



Ajcon's Xpress Idea

Glenmark Pharma Ltd. – Attractively valued in pharma space - "BUY" Feb 20, 2016

CMP: Rs.746.75 | Target: Rs. 933 | Upside: 25% | Market Capitalisation: Rs. 21,070 crs. | FV: Re.1

About the Company

Glenmark Pharmaceuticals Ltd. (GPL) is a research-driven, global, integrated pharmaceutical company headquartered in Mumbai, India. It is ranked among the top 80 Pharma & Biotech companies in the world in terms of revenues. (SCRIP 100 Rankings 2016). Glenmark is a leading player in the discovery of new molecules both NCEs (new chemical entity) and NBEs (new biological entity). Glenmark has several molecules in various stages of clinical development and is primarily focused in the areas of oncology, Inflammation [asthma/COPD, rheumatoid arthritis etc.] and pain [neuropathic pain and inflammatory pain]. Glenmark has a significant presence in branded generics markets across emerging economies including India. GPL along with its subsidiaries has 16 manufacturing facilities in five countries and has six R&D centers. The Generics business of Glenmark services the requirements of the US and Western Europe markets. The API (active pharmaceutical ingredient) business sells its products in over 80 countries, including the US, various countries in the EU, Latin America and India.

Price performance





Q3FY16 result update

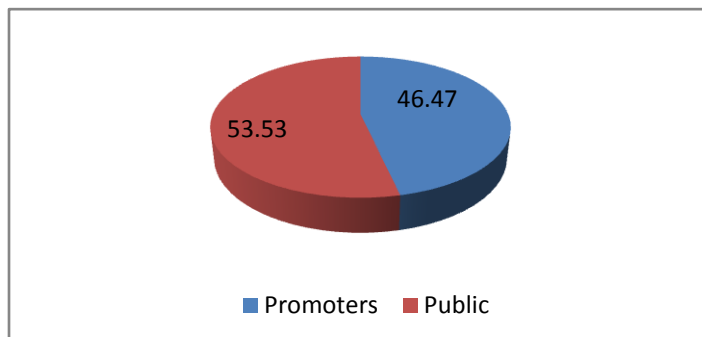
- 1) For the third quarter ended December 31, 2015, Glenmark's consolidated revenue was at Rs. 17,782.96 Mn (USD 270.15 Mn) as against Rs. 17,013.07 Mn (USD 274.80 Mn) recording an increase of 4.53%. Consolidated Net Profit for Q3 FY 15-16 was Rs. 1703 Mn as compared to Rs. 1147.73 Mn in the previous corresponding quarter; an increase of 48.38%.
- 2) Consolidated EBITDA was at Rs. 3697.62 Mn in Q3 FY 15-16 as compared to Rs. 2656.61 Mn in the previous corresponding period; an increase of 39.19% "We have recorded good overall growth in the quarter powered by our India and US businesses. The devaluation of currencies across emerging markets continues to impact our operations; although we have registered good growth in local currencies in our key emerging markets. Going ahead, we expect our India, US and Europe businesses to continue to drive growth for our company;" said Glenn Saldanha, Chairman & MD, Glenmark Pharmaceuticals Limited.
- 3) For the nine months ended Dec 31, 2015, Glenmark's consolidated revenue was at Rs. 53,429.07 Mn as against Rs. 48,689.55 Mn; an increase of 9.73% over the previous corresponding period.
- 4) Margin performance was just about in line as improving revenue mix towards better margin domestic/US business raised EBITDA margins by 80bps to 22.6%. Led by lower sales and higher tax incidence of 33%, PAT (adjusted for forex loss of Rs 270mn) was 19% below street expectations at Rs 2.07bn.

Performance across different geographies

- 1) **India:** Sales for the formulation business in India registered 12.69% yoy growth in Q3FY16 at Rs. 4,880.30 Mn (USD 73.99 Mn).
- 2) **USA:** Glenmark Pharmaceuticals Inc., U.S.A. registered revenue from the sale of finished dosage formulations was at Rs. 6,088.68 Mn (USD 92.58 Mn) for the third quarter ended December 31, 2015 against revenue of Rs. 5,072.01 Mn (USD 81.82 Mn) for the previous corresponding quarter, recording an increase of 20.04%.
- 3) **Africa, Asia and CIS Region (ROW):** For the third quarter, revenue from Africa, Asia and CIS region was Rs. 2,363.39 Mn (USD 36.05 Mn) as against Rs. 2,071.49 Mn (USD 33.48 Mn) for the previous corresponding quarter, recording an increase of 14.09%.
- 4) **Europe formulations:** Glenmark Europe's operations revenue for Q3FY16 witnessed 1.97% growth at Rs. 1,763.53 Mn (USD 26.91 Mn) as against Rs. 1,729.54 Mn (USD 28.08 Mn) in the previous corresponding quarter.
- 5) **Latin America:** Revenue from sale of API business globally was Rs. 1,449.80 Mn (USD 22.01 Mn) for the quarter ended December 31, 2015 as against Rs. 1,464.90 Mn (USD 23.60 Mn) for the previous corresponding quarter.



Shareholding Pattern as on Dec. 2015 (%)



Source: BSE

Conference call highlights

- 5) According to the management US business environment continues to be challenging as there is significant pricing pressure in base portfolio of oral solids though sequential growth will continue
- 6) Glenmark's ANDA filling momentum has lost some pace (filed six YTD, sees six more in Q4 vs. 18 in FY15). The Company continues to file in various European markets in respiratory and if all goes well would start launching in upto 18 months
- 7) It has excellent products in pipeline but there is no visibility on approvals. The Company has no specific date for launch of Multaq in US given tentative approval
- 8) The Company has Stopped supplying to Venezuela (US\$ 21mn net exposure) due to market uncertainty. Management is evaluating Venezuela business on constant basis and is reducing supplies in that market
- 9) India business growth slowed down a bit due to lacklustre performance of Sitagliptin though Teneigliptin has covered somewhat doing Rs5-6cr a month despite all the competition
- 10) Management expects enhanced tax rate of 30% (vs. earlier guidance of 26%) for FY16. Sees R&D remaining at 11% of sales over the next two years (vs. ~10% earlier).

Outlook & Valuation

We believe the current depressed valuations of the Company owing to significant price correction discounts in factors in like potential impact of Venezuela currency depreciation, lack of key expected approvals in US, low return ratios, high payable days, high FCTR losses. Presently the stock is substantially cheaper than its peers in the Pharma space. Owing to its high quality management and research team, expectation of Company's novel drug pipeline to start delivering in big way or the company receives a few more big approvals in the US market, turnaround in LatAm business (targeted by FY16 end), expected monetisation of key Para IVs like gFinacea and gZetia (FY16-18E) by street participants, deep discount valuation, we recommend a "BUY" on the stock with a price target of Rs. 933 an upside of 25% (22x at street's estimated FY18 EPS OF Rs. 42.5), over a period of 3 months.

Key risks to our Rating: Regulatory delays affecting key US launches, any adverse US FDA action upon inspection of US facilities and Developmental setbacks in the novel research pipeline.



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Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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- e) **Relationship with management: No**
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