

# Glenmark Pharmaceuticals

## Core business leads the charge

### All major markets on a roll

Glenmark reported 34% YoY sales growth and 33% YoY growth in PAT with 21% EBITDA margin in Q4FY12. Core sale growth benefitted from specialty business in India and semi-regulatory markets. Generic business benefitted from full impact of dermatology portfolio (post buyout Paul Capital JV) and 12 new products in US, new molecules in APIs and license income from EU. Robust flow of approvals in oral contraceptives (OC), branded presence in dermatology products and strong portfolio of controlled release drugs helped the company achieve 53% and 45% US sales growth in Q4FY12 and FY12 respectively. Our sales estimate of INR10.6bn is in-line with the reported sales in Q4FY12.

### India sales outperform peers, export benefits from exchange rate

With restructured sales force and focused marketing in key therapeutic areas, Glenmark gained 24% and 19% YoY sales growth in Q4FY12 and FY12 respectively. It maintains leading position in dermatology along with augmenting market share in CVs and respiratory therapy. Management's strategy to keep major part of export unhedged paid off with USD/INR appreciation.

Management has guided for 22%-25% sales growth of core business (excluding out-license revenues) and EBITDA of INR9-9.25bn (implied 19%-20% margin) in FY13E. Capex and R&D are expected to touch INR2.5bn and 6%-7% of sales respectively in FY13E.

### Valuation: Upgrade to Buy, increase target price to INR400

With increasing visibility in OC and derma products and focused marketing in India formulations, we expect Glenmark to achieve 20% core sales growth and 20% EBITDA margin over FY12-14E. We however have not factored in revenues from NCE out-license, which would benefit in reducing debt. Visibility in 7-8 niche generics in US would lead growth in FY13E. Launches of differentiated products would also boost growth in domestic formulations and increase contribution of branded generics. We upgrade our recommendation to **Buy** with increase in target price to INR400.

## Rating : Buy

Target Price : INR400

Upside : 22%

CMP : INR330 (as on 8 May 2012)

### Key data\*

Bloomberg /Reuters Code	GNP IN/GLEN.BO
Current /Dil. Shares O/S (mn)	270/270
Mkt Cap (INRbn/US\$m)	89/1,682
Daily Vol. (3M NSE Avg.)	457,242
Face Value (INR)	1

1 US\$= INR53.2

Source: Bloomberg; \* As on 8 May 2012

### Price & volume



Source: Bloomberg

Share holding (%)	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Promoter	48.3	48.3	48.3	48.3
Institutional Investors	38.1	39.0	39.3	39.5
Other Investors	3.4	2.8	2.8	2.7
General Public	10.2	9.9	9.7	9.5

Source: BSE

Price performance (%)	3M	6M	12M
Glenmark	10.3	2.7	15.7
Nifty	(6.9)	(5.5)	(9.9)
Relative performance	17.2	8.2	25.6

Source: Bloomberg

Y/E Mar (INR mn)	Q4FY12	Q4FY11	YoY(%)	Q3FY12	QoQ (%)	FY12E	FY13E	YoY(%)
Net Sales	10,659	7,951	34.1	10311	3.4	40206	44803	(10.3)
Operating Expenses	8,444	7,063	19.6	9284	(9.0)	31746	35977	(11.8)
% of Sales	79.2	88.8		90.0		79.0	80.3	
EBITDA	2,214	888	149.5	1,026	115.7	8461	8826	(4.1)
EBITDA Margins (%)	20.8	11.2		10.0		21.0	19.7	
Other Income (Net)	27	908	(97.0)	108	(75.0)	182	191	(4.8)
Interest	410	439	(6.6)	357	14.7	1466	1525	(3.9)
Depreciation	236	243	(2.7)	231	2.1	979	1196	(18.1)
PBT	1,595	1,114	43.1	545	192.5	6,198	6,296	(1.6)
Tax	73	(32)	(329.8)	84	(13.7)	238	881	(73.0)
Effective Tax Rate (%)	4.6	(2.8)		15.4		3.8	14.0	
Adjusted PAT	1,522	1,146	32.8	461	230.1	5,960	5,415	10.1
NPM (%)	14.3	14.4		4.5		14.8	12.1	
Extra ordinary items	(19)	(12)		0		(1,277)	0	NA
Reported PAT	1,504	1,134	32.5	461	226.0	4,683	5,415	(13.5)

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	24,124	18.2	6,196	25.7	3,245	69.3	11.8	13.8	14.4	28.0	17.4
FY11	29,491	22.2	5,923	20.1	4,578	41.1	16.9	22.5	13.7	19.5	18.6
FY12	40,206	36.3	8,461	21.0	4,604	0.6	16.9	19.2	18.2	19.6	12.8
FY13E	44,803	11.4	8,826	19.7	5,415	17.6	20.0	15.7	14.9	16.5	12.4
FY14E	52,377	16.9	10,737	20.5	7,069	30.5	26.1	17.3	16.6	12.6	10.1

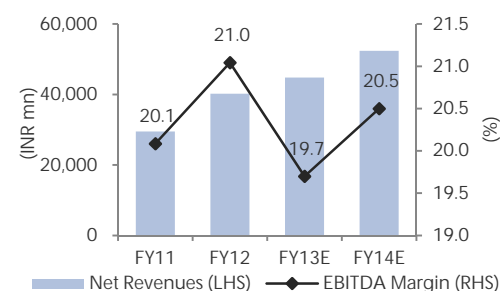
Source: Company, Elara Securities Estimate

## Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY11	FY12	FY13E	FY14E
Net Revenues	29,491	40,206	44,803	52,377
<b>EBITDA</b>	<b>5,923</b>	<b>8,461</b>	<b>8,826</b>	<b>10,737</b>
Add:- Non operating Income	794	182	191	200
OPBITDA	6,717	8,643	9,017	10,938
Less :- Depreciation & Amortization	947	979	1,196	1,291
<b>EBIT</b>	<b>5,770</b>	<b>7,664</b>	<b>7,821</b>	<b>9,647</b>
Less:- Interest Expenses	1,605	1,466	1,525	1,427
<b>PBT</b>	<b>4,166</b>	<b>6,198</b>	<b>6,296</b>	<b>8,220</b>
Less :- Taxes	237	238	881	1,151
<b>Adjusted PAT</b>	<b>3,928</b>	<b>5,960</b>	<b>5,415</b>	<b>7,069</b>
Add/Less: - Extra-ordinaries	(650)	1,356	-	-
<b>Reported PAT</b>	<b>4,578</b>	<b>4,604</b>	<b>5,415</b>	<b>7,069</b>
Balance Sheet	FY11	FY12	FY13E	FY14E
Share Capital	270	271	271	271
Reserves	20,369	23,996	34,419	40,907
Borrowings	21,116	24,817	23,459	21,959
Deferred Tax (Net)	1,476	(2,674)	1,124	1,552
<b>Total Liabilities</b>	<b>43,232</b>	<b>46,409</b>	<b>59,273</b>	<b>64,689</b>
Gross Block	24,966	28,466	31,466	33,966
Less:- Accumulated Depreciation	3,168	4,221	5,417	6,707
Net Block	21,799	24,245	26,050	27,259
Add:- Capital work in progress	606	609	609	609
Investments	38	181	181	181
Net Working Capital	20,790	21,220	32,433	36,640
Other Assets	-	-	-	-
<b>Total Assets</b>	<b>43,232</b>	<b>46,256</b>	<b>59,273</b>	<b>64,689</b>
Cash Flow Statement (INR mn)	FY11	FY12	FY13E	FY14E
Cash profit adjusted for non cash items	5,775	12,865	6,938	10,253
Add/Less : Working Capital Changes	3,528	644	(9,732)	(4,150)
Operating Cash Flow	9,303	13,509	(2,794)	6,103
Less:- Capex	(3,708)	(3,503)	(3,000)	(2,500)
Free Cash Flow	5,594	10,006	(5,794)	3,603
Financing Cash Flow	(4,356)	1,605	(3,513)	(3,558)
Investing Cash Flow	(3,670)	(3,346)	(2,987)	(2,487)
<b>Net change in Cash</b>	<b>1,277</b>	<b>11,768</b>	<b>(9,294)</b>	<b>58</b>
Ratio Analysis (INR mn)	FY11	FY12	FY13E	FY14E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	22.2	36.3	11.4	16.9
EBITDA Growth	(4.4)	42.8	4.3	21.7
PAT Growth	41.1	0.6	17.6	30.5
EBITDA Margin	20.1	21.0	19.7	20.5
Net Margin	15.5	11.5	12.1	13.5
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.9	0.9	0.6	0.4
ROE (%)	22.5	19.2	15.7	17.3
ROCE (%)	13.7	18.2	14.9	16.6
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	16.9	16.9	20.0	26.1
EPS Growth (%)	43.8	(0.4)	18.6	30.5
DPS (INR/Share)	0.4	2.0	2.0	2.0
P/E Ratio (x)	19.5	19.6	16.5	12.6
EV/EBITDA (x)	18.6	12.8	12.4	10.1
EV/Sales (x)	3.7	2.7	2.4	2.1
Price/Book (x)	4.4	3.7	2.6	2.2
Dividend Yield (%)	0.1	0.6	0.6	0.6

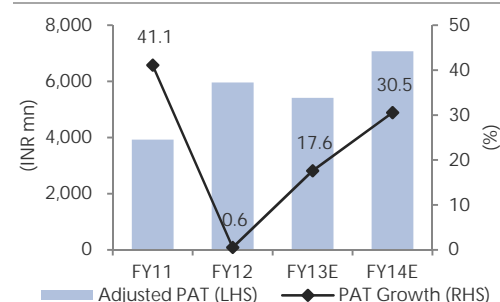
Source: Company, Elara Securities Estimates

### Revenue & margins growth trend



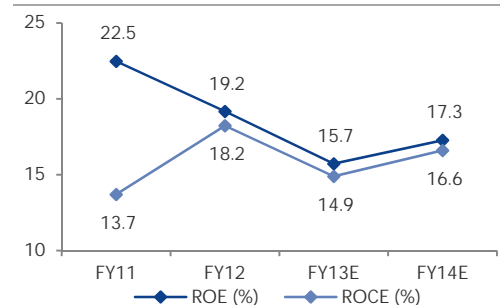
Source: Company, Elara Securities Estimate

### Adjusted profits growth trend



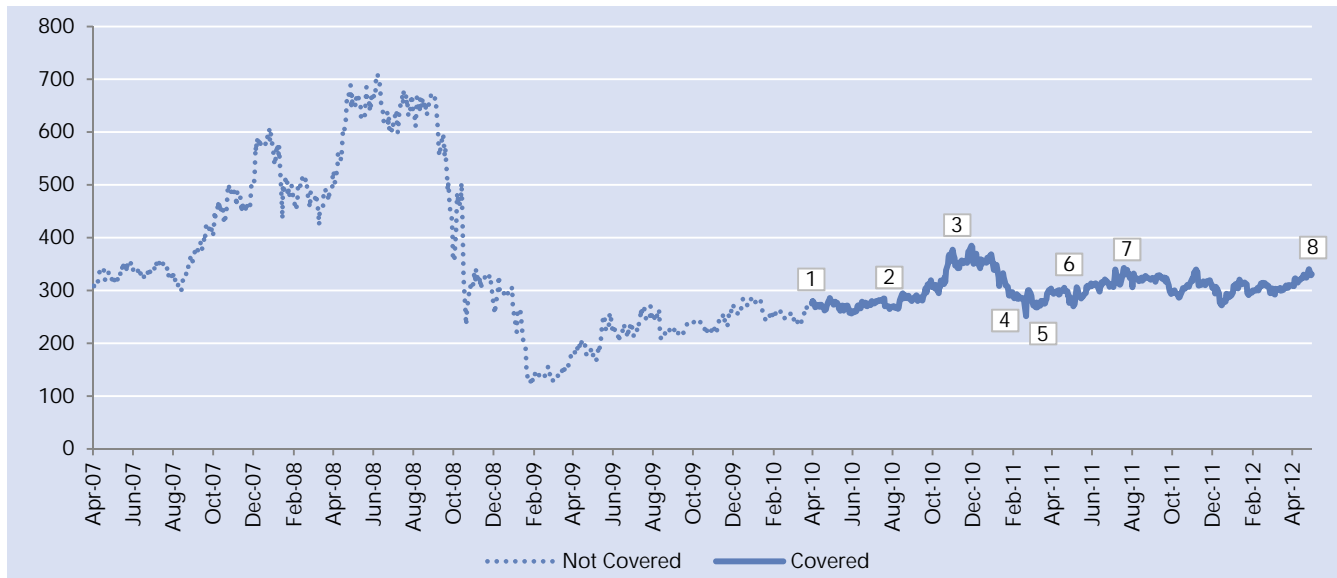
Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

### Coverage History



	Date	Rating	Target Price	Closing Price
1	8-Apr-2010	Buy	INR331	INR275
2	27-Jul-2010	Buy	INR342	INR285
3	03-Nov-2010	Buy	INR495	INR368
4	17-Jan-2011	Buy	INR462	INR326
5	2-Feb-2011	Buy	INR424	INR291
6	16-May-2011	Accumulate	INR324	INR306
7	26-July-2011	Accumulate	INR360	INR338
8	08-May-2012	Buy	INR400	INR330

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

## Disclosures & Confidentiality for non U.S. Investors

The Note is based on our estimates and is being provided to you (herein referred to as the "Recipient") only for information purposes. The sole purpose of this Note is to provide preliminary information on the business activities of the company and the projected financial statements in order to assist the recipient in understanding / evaluating the Proposal. Nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. Nevertheless, Elara or any of its affiliates is committed to provide independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Elara or any of its affiliates have not independently verified all the information given in this Note and expressly disclaim all liability for any errors and/or omissions, representations or warranties, expressed or implied as contained in this Note. The user assumes the entire risk of any use made of this information. Elara or any of its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for or solicit investment banking or other business from any company referred to in this Note. Each of these entities functions as a separate, distinct and independent of each other. This Note is strictly confidential and is being furnished to you solely for your information. This Note should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This Note is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Elara or any of its affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. Upon request, the Recipient will promptly return all material received from the company and/or the Advisors without retaining any copies thereof. The Information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This Information is subject to change without any prior notice. Elara or any of its affiliates reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Elara is under no obligation to update or keep the information current. Neither Elara nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This Note should not be deemed an indication of the state of affairs of the company nor shall it constitute an indication that there has been no change in the business or state of affairs of the company since the date of publication of this Note. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Elara Securities (India) Private Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Any clarifications / queries on the proposal as well as any future communication regarding the proposal should be addressed to Elara Securities (India) Private Limited / the company.

## Disclaimer for non U.S. Investors

The information contained in this note is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

## Disclosures for U.S. Investors

The research analyst did not receive compensation from Glenmark Pharmaceuticals Limited.

Elara Capital Inc.'s affiliate did not manage an offering for Glenmark Pharmaceuticals Limited.

Elara Capital Inc.'s affiliate did not receive compensation from Glenmark Pharmaceuticals Limited in the last 12 months.

Elara Capital Inc.'s affiliate does not expect to receive compensation from Glenmark Pharmaceuticals Limited in the next 3 months.

## Disclaimer for U.S. Investors

This material is based upon information that we consider to be reliable, but Elara Capital Inc. does not warrant its completeness, accuracy or adequacy and it should not be relied upon as such.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

Certain statements in this report, including any financial projections, may constitute "forward-looking statements." These "forward-looking statements" are not guarantees of future performance and are based on numerous current assumptions that are subject to significant uncertainties and contingencies. Actual future performance could differ materially from these "forward-looking statements" and financial information.

**India**  
Elara Securities (India) Pvt. Ltd.  
Kalpataru Synergy, 6th  
Level, East Wing, Opp Grand  
Hyatt, Santacruz East,  
Mumbai – 400 055, India  
Tel : +91 22 4062 6868

**Europe**  
Elara Capital Plc.  
29 Marylebone Road,  
London NW1 5JX,  
United Kingdom  
Tel : +4420 7486 9733

**USA**  
Elara Securities Inc.  
477 Madison Avenue,  
220, New York,  
NY 10022, USA  
Tel : 212-430-5870

**Asia / Pacific**  
Elara Capital (Singapore) Pte.Ltd.  
30 Raffles Place  
#20-03, Chevron House  
Singapore 048622  
Tel : +65 6536 6267

<b>Harendra Kumar</b>		<b>Managing Director</b>		harendra.kumar@elaracapital.com	+91 22 4062 6871
<b>Sales</b>					
Anuja Sarda	London	+44 77 3819 6256		anuja.sarda@elaracapital.com	+44 20 7299 2577
David Somekh	New York	+1 646 808 9217		david.somekh@elaracapital.com	+1 212 430 5872
Nikhil Bhatnagar	New York	+1 718 501 2504		nikhil.bhatnagar@elaracapital.com	+1 212 430 5876
Samridh Sethi	New York	+1 718 300 0767		samridh.sethi@elaracapital.com	+1 212 430 5873
Amit Mamgain	India	+91 98676 96661		amit.mamgain@elaracapital.com	+91 22 4062 6843
Himani Singh	India	+91 99875 56244		himani.singh@elaracapital.com	+91 22 4062 6801
Prashin Lalvani	India	+91 98334 77685		prashin.lalvani@elaracapital.com	+91 22 4062 6844
Saira Ansari	India	+91 98198 10166		saira.ansari@elaracapital.com	+91 22 4062 6812
<b>Sales Trading &amp; Dealing</b>					
Ananthanarayan Iyer	India	+91 98334 99217		anathanarayan.iyer@elaracapital.com	+91 22 4062 6856
Dharmesh Desai	India	+91 98211 93333		dharmesh.desai@elaracapital.com	+91 22 4062 6852
Manoj Murarka	India	+91 99675 31422		manoj.murarka@elaracapital.com	+91 22 4062 6851
Vishal Thakkar	India	+91 98694 07973		vishal.thakkar@elaracapital.com	+91 22 4062 6857
<b>Research</b>					
Abhinav Bhandari	Analyst	Construction, Infrastructure		abhinav.bhandari@elaracapital.com	+91 22 4062 6807
Aliasgar Shakir	Analyst	Mid caps		aliasgar.shakir@elaracapital.com	+91 22 4062 6816
Alok Deshpande	Analyst	Oil & Gas		alok.deshpande@elaracapital.com	+91 22 4062 6804
Anand Shah	Analyst	FMCG, Paints & Agri		anand.shah@elaracapital.com	+91 22 4062 6821
Ashish Kumar	Economist			ashish.kumar@elaracapital.com	+91 22 4062 6836
Henry Burrows	Analyst	Derivative Strategist		henry.burrows@elaracapital.com	+91 22 4062 6854
Koushik Vasudevan, CFA	Analyst	Power & Utilities		koushik.vasudevan@elaracapital.com	+91 22 4062 6841
Mohan Lal	Analyst	Media , Automobiles		mohan.lal@elaracapital.com	+91 22 4062 6802
Mona Khetan, FRM	Analyst	Banking & Financials, Strategy		mona.khetan@elaracapital.com	+91 22 4062 6814
Pankaj Balani	Analyst	Derivative Strategist		pankaj.balani@elaracapital.com	+91 22 4062 6811
Parees Purohit, CFA	Analyst	Banking & Financials		parees.purohit@elaracapital.com	+91 22 4062 6859
Pralay Das	Analyst	Information Technology, Strategy		pralay.das@elaracapital.com	+91 22 4062 6808
Ravindra Deshpande, ACA, ACS,	Analyst	Metals & Cement		ravindra.deshpande@elaracapital.com	+91 22 4062 6805
Ravi Sodah	Analyst	Cement		ravi.sodah@elaracapital.com	+91 22 4062 6817
Sumant Kumar	Analyst	Travel & Hospitality, Mid caps		sumant.kumar@elaracapital.com	+91 22 4062 6803
Surajit Pal	Analyst	Pharmaceuticals, Real Estate		surajit.pal@elaracapital.com	+91 22 4062 6810
Pooja Sharma	Associate	Automobiles		pooja.sharma@elaracapital.com	+91 22 4062 6819
Stuart Murray	Associate	Oil & Gas		stuart.murray@elaracapital.com	+91 22 4062 6898

Access our reports on Bloomberg: Type **ESEC <GO>**

Also available on **Thomson & Reuters**

Member (NSE, BSE)  
Regn Nos: CAPITAL MARKET SEBI REGN. NO.: BSE: INB 011289833, NSE: INB231289837 DERIVATIVES SEBI REGN. NO.: NSE: INF 231289837  
CLEARING CODE: M51449.  
Website: www.elaracapital.com Investor Grievance Email ID: investor.grievances@elaracapital.com