

ACCUMULATE

CMP*	Rs413
Target Price	Rs445

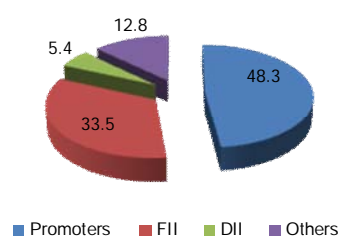
Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	11,207
52 Week High/Low	428/265
Avg. Daily Volume (3m, '000)	436
Avg. Daily Value (3m, cr)	16.7
Dividend Yield (%)	0.5
Sensex	17,943
Nifty	5,416
BSE Code	532296
NSE Code	GLENMARK

Stock Performance

(%)	GLENMARK	NIFTY
1-week	(0.2)	0.5
1-month	8.4	5.8
1-year	27.6	9.4

Shareholding Pattern (%)



Stock Price Chart



Note: *CMP as on August 23, 2012

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Napo arbitration in favor of Glenmark

Key points

- Event:** Glenmark has received a favorable ruling regarding anti-diarrhea drug Crofelemer against Napo Pharma (arbitration filed in December 2011) by an international arbitrator. It has received exclusive rights to develop, commercialize and distribute Crofelemer in 140 emerging countries for the treatment of diarrheal diseases. The arbitrator has also ruled that Glenmark has 2 years to file for regulatory approvals in 140 countries post the approval of Crofelemer in India.
- Background details:** Napo Pharma had terminated its collaboration agreement with Glenmark (entered in July 2005) in December 2011, alleging breach of the collaboration. It claimed that Glenmark failed to file an application for regulatory approval with DGCI in India as well as to other regulatory authorities, despite the drug having completed the Phase III trials. Further, it also failed to develop the drug for the treatment of pediatric diarrhea. Besides, Napo also terminated the agreement with its partner Salix Pharma, which earlier had the rights to market the drug in developed markets of US, Canada, Mexico, Europe and Japan. Post termination, Salix went ahead and filed the NDA with the USFDA. It is also likely to get an approval from the USFDA in September 2012. Glenmark shall supply API to Salix for commercial production. For more details on the case refer our note *"Napo terminates Crofelemer agreement" dated December 13, 2011*.
- Impact:** Glenmark has already started filing in key markets (post a favorable interim ruling in January 2012) and is likely to launch it in couple of ROW markets (peak sales estimated at US\$80mn) in FY2014. Using the DCF method, we have estimated an option value of Rs13 for Crofelemer in ROW market. Given the favorable ruling, we incorporate the option value of Rs13 in our target price.

Outlook and Valuation

Post the favorable ruling from the arbitrator, we remain confident that the USFDA would follow suit. In our view, Crofelemer will make a meaningful contribution to revenues and profits and would be a steady source of revenue due to the patent protection rights. We believe Glenmark has the capability to generate more out-licensing income by monetizing its existing R&D portfolio.

Based on the visibility of strong product pipeline across markets, we expect the growth momentum to sustain in the medium term. Niche launches in US (Dermatology, Oncology and OCs) and strong secondary sales in other geographies remain key factors for margin improvement and act as catalyst for the stock. Besides, the remarkable improvement in the balance sheet ensures strong FCF over FY2012-14E. We value Glenmark's core business at 14x and add Rs66 from the R&D pipeline. **Given the healthy performance expectations on the core business, we maintain Accumulate on the stock with a revised target price of Rs445.**

Risks to the view

- Reduction in debt remains a key monitorable
- Termination or delay in commercialization of licensing molecules

Year End	Net Revenues		EBITDA		Net income (adjusted)		RoE	RoCE	EPS	Valuations (x)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2011	2,949	17.9	592	20.1	388	17.3	17.8	14.4	14.4	28.8	22.1
FY2012	4,021	61.8	1,069	26.6	815	110.1	36.7	23.5	30.1	13.7	12.1
FY2013E	4,606	21.6	998	21.7	635	(22.2)	23.4	19.1	23.5	17.7	12.9
FY2014E	5,357	16.3	1,124	21.0	733	15.6	21.7	19.1	27.1	15.3	11.3

Profit & Loss Statement

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	2,949	4,021	4,606	5,357
Base business sales	2,803	3,720	4,523	5,300
Total Expenditure	2,357	2,951	3,609	4,232
Cost of Materials	992	1,266	1,538	1,776
R&D Expense	140	256	274	296
Personnel	510	629	761	898
Others	715	800	1,036	1,263
Base business EBITDA	446	769	914	1,068
% chg	(25.2)	72.4	18.9	16.8
(% of base business Sales)	15.9	20.7	20.2	20.2
EBITDA	592	1,069	998	1,124
% chg	(4.4)	80.6	(6.7)	12.7
(% of Net Sales)	20.1	26.6	21.7	21.0
Depre. & Amortisation	95	98	120	137
EBIT	498	972	878	987
% chg	(0.3)	95.3	(9.7)	12.4
(% of Net Sales)	16.9	24.2	19.1	18.4
Interest & other Charges	160	147	141	133
Other Income	79	18	15	15
(% of PBT)	19.1	2.2	2.0	1.7
Recurring PBT	417	843	752	868
% chg	8.5	102.4	(10.9)	15.5
PBT (reported)	417	843	752	868
Tax	24	24	113	130
(% of PBT)	5.7	2.8	15.0	15.0
Minority Interest	4.6	4.0	4.4	4.8
PAT (adjusted)	388	815	635	733
Less: Extra. item(EI)	(65)	355	-	-
PAT after MI (reported)	453	460	635	733
% chg	36.9	1.6	37.8	15.6
(% of Net Sales)	15.4	11.4	13.8	13.7
Basic EPS (Rs)	14.4	30.1	23.5	27.1
% chg	17.1	109.9	(22.2)	15.6

Cash Flow Statement

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	417	843	752	868
Depreciation	95	98	120	137
Interest / Dividend (Net)	160	147	141	133
Change in Working Capital	239	191	(381)	(329)
Direct taxes paid	(24)	(24)	(113)	(130)
Others	(1,147)	(527)	0	0
Cash Flow from Operations	(260)	727	519	681
(Inc.)/ Dec. in Fixed Assets	247	(370)	(250)	(270)
(Inc.)/ Dec. in Investments	(10)	(2)	-	(3)
Cash Flow from Investing	237	(372)	(250)	(273)
Issue of Equity	56	4	-	-
Inc./(Dec.) in loans	231	(23)	(120)	(100)
Dividend Paid (Incl. Tax)	(13)	(63)	(63)	(63)
Interest / Dividend (Net)	(160)	(147)	(141)	(133)
Cash Flow from Financing	114	(229)	(324)	(297)
Inc./(Dec.) in Cash	92	127	(55)	111
Opening Cash balances	107	199	325	271
Closing Cash balances	199	325	271	382

Balance Sheet

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS				
Equity Share Capital	27	27	27	27
Preference Capital	-	-	-	-
Reserves & Surplus	2,010	2,375	2,991	3,713
Shareholders' Funds	2,037	2,402	3,018	3,740
Minority Interest	27	25	29	34
Total Loans	2,100	2,078	1,958	1,858
Total Liabilities	4,164	4,505	5,005	5,632
APPLICATION OF FUNDS				
Gross Block	2,529	2,899	3,149	3,419
Less: Acc. Depreciation	317	414	534	671
Net Block	2,212	2,486	2,615	2,748
Capital WIP	0	0	0	0
Investments	28	30	30	33
Current Assets	2,534	2,894	3,278	3,850
Cash	199	325	271	382
Loans & Advances	397	537	591	709
Other	-	-	-	-
Current liabilities	779	1,203	1,261	1,393
Net Current Assets	1,755	1,691	2,017	2,456
Net Deferred Tax	169	299	343	395
Total Assets	4,164	4,505	5,005	5,632

Key Ratios

Y/E March	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)				
P/E (on FDEPS)	28.8	13.7	17.7	15.3
P/CEPS	23.2	12.3	14.8	12.9
P/BV	5.5	4.7	3.7	3.0
Dividend yield (%)	0.1	0.5	0.5	0.5
EV/Sales	4.4	3.2	2.8	2.4
EV/EBITDA	22.1	12.1	12.9	11.3
EV / Total Assets	3.3	3.1	2.8	2.4
Per Share Data (Rs)				
EPS (Basic)	14.4	30.1	23.5	27.1
EPS (fully diluted)	14.4	30.1	23.5	27.1
Cash EPS	17.9	33.8	27.9	32.2
DPS	0.4	2.0	2.0	2.0
Book Value	75.4	88.8	111.6	138.2
Returns (%)				
RoCE	14.4	23.5	19.1	19.1
RoIC	15.6	27.6	22.7	23.2
RoE	17.8	36.7	23.4	21.7
Turnover ratios (x)				
Asset Turnover	0.7	0.9	1.0	1.0
Inventory / Sales (days)	105	77	75	72
Receivables (days)	147	122	120	118
Payables (days)	118	146	125	118
WCC (days)	193	124	138	141

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