Glenmark Pharma.

Glenmark Pharmaceuticals Limited (Glenmark) is engaged in discovery of new molecules both new chemical entities (NCEs) and new biological entities (NBEs). The Company operates in five geographical areas: India, United States, Europe, Latin America and Rest of the World. The Company earns mainly from three segments viz Formulations,Active Pharmaceuticals Ingredient (API) and Out licensing. While overall composition for the company is its acute segment contributes nearly 70% of total revenue and chronic segment adds nearly 30 % of revenue.

Company has posted Q2FY13 consolidated revenues at Rs 1260 Cr up 19% YoY. Core topline was led by US business (sales up 36% YoY, partly led by favorable currency), India formulations (sales up 36% YoY) and 31%YoY increase in exports to semi-regulated markets. European generics sales grew 110% YoY but on a low base. Reported EBITDA declined 14% YoY to Rs256 Cr mainly due to absence of NCE licensing income was Rs 110 Cr for 2QFY12. Adjusted PAT grew 110% YoY to Rs 157 Cr driven by forex gain of Rs15 as compared to a forex loss of Rs81 Cr in 2QFY12.

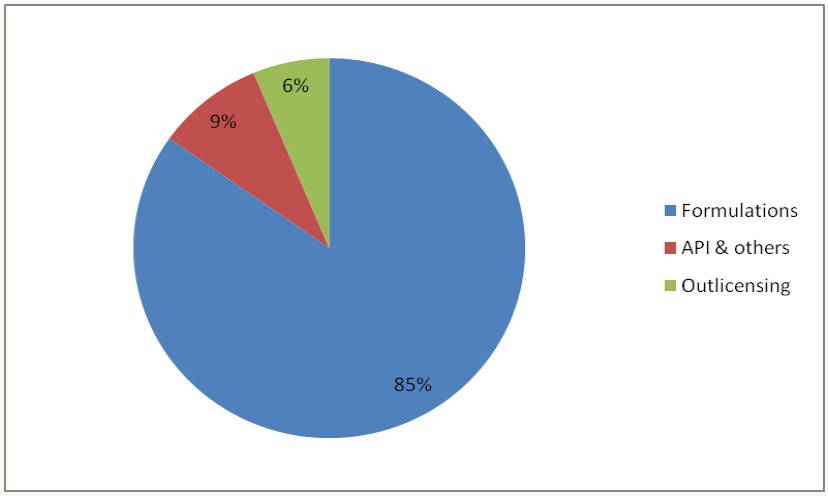
As per balance sheet of the Company Net debt currently is at Rs 20.6b and is higher than that on 31st Mar-12 due to translation of forex debt at current exchange rates. Net working capital cycle has improved from as high of 162 days in FY11 to 112 days as on September 2012 which is much positive as strong revenue growth does not came at cost of increasing working capital

Going Forward management has guided revenue growth of 22-25% in FY13 and US growth at 20% and EBITDA margin at 21-22 % levels which is almost same that came in the Q2FY13. Company has increased R&D expense company is now guiding R&D expense to 8% of sales for FY13.Mangaement is quite optimistic to achieve its EBITDA margin guidance despite of high R&D expense. Management says expected tax Rate for FY13 would be 17-18 %. Further company have said that LATAM business to turn profitable in FY13 and it expects 15 % EBITDA margin from LATAM in three years of time.

Company to file 15-20 ANDA's for US market in FY'13 and would be launching crofelemer which has estimated revenue potential of USD 200-300mn in H2'FY14.Further company has another two-three potential candidates for out-licensing.Company likely to start reporting the NCE clinical data for various NCEs commencing with Revamilast in Jan-2013 and three other NCEs in 1HFY14.

Possible risks for the stock could be forex loss on ECB and NCE failures which can impact on investors return.Company has quite big stock adjustments making EBITDA and finaly PAT inconsistent over last few quarters.

In wake of strong pipeline which can have strong earning capability along with optimistic management guidance and improving operating metrics company have good earning potential in mid to long term.Currently the stock is trading at 16.4xFY14E EPS and we recommend buy view for the stock with target price Rs 485.



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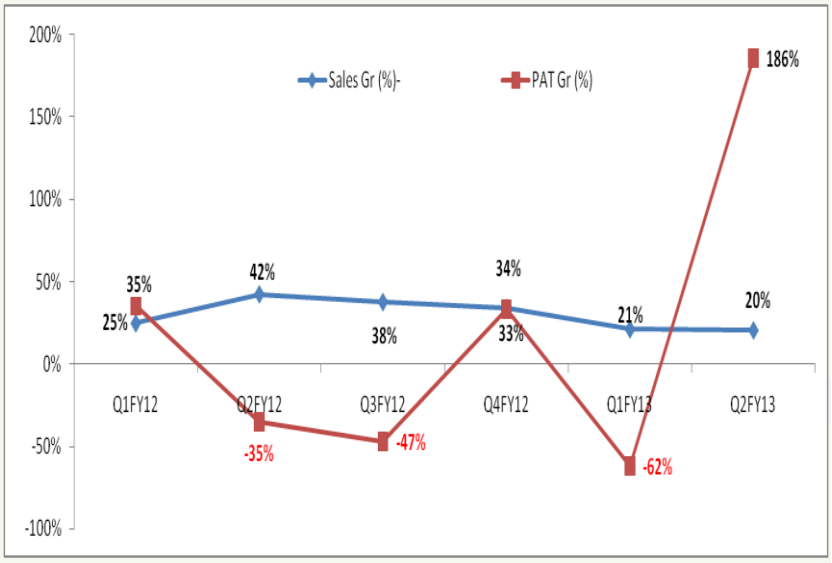

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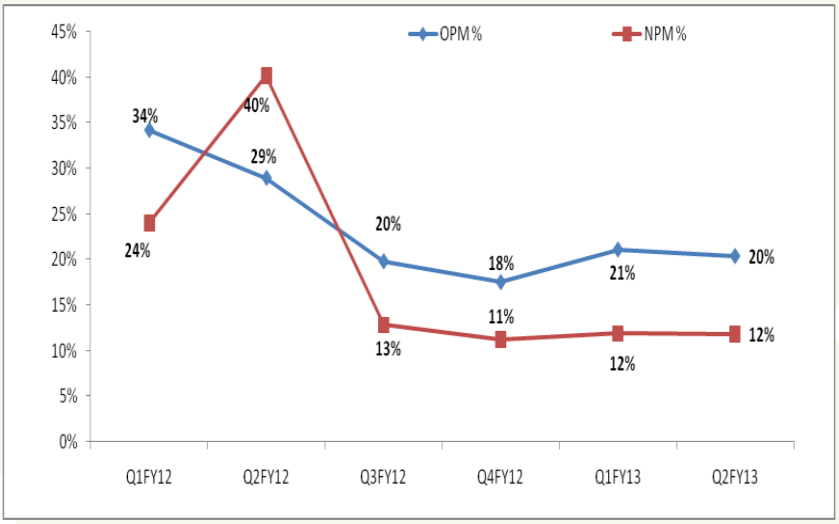

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