six other SEZ projects were commissioned during the year at a total cost of Rs.1,097.3 crore. These projects belong to Ajanta Pharma, Ranbaxy Laboratories, Unichem

7 projects announced in March 2012 quarter

Qtr ended	New Projects		Projects Completed		Projects Shelved	
	(Nos.)	Rs. Crores	(Nos.)	Rs Crores	(Nos.)	Rs Crores
Mar 09	28	2,837	18	1,454	3	1,317
Jun 09	17	1,783	21	791	7	914
Sep 09	9	1,760	9	605	6	450
Dec 09	25	1,154	17	480	4	298
Mar 10	36	3,785	16	1,012	5	320
Jun 10	30	1,500	15	1,459	1	40
Sep 10	11	740	7	788	2	150
Dec 10	18	436	15	1,165	0	0
Mar 11	72	6,230	20	876	3	149
Jun 11	27	255	17	1,154	2	50
Sep 11	15	401	16	899	7	250
Dec 11	3	190	16	450	1	18
Mar 12	7	1,953	11	3,082	3	83

Laboratories, Medgel and Karnataka Industrial Area Development Board. In 2012-13 and 2013-14, projects worth over Rs.8,353 crore and Rs.3,882 crore are scheduled to commission in the pharma industry.

Thus, considering the huge potential for growth in developed markets, the Department of Pharmaceuticals (DOP) has formulated a scheme whereby Indian pharma manufacturers can build capacity for compliance to the stringent standards of highly regulated markets like the US, UK and Australia. The DOP has proposed that 250 select small and medium scale pharma companies should be provided special assistance to upgrade their manufacturing facilities to international standards like US Food & Drug Administration (US FDA), European Directorate for the Quality of medicines (EDQM), Therapeutic Goods Administration (TGA) of Australia and others. The scheme proposes that assistance should be extended at the rate of 50 units per year at the cost of rupees two crore per unit for five years. DOP has already submitted the proposal to the Planning Commission for approval.

On back of a high middle-class population base, improvements in medical infrastructure and the establishment of intellectual property rights, the Indian pharma industry is estimated to grow manifolds. CMIE expects the pharma industry's PAT to return to growth and profit margins to expand in 2012-13. The PAT is likely to grow by 76.5 per cent. Net sales are likely to grow by a healthy 17 per cent in 2012-13. A healthy demand in the domestic and international market will aid sales growth. In 2013-14, sales are expected to grow by 15.1 per cent.

Robust product pipeline indicating strong research

Glenmark has a pipeline of 6 NCE and NBE molecules in clinical trials including the in-licensed molecule “Crofelemer”. **Revamilast (GRC 4039)**: The Company plans to file an IND for Revamilast in the US in Q3 FY 13. It intends to initiate Phase III trials for at least one indication by end of FY 13.

GRC 17536: Glenmark plans to file for Phase I/IIa study for respiratory indications in Q2 FY 13.

Vatelizumab (GBR 500): GBR 500 has been licensed in June 2011 to Sanofi. An application will be filed in Q1 FY 2013 to initiate a PoC trial in Ulcerative Colitis in US and other countries.

GRC 15300: A development and commercialisation license for GRC 15300 has been granted to Sanofi. A PhIIa proof of concept study in neuropathic pain will be initiated in Q1 FY 2012-2013.

GBR 900: Glenmark licensed from Lay Line Genomics, Italy, exclusive intellectual property rights for monoclonal antibodies against the neuronal growth factor receptor TrkA.

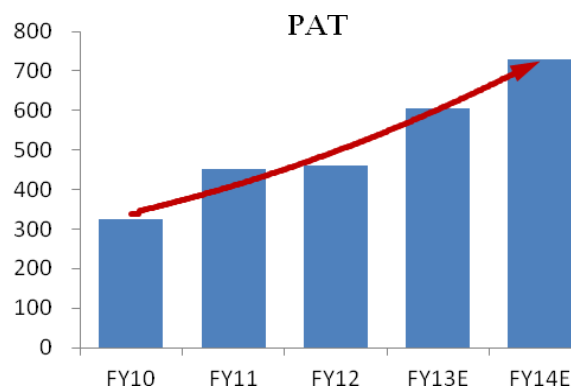
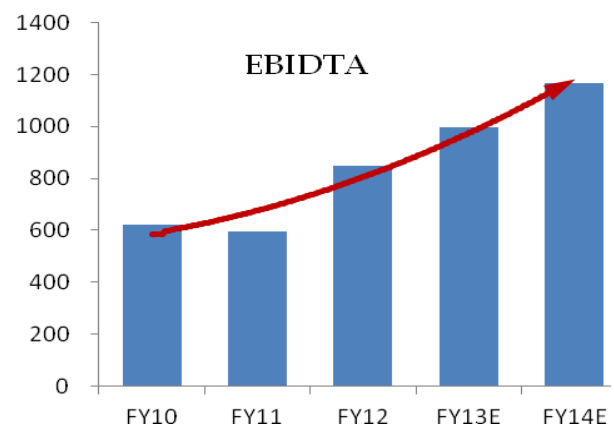
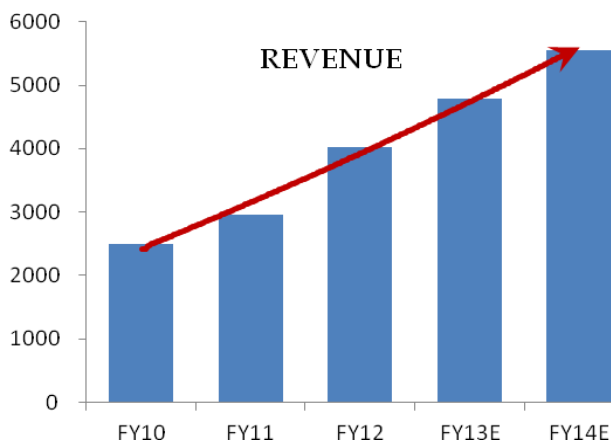
GBR 401: GBR 401, an anti-CD19 antibody, is currently under development for the target indications of B cell leukemias/lymphomas. Glenmark had a successful Pre-IND meeting with the US FDA.

Crofelemer: Glenmark’s in-licensed molecule Crofelemer - for multiple diarrhoeal conditions earlier successfully completed Phase 3 clinical testing for HIV associated diarrhoea. The trial was conducted by Salix Pharmaceuticals Inc. in the USA and the PDUFA date issued by the USFDA which was 5th June 2012 has now been extended by the agency to Sep 5, 2012. This could be the first innovative product launch for Glenmark across 140 countries where it has exclusive marketing and distribution rights.

Compound	Indication	Current Status
Crofelemer (in-licensed from Napo Pharma)	Anti-diarrhoeal	Phase III trials complete
	Asthma, Rheumatoid Arthritis	Obtained approval for Phase IIb trails in UK(MHRA) & India(DGCI)
GRC 4039 (Revamilast)		Completed Phase I study in Netherlands. Obtained approval for Phase II for Pain indication in UK(MHRA), awaiting approval in Germany(BfArM)
GRC 17536	Respiratory disorders, Neuropathic pain	
GBR 500	Crohn's Disease, Multiple Sclerosis, Inflammatory Disorders	Phase I studies completed in US
	Osteoarthritis pain, Neuropathic pain,	
GRC 15300	Inflammatory Disorders	Completed Phase I trials in UK(MHRA)
GBR 900	Chronic Pain	In Pre-clinical Phase
GBR 401	Lymphomas, Leukemias	Preparation for Phase I submission going

Firm Guidance by management

Glenmark Pharma expects to continue strong growth momentum in FY13 too. It expects sales will rise 22-25% (excluding licensing income), helped by new drug launches in the US market and strong growth in most other regions. EBITDA (earnings before interest, taxes, depreciation and amortization) is likely to be in Rs 900-925 crore range for the full year. The company's main focus would be on reducing its high debt level in the years to come. Further, it has no plans to acquire companies going ahead and free cash flows in FY13 will go towards debt reduction. On the average interest cost, it anticipates Rs.38 to 39 per quarter. It plans to spend 6-7% of sales on research and development and capex would be in the range of around Rs.250 crores. For FY13, the tax rate is estimated at 14% to 15% and after that probably it may see a drop because of certain new projects. Further, the company had 14 ANDA approvals in FY12 and expects similar number of approvals in FY13 too. On the geographical front, only Central Eastern Europe may see a flat y-o-y due to some reimbursement issues and government's knocking down prices while Latin America, ROW will continue to see very strong growth in FY13. Glenmark expects to launch around 20 to 25 products to fuel growth for next year.

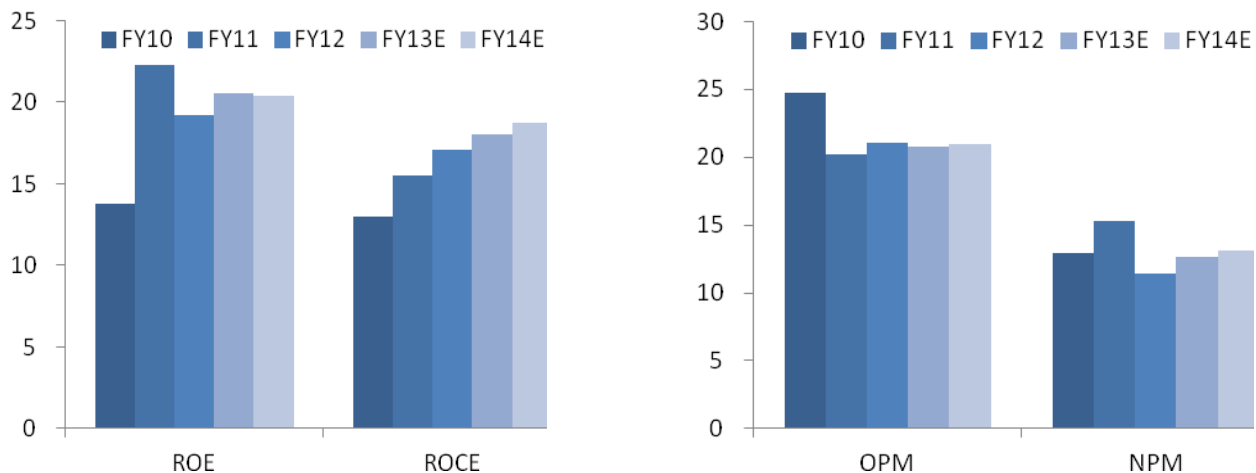


Broad based growth

Glenmark pharma has registered excellent numbers for financial year ended March 2012. Consolidated revenues from operations grew by about 36% at Rs.4021.68 cr as against Rs.2953.64 cr last year. Revenue from the generics business was at Rs. 1640.52 cr, as against Rs. 1206.31 cr, a growth of 36%. The Speciality formulation business revenue was at Rs. 2332.77 cr as against Rs. 1685.82 cr for the corresponding previous period, registering growth of 38%. Operating profit jumped higher by about 42% at Rs.847.08 cr as compared to Rs.596.83 cr. Net profit for FY12 stood flat at Rs.460.35 cr versus Rs.453.21 cr of previous year(adjusted for extraordinary item of Rs.131.68 cr). The company has completed restructuring the domestic business. Inventory rationalization was done in the third quarter. It is expecting to outperform the industry in the domestic market in FY13. In March, it initiated the launch of Fluticasone Propionate lotion, a copy of Nycomed's Cutivate lotion.

Specialty business: Sales for the formulation business in India increased to Rs.1002.13 cr, up by 19%. A big part of the growth is due to volume growth of about 14% to 15% and 3% to 4% is on account of new products. Revenue from Africa, Asia and CIS region (ROW markets) was at Rs.592.55 cr; a hike of 46%. The company's revenue from its Latin American and Caribbean operations stood at Rs.286.91 cr implicating a growth of 50%. Europe operations has posted a growth of 29% in FY12.

Generics business: Revenues from US has registered a growth of 45% at Rs.1213.69 crores. The European generics business witnessed a sharp hike of 90% at Rs.103.14 crores over previous year. Revenue from sale of API to regulated and semi-regulated markets globally was Rs.309.44 cr; registering a growth of 12%.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales	2500.65	2953.64	4021.68	4785.80	5551.52
Growth		18.12%	36.16%	19.00%	16.00%
Expenditure	1881.08	2356.82	3174.60	3790.35	4385.70
EBITDA	619.57	596.83	847.08	995.45	1165.82
Growth		-3.67%	41.93%	17.52%	17.12%
EBITDA margin	24.78%	20.21%	21.06%	20.80%	21.00%
Other income	48.96	139.84	17.14	21.54	26.09
Depreciation & Amortization	120.61	94.68	97.88	143.57	173.49
EBIT	547.92	641.99	766.34	873.41	1018.43
EBIT margin	21.91%	21.74%	19.06%	18.25%	18.35%
Interest	164.02	160.46	146.57	153.15	148.04
PBT	383.90	481.54	619.77	720.26	870.39
Tax	52.87	23.70	23.78	108.04	130.56
PAT	331.03	457.83	595.99	612.22	739.83
Minority interest/Share of JV/ Associates	(6.56)	(4.63)	(3.96)	(7.20)	(9.80)
Adjusted PAT	324.47	453.21	592.03	605.02	730.03
Extraordinary item	0.00	0.00	(131.68)	0.00	0.00
Reported PAT	324.47	453.21	460.35	605.02	730.03
Growth		39.68	1.58	31.43	20.66
Net Profit margins	12.98	15.34	11.45	12.64	13.15
Equity Capital	26.98	27.03	27.05	27.05	27.05
Res. & Surplus	2328.25	2010.21	2374.58	2,914.68	3,550.02
Equity Shares	26.98	27.03	27.05	27.05	27.05
EPS	12.02	16.77	17.02	22.36	26.99

Ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Return on Equity	13.78	22.25	19.17	20.57	20.41
Return on Capital employed	12.97	15.52	17.11	17.99	18.76
Debt/Equity	0.79	1.03	0.87	0.65	0.52
Asset turnover	0.52	0.60	0.70	0.76	0.80
Current Ratio	4.85	3.38	2.45	2.36	2.52
Book value per share	87.28	75.38	88.77	108.74	132.22

Balance Sheet

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Share Capital	26.98	27.03	27.05	27.05	27.05
Reserves & Surplus	2328.25	2010.21	2374.58	2,914.68	3,550.02
Shareholders' funds	2355.23	2037.24	2401.63	2941.73	3577.07
Borrowings	1869.39	2100.48	2077.91	1914.32	1850.51
Minority Interest	13.01	26.70	25.00	25.00	25.00
Deferred tax Liability	71.01	0.00	0.00	0.00	0.00
Sources of funds	4308.65	4164.41	4504.54	4881.05	5452.58
Gross block	2,081.21	2,468.52	2,839.41	3190.53	3469.70
Accumulated Depreciation	388.23	316.77	414.65	558.22	731.71
Net block	1692.97	2151.75	2424.76	2632.31	2737.99
Capital work in progress	600.77	12.80	15.11	31.91	131.84
Investments	18.12	18.12	18.12	18.82	28.57
Goodwill	94.34	60.57	60.86	60.86	60.86
Inventories	708.46	807.01	787.67	920.15	1,007.08
Sundry debtors	1,078.28	1,130.81	1,243.61	1,347.36	1,566.57
Cash and bank balance	107.02	194.87	320.08	295.76	261.10
Other current assets	0.00	398.22	538.99	624.39	764.64
Loans and advances	527.31	67.85	56.81	98.59	130.55
Total current assets	2,515.40	2,659.34	3,008.02	3,347.11	3,790.79
Deferred tax asset	0.00	108.14	267.39	267.39	267.39
Current liabilities & provisions	518.62	785.73	1,228.86	1,416.49	1,504.00
Net current assets	1,996.78	1,873.60	1,779.16	1,930.63	2,286.79
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	4,308.65	4,164.41	4,504.54	4,881.05	5,452.58

Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY12	Q4FY11	Q3FY11	YoY%	QoQ%
Sales	1066.20	795.60	1031.31	34.01	3.38
Expenditures	844.44	706.32	928.45	19.55	(9.05)
Operating Profit	221.76	89.28	102.86	148.39	115.60
Net Profit	150.36	113.48	44.82	32.50	235.48
OPM%	20.80	11.22	9.97	958bps	1083bps
NPM %	14.10	14.26	4.35	(16bps)	975bps
EPS*	5.56	4.19	1.66	32.70	234.94

*Adjusted for current no. of equity shares

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
<i>1. Analyst Ownership of the Stock</i>	<i>No</i>
<i>2. Hem & its Group Company Ownership of the Stock</i>	<i>No</i>
<i>3. Hem & its Group Companies' Director Ownership of the Stock</i>	<i>No</i>
<i>4. Broking relationship with company covered</i>	<i>No</i>

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