

# Glenmark Pharmaceuticals

23 June 2021

Reuters: GLEN.NS; Bloomberg: GNP IN

## Glenmark Pharma management meet update

We recently had an interaction with Glenmark Pharmaceuticals management to understand the business as it stands in an evolving market environment. The key takeaway is that the company is poised for free cash flow generation as the key business segments (US and domestic formulations) are expected to deliver strong growth in FY22. Successful listing of Life Sciences business and potential fund raise in Ichnos Sciences would be sweeteners.

**Indian Branded Formulation Business** (ex-COVID products) is off to a strong start. In April'21 and May'21, the company's ex-COVID portfolio business grew in line with IPM (30%). Respiratory sales, which were affected by COVID, have started to recover now. The company's key product in diabetes – Remogliflozin continues to post strong growth, led by the roll-out of fixed dosage combinations around it. Also, Dapagliflozin genericisation has not affected its ramp-up. The company is presently ranked No. 2 in Derma, 4th in Respiratory and 6th in Cardio in the Indian Pharmaceutical Market. Efforts are on to build on these rankings. The company has also started to build an oncology portfolio in India, which should help it to improve its growth trajectory going forward.

**Tiotropium Inhaler launch in Europe:** The company is the third player to launch tiotropium inhaler in the UK. It would not invest in a sales force and would leverage alternative channels. Overall, the tiotropium inhaler market in Europe stands at US\$450mn and the company would gradually roll out the product in other markets as well. The product should remain limited competition.

**US Markets:** Recent limited competition launches should help the company to post low teens growth in the US. Also, expect the Monroe facility in the US to deliver few key limited competition product approvals. By the end of FY21, the entire expenditure pertaining to the Monroe facility would be included in the P&L.

**Should sustain EBITDA margin in FY22:** The company would look to sustain EBITDA margin, led by lower spends on R&D. R&D expenditure towards Ichnos Sciences should reduce to \$90mn to \$100mn range in FY22. Overall, R&D expenditure should remain in the 10-11% range in the coming years.

**Capex to be ~Rs6,500mn, leading to free cash flow generation:** The capex number includes spends on licensing, Monroe facility and maintenance capex. The company would look to generate free cash flow of Rs4,000 - Rs5,000mn in FY22.

**LatAm:** In FY21, Brazil business was severely impacted due to COVID. Margin for the LatAm business should be in the low teens on a normalised basis. Due to new regulations in LatAm, it is experiencing quicker approvals and should help growth in coming years.

**Ichnos Sciences:** The company's key focus is around containing the cash burn in Ichnos and raise funds either through partnering/ Private Equity. There has been a recent large transaction in the OX40 antagonist space - Amgen has paid US\$400mn upfront to Kyowa Kirin for in-licensing their OX40 antagonist Phase 2 candidate for atopic dermatitis. The news flow has relevance for Ichnos as it validates its efforts around pursuing ISB-830, which also is an OX40 antagonist and is also being explored for atopic dermatitis in Phase 2 trials. The news flow should support partnering efforts for ISB-830 as we understand that there is a very limited pipeline of OX40 antagonist. Although ISB-830 Phase 2 efficacy data was a bit weak, there may be an opportunity to fine-tune the dosing and take it forward.

## NOT RATED

**Sector:** Pharmaceuticals

**CMP:** Rs639

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### Key Data

Current Shares O/S (mn)	282.2
Mkt. Cap (Rsbn/US\$bn)	136.9/1.8
52 Wk H / L (Rs)	658/405
Daily Vol. (3M NSE Avg.)	2,925,424

### Price Performance (%)

	1 M	6 M	1 Yr
Glenmark Pharma	(19.8)	(2.3)	5.6
Nifty Index	3.2	14.1	52.2

Source: Bloomberg

### Latest Result

### Latest Annual Report

Y/E March Rsmn)	FY17	FY18	FY19	FY20	FY21
Net sales	91,857	91,031	98,655	1,06,410	1,09,439
EBITDA	20,367	16,154	15,858	16,981	20,844
Net profit	11,088	8,039	9,250	7,760	9,701
EPS (Rs)	39	28.5	32.8	27.5	34.3
EPS growth (%)	49.2	(27.5)	15.1	(16.1)	24.6
EBITDA margin (%)	22.2	17.7	16.1	16.0	19.0
PER (x)	21.8	18.5	19.7	7.5	18.7
P/BV (x)	5.4	2.9	3.2	1.0	2.6
EV/EBITDA (x)	13.7	11.2	13.3	5.4	10.3
RoCE (%)	26.4	18.0	19.0	15.8	17.3
RoE (%)	24.7	15.6	16.5	12.8	13.7

Source: Company, Nirmal Bang Institutional Equities Research

**Financials**
**Exhibit 1: Income statement**

Y/E March (Rsmn)	FY 17	FY18	FY19	FY20	FY 21
<b>Net sales</b>	<b>91,857</b>	<b>91,031</b>	<b>98,655</b>	<b>1,06,410</b>	<b>1,09,439</b>
% growth	20.1	-0.9	8.4	7.9	2.8
Raw material costs	26,143	30,386	33,623	36,986	36,988
Staff costs	16,408	18,718	20,561	22,548	23,437
R&D Expenses	10,660	11,220	12,980	13,520	0
Other expenditure	28,938	25,773	28,613	29,895	28,170
Total expenditure	71,490	74,877	82,797	89,429	88,595
<b>EBITDA</b>	<b>20,367</b>	<b>16,154</b>	<b>15,858</b>	<b>16,981</b>	<b>20,844</b>
% growth	41.7	-20.7	-1.8	7.1	22.7
<b>EBITDA margin (%)</b>	<b>22.2</b>	<b>17.7</b>	<b>16.1</b>	<b>16.0</b>	<b>19.0</b>
Other income	374	914	2,081	1,596	502
Interest costs	2,373	2,856	3,346	3,773	3,531
<b>Gross profit</b>	<b>65,714</b>	<b>60,645</b>	<b>65,031</b>	<b>69,423</b>	<b>72,451</b>
% growth	22.9	-7.7	7.2	6.8	4.4
Depreciation	2,644	3,019	3,259	4,172	4,436
<b>Profit before tax &amp; Exceptional Items</b>	<b>15,724</b>	<b>11,193</b>	<b>11,334</b>	<b>10,632</b>	<b>13,379</b>
Exceptional Items	-809	0	1,672	329	445
<b>Profit before tax</b>	<b>14,914</b>	<b>11,193</b>	<b>13,006</b>	<b>10,961</b>	<b>13,825</b>
Tax	3,827	3,155	3,756	3,201	4,124
Effective tax rate (%)	24	28	33	30	31
<b>PAT after Minority Interest</b>	<b>11,088</b>	<b>8,039</b>	<b>9,250</b>	<b>7,760</b>	<b>9,701</b>
% growth	49.2	-27.5	15.1	-16.1	25.0
<b>EPS (Rs)</b>	<b>39.3</b>	<b>28.5</b>	<b>32.8</b>	<b>27.5</b>	<b>34.3</b>
% growth	49.2	-27.5	15.1	-16.1	24.6

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Balance sheet**

Y/E March (Rsmn)	FY 17	FY18	FY19	FY20	FY 21
Equity	282	282	282	282	282
Reserves	55,770	60,423	69,265	79,831	93,018
Net worth	56,052	60,705	69,548	80,113	93,301
Minority Interest	-4	-4	-4	-4	-4
Net deferred tax liabilities	458	572	572	572	572
Total Loans	38,768	44,856	39,503	36,109	33,115
Other Financial Liabilities	9,898	12,872	12,872	12,872	12,872
Other Long-Term Liabilities	6	5	5	5	5
<b>Liabilities</b>	<b>1,05,177</b>	<b>1,19,005</b>	<b>1,22,495</b>	<b>1,29,666</b>	<b>1,39,859</b>
Net Block	20,978	29,777	39,086	42,374	42,039
CWIP	12,344	10,906	4,406	3,500	6,001
Intangible Assets and Goodwill	17,370	21,821	21,933	21,945	21,857
Other Non-Current Assets	14,931	16,062	16,062	16,062	16,062
Non-Current Investments	297	246	246	246	246
Inventories	22,521	21,356	22,119	23,796	25,745
Debtors	21,946	24,090	23,613	25,517	27,687
Cash	9,378	11,112	11,998	14,967	21,020
Other current assets	13,124	11,478	11,478	11,478	11,478
Total current assets	66,968	68,036	69,207	75,757	85,930
Creditors	22,208	21,258	22,018	23,687	25,627
Other current liabilities	5,503	6,585	6,428	6,531	6,648
Total current liabilities	27,710	27,843	28,445	30,218	32,275
Net current assets	39,258	40,193	40,762	45,539	53,655
<b>Total assets</b>	<b>1,05,177</b>	<b>1,19,005</b>	<b>1,22,495</b>	<b>1,29,666</b>	<b>1,39,859</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Cash flow**

Y/E March (Rsmn)	FY 17	FY18	FY19	FY20	FY 21
PBT	14,914	11,193	13,006	10,961	13,825
(Inc.)/dec. in working capital	-7,176	3,091	1,363	1,271	-3,858
<b>Cash flow from operations</b>	<b>7,738</b>	<b>14,284</b>	<b>14,370</b>	<b>12,231</b>	<b>9,966</b>
Other income	-374	-878	-1,869	-1,896	-1,705
Interest Expense	2,373	2,856	3,346	3,773	3,531
Other Expenses	-1,261	716	-1,437	314	186
Depreciation	2,644	3,019	3,259	4,172	4,436
Tax paid (-)	-3,827	-3,516	-4,426	-4,670	-5,102
<b>Net cash from operations</b>	<b>7,294</b>	<b>16,481</b>	<b>13,242</b>	<b>13,924</b>	<b>11,312</b>
Capital expenditure (-)	-5,912	-10,227	-12,320	-7,753	-6,753
<b>Net cash after CapEx</b>	<b>1,382</b>	<b>6,253</b>	<b>922</b>	<b>6,171</b>	<b>4,559</b>
Other Investing activities	-2,364	94	5,330	-82	1
<b>Cash from Financial Activities</b>	<b>2,975</b>	<b>-4,685</b>	<b>-7,387</b>	<b>-4,447</b>	<b>-4,418</b>
Opening cash	8,571	10,564	12,334	9,363	11,103
Closing cash	10,564	12,334	9,363	11,103	11,381
Change in cash	1,992	1,770	-2,971	1,740	278

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Key ratios**

Y/E March	FY 17	FY18	FY19	FY20	FY 21
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	22.2	17.7	16.1	16.0	19.0
EBIT margin (%)	19.7	15.4	14.9	13.5	15.5
Net profit margin (%)	12.1	8.8	9.4	7.3	8.9
RoE (%)	24.7	15.6	16.5	12.8	13.7
RoCE (%)	26.4	18.0	19.0	15.8	17.3
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	97	95	84	79	83
Inventory (days)	259	250	232	216	218
Payables (days)	268	227	222	214	215
Current ratio (x)	2.8	2.9	2.4	2.4	2.5
Quick ratio (x)	1.9	2.1	1.6	1.7	1.7
<b>Valuation ratios</b>					
EV/sales (x)	3.0	2.0	2.1	0.9	2.0
EV/EBITDA (x)	13.7	11.2	13.3	5.4	10.3
P/E (x)	21.8	18.5	19.7	7.5	18.7
P/BV (x)	5.4	2.9	3.2	1.0	2.6

Source: Company, Nirmal Bang Institutional Equities Research

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