

Institutional Equity Research

Glenmark Pharma

Pharmaceuticals | India

3QFY18 Result Update | February 12, 2018

CMP* (Rs)	535
Upside/ (Downside) (%)	17.7
Bloomberg Ticker	GNP IN
Market Cap. (Rs bn)	151
Free Float (%)	53
Shares O/S (mn)	282

BUY 

Target Price: Rs630

Risk-Reward Ratio Continues to Remain Favourable; Maintain BUY

Glenmark Pharmaceuticals (GNP) has reported a weak performance in 3QFY18. While top-line performance came in line with our estimate, operating and net profit missed our estimates. Its sales, EBITDA and PAT declined by 13.1% YoY, 57.8% YoY and 79.7% YoY to Rs22.0bn, Rs3.2bn and Rs935mn, respectively. Gross margin declined by 1,184bps YoY and 218bps QoQ to 64.5% owing to higher YoY base and gZetia exclusivity contribution in 3QFY17. Further, led by higher price erosion in base product portfolio in the US, GNP's EBITDA margin declined to 14.6% vs. 17.2% and 30.2% in 2QFY18 and 3QFY17, respectively. Its US sales declined to US\$114mn vs. US\$184mn in 3QFY17 owing to gZetia impact and higher pricing pressure, while India, RoW and Europe sales grew by 11.9% YoY, 28.3% and 14.8%, respectively. **Considering weak guidance on the US, slower off-take in India business and rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs630.**

Key Quarterly Highlights & Guidance

- ▶ **US Biz:** Following 13% price erosion in US base business, the Management expects its US business to remain under pressure over the next five quarters owing to lack of new approvals, higher price erosion and customer consolidation, which could improve only post product approvals by the US FDA. Further, the Management remained unsure over approval timeline for gRenvela and gWelchol from the US FDA. Cumulatively, it filed 188 ANDAs, out of which 58 are pending for approvals (including Para-IV: 26). Currently, its Baddi facility is under Form-483 for which GNP has already responded through CAPA and awaiting response from the US FDA.
- ▶ **India Biz:** GNP plans to launch 2 niche products (In-licensed & Patented). While 1 oncology product would be launched in next 3 months, 1 anti-diabetic product is likely to be launched in 1HFY19E. Led by new launches, GNP expects its India business to grow by 15% in FY19E.
- ▶ **GSP301 (Seasonal Allergic Rhinitis):** The Management expects peak sales revenue of US\$80-100mn (to be launched in FY19 as guided in 2QFY18).
- ▶ **Key Guidance:** Pegging R&D spend at 13% of sales (60% specialty; 40% generic), the Management expects EBITDA margin of 21-22% for FY21E.
- ▶ **Debt:** Though net debt rose by Rs1.05bn to Rs36bn, GNP expects overall debt to reduce by Rs3bn/year.

Outlook & Valuation

Looking ahead, while GNP's India business is likely to see a slow recovery, we expect its US business report flat growth over FY17-20E owing to higher base in FY17 and increased pricing pressure, which would have significant impact on profitability. Considering a weak performance and cautious outlook for US business and EBITDA margins, we trim down our sales, EBITDA and PAT estimates by 7%, 25% and 37%, respectively for FY19E. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs630 (from Rs790 earlier).**

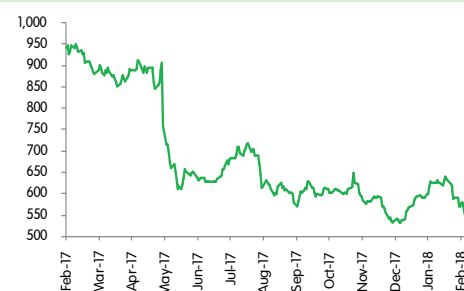
Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	91,857	90,105	99,807	112,242
EBITDA	20,367	15,631	17,466	20,428
Adj. PAT	9,304	7,060	8,520	10,582
EPS (Rs)	42.4	25.1	30.4	37.7
P/E (x)	12.6	21.3	17.6	14.2
EV/Sales (x)	2.0	2.1	1.9	1.7
EV/EBITDA (x)	9.2	12.0	10.7	9.1
ROE (%)	26.5	13.8	14.4	15.3
ROCE (%)	22.8	14.9	15.8	17.3

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(14.5)	(8.5)	(43.7)
Relative to Nifty	(13.1)	(10.5)	(63.5)

Shareholding Pattern (%)	Sep'17	Dec'17
Promoter	46.5	46.5
Public	53.5	53.5

1 Year Stock Price Performance



Note: * CMP as on Feb. 12, 2018

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Risks to view

- ▶ Any inordinate delay in getting product approvals from the US FDA.
- ▶ Higher-than-expected price erosion in the US business.
- ▶ Lower-than-expected recovery in domestic business.

Exhibit 1: Segment-wise sales performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
US	7,359	12,308	(40.2)	7,270	1.2
India	5,785	5,169	11.9	7,107	(18.6)
ROW	3,221	2,511	28.3	2,520	27.8
Europe	2,248	1,957	14.8	2,000	12.4
Latin America	898	947	(5.2)	1,047	(14.2)
API	2,316	1,920	20.6	2,366	(2.1)
Gross sales	21,828	24,812	(12.0)	22,310	(2.2)
NCE pipeline	209	537		254	
Total sales (including NCE)	22,037	25,350	(13.1)	22,564	(2.3)
US (USD mn)	114	184	(38.1)	113	0.4

Source: Company, RSec Research

Exhibit 2: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
Net Sales	22,037	25,350	(13.1)	22,566	(2.3)
Cost of Revenues	7,816	5,990	30.5	7,512	4.0
Gross Profit	14,221	19,360	(26.5)	15,053	(5.5)
% of net sales	64.5	76.4	(1,184bps)	66.7	(218bps)
Employee expenses	4,659	4,017	16.0	5,572	(16.4)
Other Expenses	6,335	7,693	(17.7)	5,598	13.2
Total operating expenses	18,810	17,701	6.3	18,682	0.7
EBITDA	3,227	7,650	(57.8)	3,883	(16.9)
EBITDA margin (%)	14.6	30.2	(1,553bps)	17.2	(257bps)
Depreciation	895	788	13.5	874	2.4
EBIT	2,332	6,861	(66.0)	3,009	(22.5)
Other Income	(232)	145	(259.8)	297	(177.9)
Interest	705	617	14.2	698	1.0
PBT	1,395	6,389	(78.2)	2,608	(46.5)
Total tax	461	1,792	(74.3)	565	(18.5)
Tax Rate (%)	33.0	28.0	498bps	21.7	1,135bps
Minority Interest	-	1		-	
Adjusted PAT	935	4,597	(79.7)	2,043	(54.3)
PAT margin (%)	4.2	18.1	(1,389bps)	9.1	(481bps)
Adj. EPS (Rs)	3.3	16.3	(79.7)	7.2	(54.3)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Net Sales	91,857	90,105	99,807	112,242
Total Expenditure	71,490	74,474	82,341	91,814
Cost of Materials	26,143	30,398	31,938	35,918
R&D Expense	10,930	9,835	12,975	14,592
Personnel	16,408	18,775	20,960	23,021
Other expenses	18,008	15,467	16,468	18,284
EBITDA	20,367	15,631	17,466	20,428
EBITDA margin	22.2	17.3	17.5	18.2
Depreciation & Amortisation	2,644	3,564	3,960	4,356
EBIT	17,723	12,066	13,506	16,072
Interest & other Charges	2,373	2,654	2,474	2,324
Other Income	373	298	328	361
PBT	15,723	9,710	11,360	14,109
Tax	3,827	2,651	2,840	3,527
% of PBT	24.3	27.3	25.0	25.0
Minority Interest	(0.5)	(0.5)	(0.5)	(0.5)
PAT (adjusted)	11,897	7,060	8,520	10,582
Less: Extraordinary item(EI)	809	0	0	0
Reported PAT	9,304	7,060	8,520	10,582
EPS (Rs)	42.4	25.1	30.4	37.7

Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	282	282	282	282
Reserves & Surplus	44,643	51,029	58,875	68,784
Shareholders Funds	44,925	51,311	59,158	69,066
Net deferred tax liability	(13,117)	(13,117)	(13,118)	(13,118)
Total Loans	47,236	44,236	41,236	38,736
Other non current liabilities	332	348	366	385
Total Liabilities	79,372	82,774	87,637	95,063
APPLICATION OF FUNDS				
Gross Block	48,006	54,006	60,006	66,006
Less: Acc. Depreciation	20,148	23,712	27,672	32,029
Net Block	27,858	30,294	32,334	33,977
Capital Work-in-progress	6,296	8,296	10,296	12,296
Goodwill on consolidation	479	479	479	479
Investments	157	165	173	182
Current Assets	68,746	65,753	68,928	75,544
Cash	10,564	7,283	3,884	2,776
Loans & Advances	12,749	14,024	15,426	16,969
Current liabilities	25,154	23,253	25,664	28,561
Net Current Assets	43,592	42,500	43,264	46,983
Other non-current fin. assets	991	1,040	1,092	1,147
Total Assets	79,372	82,774	87,637	95,063

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Profit before tax	14,914	9,710	11,360	14,109
Depreciation	3,453	3,564	3,960	4,356
Interest Provided	2,373	2,654	2,474	2,324
Change in Working Capital	(8,615)	(2,173)	(4,145)	(4,809)
Tax Paid	(6,990)	(2,651)	(2,840)	(3,527)
Others	1,439	(0)	0	0
Cash Flow from Operations	6,574	11,105	10,809	12,453
(Inc.)/ Dec. in Fixed Assets	(7,485)	(8,000)	(8,000)	(8,000)
(Inc.)/ Dec. in Investments	0	(8)	(8)	(9)
Other non-current assets	362	(50)	(52)	(55)
Cash Flow from Investing	(7,123)	(8,057)	(8,060)	(8,063)
Inc./(Dec.) in loans	7,943	(3,000)	(3,000)	(2,500)
Dividend Paid (Incl. Tax)	(678)	(674)	(674)	(674)
Interest Provided	(1,836)	(2,654)	(2,474)	(2,324)
Others	(2,887)	0	0	0
Cash Flow from Financing	2,542	(6,328)	(6,148)	(5,498)
Inc./(Dec.) in Cash	1,992	(3,280)	(3,399)	(1,108)
Opening Cash balances	8,571	10,564	7,283	3,884
Closing Cash balances	10,564	7,283	3,884	2,776

Key Ratios

Y/E March	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	12.6	21.3	17.6	14.2
P/CEPS	10.3	14.1	12.0	10.1
P/BV	3.3	2.9	2.5	2.2
Dividend yield (%)	0.4	0.4	0.4	0.4
EV/Sales	2.0	2.1	1.9	1.7
EV/EBITDA	9.2	12.0	10.7	9.1
EV / Total Assets	2.4	2.3	2.1	2.0
Per Share Data (Rs)				
EPS	42.4	25.1	30.4	37.7
Cash EPS	51.8	37.8	44.5	53.2
DPS	2.0	2.0	2.0	2.0
Book Value	160.0	182.8	210.7	246.0
Returns (%)				
RoCE	22.8	14.9	15.8	17.3
RoE	26.5	13.8	14.4	15.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.2	1.1	1.1	1.2
Inventory / Sales (days)	86	86	86	86
Receivables (days)-debtor	97	95	95	95
Payables (days)-creditors	97	110	110	110

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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