

# Glenmark Pharmaceuticals

## Consensus surprise

### Currency tailwinds; India fillip aids growth

Glenmark's sales growth of 18% in the quarter was a positive surprise for the street. We observe that the INR depreciation against the USD in Q2FY13 pushed growth in exports by 33% YoY. Currency tailwinds also contributed heavily in non-US exports such as Brazil, Mexico, Nigeria, Russia, South Africa, and Argentina. While Glenmark's average US sales increased to above USD75mn/quarter, we believe that the company's 20% YoY US growth (9% QoQ growth) in Q2FY13 was also benefitted from channel-filling of Malarone generics before Prasco's (AG) entry. India formulations continued showing good growth, clocking 35% YoY growth in Q2FY13. With strong growth in consecutive three quarters (while domestic growth slows down to 12%-15%), we expect inventory stockpile before new NPPA could impact sales of the company in H2FY13E.

### Higher realization lifts margins

With net forex realization benefits of 0.5%-1%, Glenmark reported EBITDA margin of 22%, implying 300bps decline YoY. We note that its core operating margin maintains at 19%-20% in Q2FY13, which was within the management guidance. It incurred INR1050mn R&D cost, in-line with management guidance of 7%-8% of sales. The company maintains 14%-16% tax rate in H2FY13E on the back of MAT benefits from Sikkim plant. Expected tax rate for FY13E is guided at 17%-18%

### Valuation: Upgrade to Accumulate, increase target price to INR506

With 75% share of OC and derma products in pending ANDAs, Glenmark is comfortably ahead of our estimation in H1FY13, though management maintains 20% YoY growth guidance for FY13. While new competition in Malarone could impact US growth and crowding OC segment may reduce prospect, we notice improvement underlying growth in core business in key geographies. There is, however, a possibility of reversal in forex benefits and lower growth in US and India on a higher H1FY13 base. Nevertheless, we upgrade our recommendation to **Accumulate** and increase target price to INR506.

## Rating : Accumulate

Target Price : INR506

Upside : 18%

CMP : INR428 (as on 31 October 2012)

### Key data\*

Bloomberg /Reuters Code	GNP IN/GLEN.BO
Current /Dil. Shares O/S (mn)	270/270
Mkt Cap (INRbn/US\$m)	116/2,152
Daily Vol. (3M NSE Avg.)	374,825
Face Value (INR)	1

1 US\$= INR53.9

Source: Bloomberg; \* As on 31 October 2012

### Price & volume



Source: Bloomberg

Share holding (%)	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Promoter	48.3	48.3	48.3	48.3
Institutional Investors	39.3	39.5	38.9	39.9
Other Investors	2.8	2.7	3.5	2.6
General Public	9.7	9.5	9.4	9.3

Source: BSE

Price performance (%)	3M	6M	12M
Glenmark	11.5	32.0	38.6
Nifty	7.5	7.1	5.5
Relative performance	4.0	24.9	33.1

Source: Bloomberg

Y/E Mar (INR mn)	Q2FY13	Q2FY12	YoY(%)	Q1FY13	QoQ (%)	FY12E	FY13E	YoY(%)
Net Sales	12,552	10,554	18.9	10,407	20.6	40,206	44,803	(10.3)
Operating Expenses	9,842	8,301	18.6	8,206	19.9	31,746	35,977	(11.8)
% of Sales	78.4	78.7		78.8		79.0	80.3	
EBITDA	2,710	2,253	20.2	2,201	23.1	8,461	8,826	(4.1)
EBITDA Margins (%)	21.6	21.3		21.2		21.0	19.7	
Other Income (Net)	69	(35)	(295.9)	26	164.5	182	191	(4.8)
Interest	384	333	15.1	380	0.9	1,466	1,525	(3.9)
Depreciation	321	247	29.8	275	16.8	979	1,196	(18.1)
PBT	2,074	1,637	26.7	1,572	32.0	6,198	6,296	(1.6)
Tax	477	(238)	(300.5)	218	118.8	238	881	(73.0)
Effective Tax Rate (%)	23.0	(14.5)		13.9		3.8	14.0	
Adjusted PAT	1,597	1,875	(14.8)	1,354	18.0	5,960	5,415	10.1
NPM (%)	12.7	17.8		13.0		14.8	12.1	
Extra ordinary items	(30)	(1,310)		(571)		(1,277)	-	NA
Reported PAT	1,567	566	177.0	783	100.3	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	36.4	21.7
FY11	29,491	22.2	5,923	20.1	4,578	41.1	16.9	22.5	13.7	25.3	23.0
FY12	40,206	36.3	8,461	21.0	4,604	0.6	16.9	19.2	18.2	25.4	15.9
FY13E	44,803	11.4	8,826	19.7	5,415	17.6	20.0	15.7	14.9	21.4	15.4
FY14E	52,377	16.9	10,737	20.5	7,069	30.5	26.1	17.3	16.6	16.4	12.6

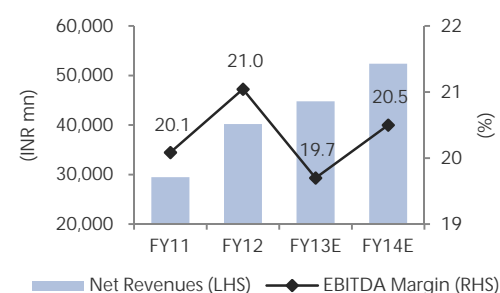
Source: Company, Elara Securities Estimate

## 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	762	762	762
Investments	38	181	181	181
Net Working Capital	20,790	21,220	32,280	36,487
Other Assets	-	-	-	-
<b>Total Assets</b>	<b>43,232</b>	<b>46,409</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)	(3,656)	(3,000)	(2,500)
Free Cash Flow	5,594	9,853	(5,794)	3,603
Financing Cash Flow	(4,356)	1,605	(3,513)	(3,558)
Investing Cash Flow	(3,670)	(3,499)	(2,987)	(2,487)
<b>Net change in Cash</b>	<b>1,277</b>	<b>11,615</b>	<b>(9,294)</b>	<b>58</b>
Ratio Analysis (INR mn)	FY11	FY12	FY13E	FY14E
Income Statement Ratios(%)				
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
Return & Liquidity Ratios				
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
Per Share data & Valuation Ratios				
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)	25.3	25.4	21.4	16.4
EV/EBITDA (x)	23.0	15.9	15.4	12.6
EV/Sales (x)	4.6	3.4	3.0	2.6
Price/Book (x)	5.7	4.8	3.4	2.8
Dividend Yield (%)	0.1	0.5	0.5	0.5

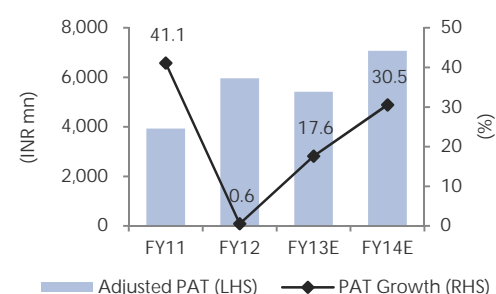
Source: Company, Elara Securities Estimates

### Revenue & margins growth trend



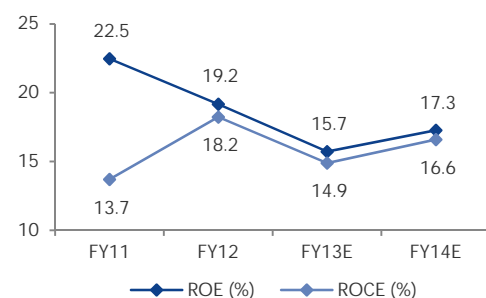
Source: Company, Elara Securities Estimate

### Adjusted profits growth trend



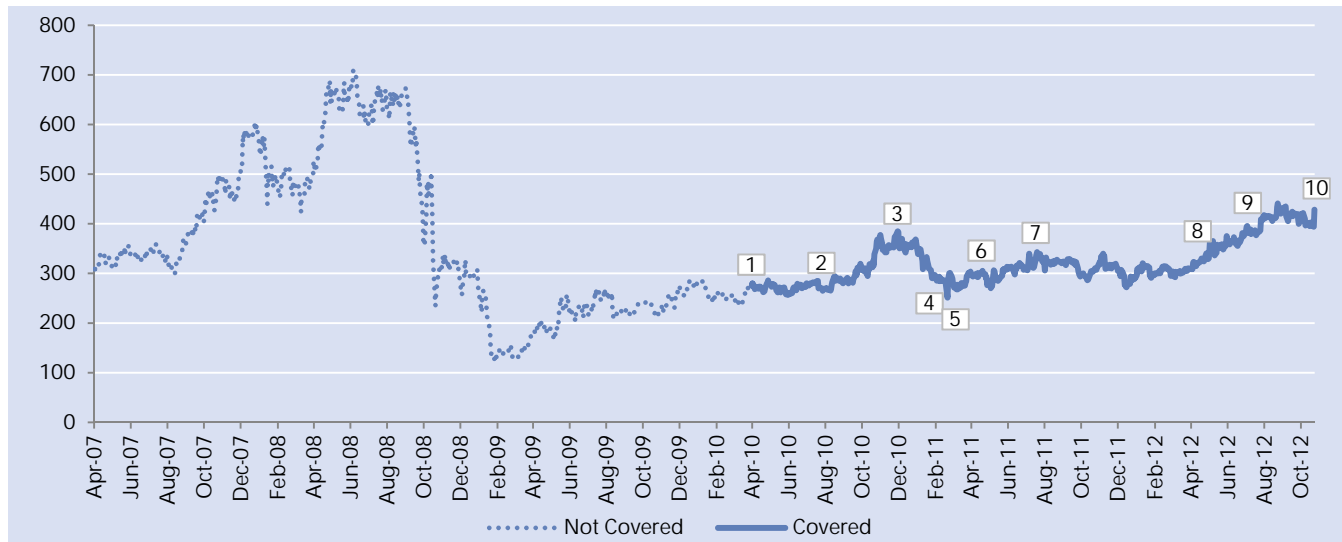
Source: Company, Elara Securities Estimate

### 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
9	02-Aug-2012	Reduce	INR400	INR387
10	31-Oct-2012	Accumulate	INR506	INR428

### 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%

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