

Neutral

24-Jun-16

### GLENMARK PHARMACEUTICALS LTD

#### Company Update

CMP	774.9
Target Price	
Previous Target Price	1100
Upside	
Change from Previous	-30%

#### Market Data

BSE Code	532296
NSE Symbol	GLENMARK
52wk Range H/L	1261.95/671.50
Mkt Capital (Rs Cr)	21865
Av. Volume(,000)	165.46
Nifty	8270.5

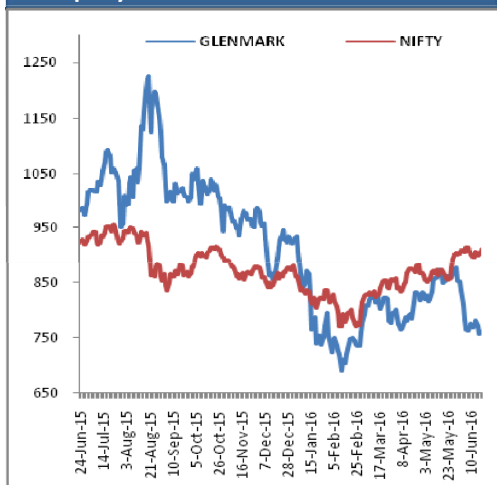
#### Stock Performance

	1M	3M	12M
Absolute	-13.2	-22.7	-13.5
Rel.to Nifty	-13.9	-20.8	-17.0

#### Share Holding Pattern-%

	4QFY16	3QFY16	2QFY16
Promoters	46.48	46.5	46.5
Public	53.5	53.5	53.6
Others			
Total	100.0	100.0	100.0

#### Company Vs NIFTY



Glenmark Pharmaceuticals US business is set to accelerate on the back of key upcoming launches in Dec2016 due to large FTF opportunity in Zetia Ezetimibe(generic version of Merck's cholesterol-lowering drug named Zetia).Glenmark is in a favorable position to gain from turnaround in key ROW and Europe markets with new product launch and strong respiratory segment. Through we remain positive in the long run but as it has chosen to dilute equity once again (raising USD200mn through FCCB post its recent USD150mn private placement and due to the diminution in the Venezuela business(Cash of USD45 and receivables of USD25 due from Venezuela by FY16 ) We maintain a neutral rating for the stock.

#### Recent Event

**Glenmark launches offer to raise up to \$200 mn as on 31st May-** Glenmark Pharma plans to raise ~US\$200 million (Rs1,340 crore) in foreign currency convertible bonds. Glenmark is raising the fund to retire a part of its existing debt and also mobilise money for fresh capex plans.Regulatory floor price for conversion of the FCCBs at Rs 861.84.

#### Investment Rationals

- Zetia to drive portfolio of FTF drugs in FY17 18E:** Glenmark's opportunity in Zetia exclusivity of 180 days in the US is by far the largest since its foray in the generic market. Zetia is a cardiovascular drug with current US market size of US\$2bn at originator's price. The company has settled with MSD (originator) to launch the cardiovascular drug on December 2016, with sole exclusivity. To reduce financial risk in case of adverse legal outcome from Para IV challenge, Glenmark tied up with Par Pharma in FY10 with sharing rights to market and distribute Zetia generic in US during exclusivity.

- Value unlocking in R&D could reach up to US\$100 120m in FY17:** We believe GBR 500 and GRC 17536 will be potential candidates to trigger milestone revenues of US\$20m each in FY17E, while GBR 1302 (bi specific antibody targeting Herceptin 2 & 3) will be a strong candidate for receiving out license fees of US\$30 50m in FY17E.R&D spend for FY16 was at 10% to sales and it guides for higher R&D spend (11%) for FY17/18 as it sees ramp up in filing of ANDAs (i.e >20 vs 12 in FY16)

	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	4021	5012	6005	6645	7650
EBITDA	714	1015	1091	1225	1433
Net Profit	464	628	546	475	702
EPS	17	23	20	18	25
P/BV	3.4	4.5	5.1	7.1	5.5

(Source: Company/Eastwind)

### Glenmark is poised for strong growth post a sluggish phase

- Expects to file 7 ANDAs in Q1FY17, will have >20 filings in FY17.
- Capex for construction of Solid Dosage Facility in US is expected to be ~US\$ 80-100 million for the next 5 years.
- In 4QFY16 Glenmark concluded the licensing deal with Celon for generic Seretide Acçuhaler in Europe.
- Management expects debt will come off significantly in FY17, will use Zetia cash to de-lever and improve cash flows.
- GNP will not consider M&A until it can monetize Zetia. FCF generation will primarily service debt.
- Staff costs/sales to come down over next 1-2 years

### Guidance For FY17E (From Conference Call)

- Sales to grow at 12%-15%, US Growth-15%-20%.
- Capex to be at Rs 500-Rs700Cr for FY17 & FY18 each.
- R&D expense at 11% of sales.
- Tax Rate (30% in FY16) to be at 22-25%.
- It expects healthy >20% growth YoY in Latin America (mainly ex Venezuela) and Russia. With Venezuela also management can see something like 10%, 15% kind of growth coming out of Latin America.
- The company clarified that it has no exposure to Semler; bulk of bio studies are done internally only.
- The company expects US\$10-15 million of revenues from the Venezuela geography in FY17E.

### Novel Drug Pipeline

	Compound	Primary Indications	Target		Pre-clinical	Phase 1	Phase 2a	Phase 2b Phase 3
<b>NCE</b>	GRC 17536	Neuropathic pain	TRPA1 inhibitor					
	GRC 27864	Relief from Osteoarthritic pain	mPGES 1 inhibitor					
<b>NBE</b>	Vatelizumab (GBR 830)	Autoimmune Atopic dermatitis	VLA 2 Antagonist					
	GBR 900	Inflammatory pain	OX 40 Antagonist					
	GBR 1302	HER2+ cancers	TrkA Antagonist					
			HER2xCD3 (bispecific MAb)					
	GBR 1342	Multiple Myeloma	CD38xCD3 (bispecific MAb)					

### New chemical entity (NCE) & New Biological Entity (NBE) Pipeline

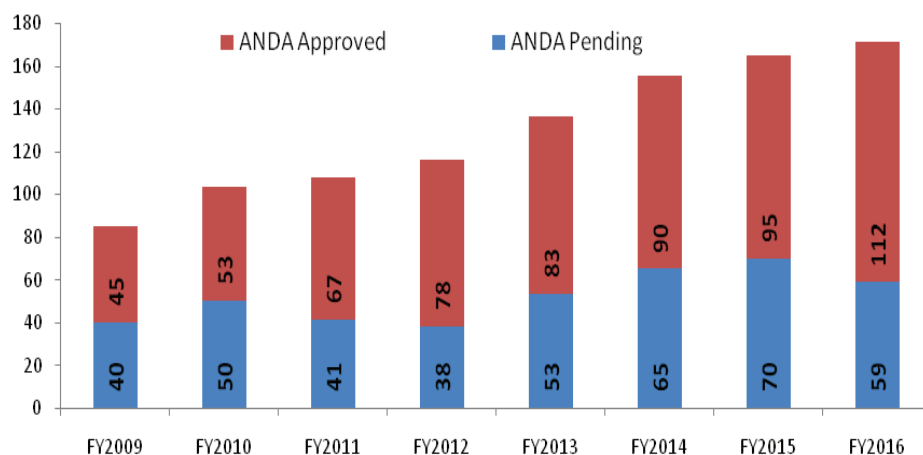
**NCE:** NCEs are chemically derived; man-made and developed to treat a wide range of diseases.

**NBE:** NBEs may be defined as biological products, for example, proteins, peptides, antibodies, viruses and vaccines, used to prevent or treat disease. Their advantage over NCEs is that antibody-based drugs are highly specific to their targets and can block protein/protein interactions

### Key launches over the next 2-3 years

Generic name	Brand Name	Brand revenues(USD mn)	Status	Launch	Competition / Expected Competition
Ezetimibe oral tablet	Zetia	1,500	Tentative approval	FY17	Sole FTF, share agreement with Par
Nitroglycerin	Nitrostat	70	Awaiting approval	FY17	FTF
Rosuvastatin Calcium	Crestor	3,000	Tentative approval	FY17	Expect 7-8 competitors, however GNP is backward integrated
Frovatriptan Succinate	Frova	90	Launched	FY17	Only player in market
Azelaic Acid	Finacea	100	Tentative approval	Q4FY18	FTF
Sevelamer Carbonate	Renvela	850	Awaiting approval	FY18	Expect to be in the 1st wave
Sevelamer HCl	Renagel	150	Awaiting approval	FY18	Expect to be in the 1st wave
Colesevelam HCl	Welchol (tab + susp)	800	Awaiting approval	FY18	Expect to be in the 1st wave
Adapalene/ Benzoyl Peroxide	Epiduo	360	Tentative approval	Q4FY18	Expect to be 2nd generic player in market

### Key launches over the next 2-3 years



1) Company's accumulated ANDAs were at 171, including 59 pending approvals (26 Para IV filings).

2) The company plans to file more than 25 ANDAs in FY17 and expects approvals for 10-12 ANDAs

### Valuation-Remain Attractive

After a challenging phase involving aggressive investments for future growth and slowdown in the key US market due to a sharp reduction in Abbreviated New Drug Application (ANDA) approvals, we believe Glenmark is now turning a corner. A strong and growing generic business, combined with possibilities of significant value creation in the innovation R&D assets, makes .Through we remain positive in the long run but as it has chosen to dilute equity once again (raising USD200mn through FCCB post its recent USD150mn private placement and due to the diminution in the Venezuela business(Cash of USD45 and receivables of USD25 due from Venezuela by FY16 ) we maintain a neutral rating

### About the Company

Glenmark Pharmaceuticals is one of the most successful research focused pharmaceutical companies, with a business model spanning drug discovery research, APIs and formulations in the domestic and international markets. Glenmark's R&D efforts have been extremely productive. GPL almost has a leadership position in the Indian drug discovery space (both NCEs and biologics). GPL has a presence in over 85 countries across the world including India, Europe, Brazil, Latin America (excluding Argentina), Russia/CIS, Africa and Asia through branded generic formulations. In regulated markets such as US, Europe, Argentina, etc it has a presence via its non-branded generics.

**Financials Snap Shot**

INCOME STATEMENT					RATIOS				
	FY13	FY14	FY15	FY16		FY13	FY14	FY15	FY16
Revenue	5012	6005	6645	7650	EPS	23	20	18	26
Other Income	6	5	7	7	Book Value	103	110	111	143
Total Revenue	5019	6010	6652	7670	DPS	2.4	2.3	2.3	24.0
COGS	1654	1873	1934	2361	Payout (incl. Div. Tax.)	0.1	0.1	0.1	0.1
GPM	33%	31%	29%	31%	<b>Valuation(x)</b>				
Other Expenses	1561	2015	2283	2477	P/E	20.0	28.1	44.9	30.7
EBITDA	1015	1091	1225	1433	Price / Book Value	4.5	5.1	7.1	5.5
EBITDA Margin (%)	20%	18%	18%	19%	Dividend Yield (%)	1%	0.41%	0.30%	0.30%
Depreciation	127	217	260	269	<b>Profitability Ratios</b>				
EBIT	888	874	965	1164	RoE	23%	18%	16%	16%
Interest	160	189	190	179	RoCE	19%	16%	17%	17%
PBT	739	697	781	1005	<b>Turnover Ratios</b>				
Tax	111	151	119	303	Asset Turnover (x)	0.6	0.7	0.7	0.7
Tax Rate (%)	15%	22%	15%	30%	Debtors (No. of Days)	119	131	138	100
Reported PAT	628	546	475	702	Inventory (No. of Days)	61	57	70	75
Dividend Paid	64	63	63	65	Creditors (No. of Days)	76	83	112	96
No. of Shares	27	27	27	27	Net Debt/Equity (x)	0.7	0.8	0.9	0.6

Souce: Eastwind/Company

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BALANCE SHEET					CASH FLOW STATEMENT				
	FY13	FY14	FY15	FY16		FY13	FY14	FY15E	FY16E
Share Capital	27	27	27	28	OP/(Loss) before Tax	739	697	781	1241
Reserves and surplus	2760	2969	2973	3396	Depreciation	127	217	260	290
Shareholders' funds	2787	2997	3000	4270	Direct Taxes Paid	165	263	119	285
Long term Debt	1920	2429	2574	2487	Operating profit before v	1081	1407	1232	1736
Total Borrowings	2288	2782	3800	3988	CF from Op. Activity	648	854	945	1316
Non Current liabilities	262	259	361	219	Payments for purchase o	-471	-377	-430	-473
Other liabilities	57	111	289	358	CF from Inv. Activity	-464	-368	-558	-549
Provisions	33	260	151	77	Repayments of short-ter	-314	-56	387	-542
Current liabilities	1834	2596	2486	2578	Repayment of Long Term	-256	-628	0	-257
Total liabilities	7171	8634	9646	11054	Interest Paid	147	194	190	205
Net Fixed Assets	2768	3036	3270	3908	Divd Paid (incl Tax)	64	63	63	63
Goodwill	60	60	58	57	CF from Fin. Activity	195	-98	292	-1068
Other current assets	636	873	774	987	Inc/(Dec) in Cash	379	388	680	-302
Current assets	3727	4763	5323	5910	Add: Opening Balance	226	407	801	768
Total Assets	7171	8634	9646	11055	Closing Balance	605	795	1480	466

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