

GLENMARK NEUTRAL

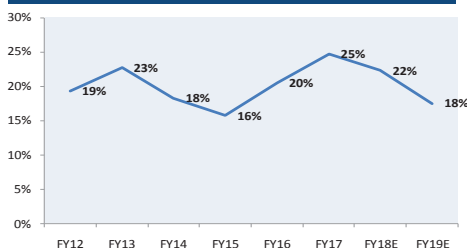
15-May-17

INDUSTRY - Pharmaceuticals
BSE Code - 532296
NSE Code - GLENMARK
NIFTY - 9400

Company Data

CMP	759
Target Price	830
Previous Target Price	1096
Upside	9%
52wk Range H/L	994/730
Mkt Capital (Rs Cr)	21,426
Av. Volume (,000)	189

RoE to maintain at 25% in FY17

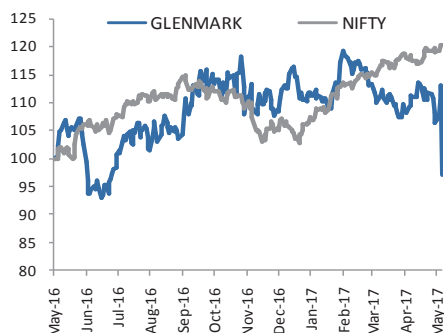


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	46.5	46.5	46.5
Public	53.5	53.5	53.5
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(14.5)	(11.4)	(11.4)
Rel.to Nifty	(17.2)	(31.2)	(20.1)



ADITYA GUPTA
aditya.gupta@narnolia.com

Key Highlights of the Report:

- US price regulation imposed by the US government has impacted the US base business of the company upto the extent of 18%. We expect this regulation to be continued for next 12-18 months.
- Rupee appreciation against dollar has impacted the earnings from the US business in Q4FY17.
- Higher finance cost has impacted the margins due to higher level of debt in FY17.
- Company is expected to launch 10 new products and file 3 new ANDA's but no timeline yet.
- Currently, the stock is trading at 4x FY19E P/BV

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	6,630	7,650	9,186	10,019	9,456
EBITDA	1,210	1,437	2,037	2,068	1,959
EBIT	950	1,203	1,772	1,842	1,693
PAT	474	743	1,109	1,259	1,178
EPS (Rs)	17	26	39	45	42
EPS growth (%)	-13%	51%	49%	13%	-6%
ROE (%)	16%	20%	25%	22%	18%
ROCE (%)	17%	20%	20%	20%	18%
BV	2,973	3,601	4,464	5,611	6,685
P/B (X)	7.1	6.2	5.4	4.3	3.6
P/E (x)	45.0	30.2	21.7	19.1	20.4

RECENT DEVELOPMENT:

- ✓ Glenmark gets tentative USFDA nod for anti-coagulant drug. IMS Health sales data for the 12 months to February 2017, the approved product has achieved annual sales of around USD 913 million
- ✓ Glenmark has been granted final approval by U.S. FDA for Fenofibrate Capsules (Generic version of Tricor Micronized Capsules). According to IMS Health sales data for the 12 month period ending February 2017, the Tricor Micronized Capsules achieved annual sales of approximately \$97.5 million.
- ✓ Glenmark Pharmaceuticals receives ANDA approval for Clobetasol Propionate Ointment USP, 0.05%. According to IMS Health sales data for the 12 month period ending January 2017, the Temovate Ointment, 0.05% market1 achieved annual sales of approximately \$175.3 million*
- ✓ Glenmark Pharmaceuticals Reports Positive Results from a Phase 3 Trial of GSP 301, Mometasone/Olopatadine FixedDose Combination Nasal Spray, in Seasonal Allergic Rhinitis

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,281	1,969	2,224	2,535	2,457	8%	-3%	7,650	9,186	20%
Other Income	11.7	75.9	-1.8	14.6	-51.3	-539%	-452%	20	37.365	87%
COGS	744	624	615	599	777	4%	30%	2,303	2,614	14%
Employee Cost	348	372	482	402	385	11%	-4%	1,378	1,641	19%
Other Expenses	887	595	678	769	852	-4%	11%	2,532	2,894	14%
EBITDA	302	379	449	765	444	47%	-42%	1,437	2,037	42%
Depreciation	58	64	69	63	69	18%	10%	234	264	13%
Interest	48	43	63	62	70	47%	13%	179	237	33%
PBT	208	348	315	655	254	22%	-61%	1,044	1,572	51%
Tax	59	121	92	178	(11)	-118%	-106%	301	383	27%
PAT	149	227	224	477	184	23%	-61%	743	1,109	49%

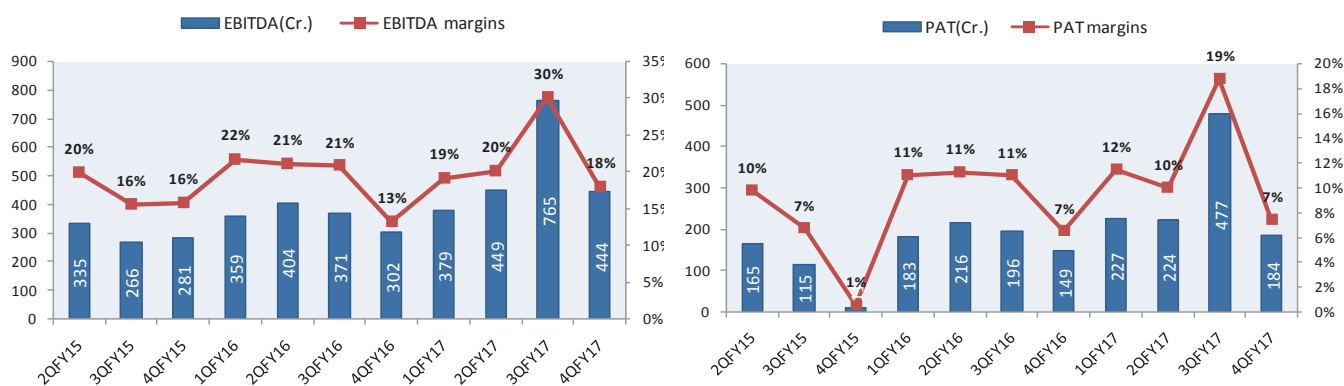
Lower than expected sales from Zetia drug

- ✓ **India Formulations-** Sales for the formulation business in India for Q4FY17 was at Rs. 576 Cr. (Growth of 6.88% YoY). India business is improved in Cardiac, Respiratory, Anti-diabetic and Derma segment.
- ✓ **USA Formulations-** Sale of finished dosage formulations was Rs. 1000 Cr. for the Q4FY17. (Growth of 53.45% YoY), but reported a decline in growth of 18% QoQ on account of US pricing pressure and increased competition. Sales from the newly launched drug Zetia is also impacted due to price erosion.
- ✓ **Africa, Asia and CIS Region (ROW)-** In Q4FY17, revenue from Africa, Asia and CIS region was Rs. 288 Cr. as against Rs. 298 Cr.(de-growth of 3.06% YoY) due to Russian subsidiary recorded moderate sales growth.
- ✓ **Europe Formulations-** Glenmark Europe's operations revenue for Q4FY17 was at Rs.229 Cr. as compared to Rs. 270 Cr. YoY recording a decrease of 15.06% YoY. The growth was impacted due to the currency depreciation of the British Pound.
- ✓ **Latin America-** Revenue from its Latin American and Caribbean operations was at Rs. 133 Cr. for the Q4FY17 as compared to Rs. 241 Cr. in the corresponding quarter of FY16(Decrease of 44% YoY).The Latam region performance continues to be impacted on account of the lower sales from Venezuela in the fourth quarter of the FY17.
- ✓ **Active Pharmaceutical Ingredients (API)-** Revenue from sale of API was Rs. 199 Cr. during the last quarter, Glenmark filed 3 US DMF, one Canada and one in Europe and has also received an EIR from the U.S. FDA for its Ankleshwar facility.
- ✓ **Other Income-** Company has reported other income of Rs. -51 Cr. in Q4FY17 as compared to Rs. 12 Cr. in the same quarter of FY16. This loss is on account of higher forex losses.
- ✓ **Finance Cost-** Glenmark has reported finance cost of Rs. 70 Cr. in the last quarter of FY17 as compared to the Rs.47 Cr. in the same quarter of FY16. Finance cost has increased on account of higher debt level. Debt level has increased to Rs. 4724 Cr. in FY17 vs Rs. 3275 Cr in FY16.
- ✓ **Tax-** Company has received tax benefit of Rs. 11 Cr. in Q4FY17 which is one-time benefit. Management has guided that from Q1FY18, company will be in normal tax bracket and effective tax rate would be around 25%.
- ✓ **PAT-** Glenmark has reported PAT of Rs. 184 Cr. in the last quarter of FY17 registering growth of 23% YoY and de-growth of 61% QoQ . This decline is on account of lower earnings and margins in the last quarter of FY17.

Higher forex loss and R&D expenses impacted margins

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	67%	68%	72%	76%	68%	0.01	-0.08	70%	72%	0.02
EBITDA Margin	13%	19%	20%	30%	18%	0.05	-0.12	19%	22%	0.03
PAT Margin	6.5%	11.5%	10.1%	18.8%	7.5%	0.01	-0.11	10%	12%	0.02

- ✓ Gross Margin improved by 100bps YoY but contracted by 799bps QoQ on account of higher purchases of stock in trade.
- ✓ EBITDA improved by 500bps YoY but degrew by 1200bps due to foreign currency loss of Rs. 65 Cr in Q4FY17 and higher R&D expenses.
- ✓ PAT grew by 23.5%YoY to Rs.184 crore on account of higher revenue which resulted in 100bps improvement in PAT Margin in 4QFY17.



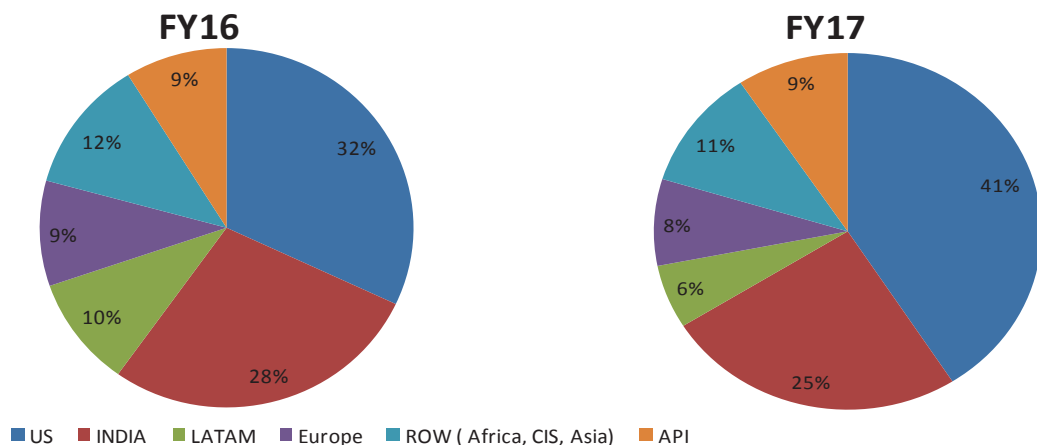
Concall Highlights:

- ✓ Price erosion in US base business has reached to 15% in Q4, including Zetia(which has exclusive rights for 180 days). Management is expecting price erosion to continue for next 10-18 months
- ✓ Company has received 4 observations for Goa facility for which remediation process is completed and company has responded to USFDA.
- ✓ Management is expecting 10-15 launches in FY18, and plans to file 3 ANDA's in Q1FY18.
- ✓ Revenue guidance of 12-15% in FY18E. And margin guidance of 23% going forward.
- ✓ Management expects Zetia sales to revamp in Q1FY18, and looks for few meaningful launches in FY18E.
- ✓ Generic anti-cholesterol drug Zetia sales to be lower than company's guidance of USD 200 million.
- ✓ Generic Zetia to be key contributor in Q1 FY18, as two months exclusivity remain.
- ✓ R&D expenditure to be in the range 11-12 percent in FY18
- ✓ Glenmark took a write-off Rs 325 crore of its Venezuela business in Q4FY17.
- ✓ Management expects Goa facility to be inspected in 2017.
- ✓ Increased competition in US market due to entry of new players.
- ✓ Targeting to file 20 25 ANDAs and launch ~20 products annually. Leverage expertise in the dermatology segment – 15+ ANDAs pending for approval and 20+ products in development
- ✓ Management expects EBITDA margins to touch 25 percent over the next 10 years.

Investment Arguments:

- ✓ **US price regulation-** In the last quarter US government has capped price of certain drugs and also plans to review regulations imposed on the Pharmaceutical sector. US business contributes about 41% of the total revenue. This price regulation is imposed on the existing as well as on the newly launched drug Zetia. We expect that this regulation will taper the earnings as well as the margins of the company going forward.
- ✓ **Currency fluctuations-** From the beginning of this year rupee is continuously appreciating against dollar which puts pressure on the earnings of the company. The US business contributes about 41% of total revenue which comes in the form of Dollars.
- ✓ **On-going US FDA observations-** The Ankleshwar manufacturing facility received 4 observations to which company has responded to the U.S. FDA and waiting for the re-inspection. The company has received for 483 on this facility in 21 Feb 2017. This facility is under the US import ban and till the time this ban is not lifted, this facility cannot export any drug to the US market.
- ✓ **Higher Research & Development-** The company has a pipeline of 7 new molecular entities, which includes 2 new chemical entities and 5 new biological entities, in various stages of clinical development. This involves higher R&D expense of 12% going forward and we expect this will impact margin in FY18E.
- ✓ **Debt repayment-** In the last quarter management has guided to repay debt on the back of Zetia sales, but it was unable to repay its debt in FY17. Now debt repayment is the key concern to track for the company in this current fiscal. Debt/Equity ratio is 1.05 in FY17 and we expect to come down in FY18 based on the management guidance to repay debt.

Geographical contribution in Revenue(%)



View & Valuation

Due to drug price regulation by US government, US business of company is severely impacted in Q4FY17. Drug price corrected by 15% and it is expected to correct more going forward considering US government drug price regulation policies. Mgt. has indicated Zetia sales improvement going forward but we expect that it would not be easy considering current scenario. Management has guided for new products launch in the US market in FY18E but we need to wait to get clear visibility on it. We expect ROE to maintain at the level of 22% in FY18E. Currently, the stock is trading at 4x FY19E P/BV. Considering the near-term un-certainties, we maintain "Neutral" rating in this stock while revising our previous target price to Rs. 830

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	7,650	9,186	10,019	9,456
Change (%)	15%	20%	9%	-6%
Other Operating Income	-	-	-	-
EBITDA	1,437	2,037	2,068	1,959
Change (%)	19%	42%	2%	-5%
Margin (%)	19%	22%	21%	21%
Dep & Amortization	234	264	227	266
EBIT	1,203	1,772	1,842	1,693
Interest & other finance cost	179	237	199	157
Other Income	20	37	36	35
EBT	1,044	1,572	1,678	1,571
Exceptional Item	-	81	-	-
Tax	301	383	420	393
Minority Int & P/L share of Ass.	(0)	(0)	-	-
Reported PAT	743	1,109	1,259	1,178
Adjusted PAT	743	1,048	1,259	1,178
Change (%)	57%	49%	13%	-6%
Margin(%)	10%	12%	13%	12%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	28	28	28	28
Reserves	3,601	4,464	5,611	6,685
Networth	3,630	4,493	5,639	6,713
Debt	3275	4724	3968	3125
Other Non Current Liab	72	30	30	30
Total Capital Employed	6,904	9,216	9,607	9,838
Net Fixed Assets (incl CWIP)	3,079	3,415	3,659	4,109
Non Current Investments	17	16	16	16
Other Non Current Assets	42	63	-	-
Non Current Assets	4,289	4,889	5,034	5,484
Inventory	1,568	2,139	2,333	2,202
Debtors	2,493	2,404	2,622	2,475
Cash & Bank	857	1,056	1,016	990
Other Current Assets	971	1,074	1,171	1,105
Current Assets	5,904	6,875	7,344	6,974
Creditors	1,941	1,904	2,076	1,960
Provisions	63	77	84	79
Other Current Liabilities	392	469	512	483
Curr Liabilities	3,212	2,515	2,738	2,588
Net Current Assets	2,692	4,359	4,606	4,386
Total Assets	10,193	11,764	12,377	12,458

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	20%	25%	22%	18%
ROCE	20%	20%	20%	18%
Asset Turnover	0.8	0.8	0.8	0.8
Debtor Days	119	96	96	96
Inventory Days	75	85	85	85
Payable Days	93	76	76	76
Interest Coverage	6.72	7.47	9.24	10.78
P/E	30	22	19	20
Price / Book Value	6.2	5.4	4.3	3.6
EV/EBITDA	16	13	12	13
FCF per Share	(19)	(22)	36	38
Dividend Yield	0.3%	0.2%	0.2%	0.2%

Segment Revenue(%)

Revenue	FY16	FY17	FY18E	FY19E
US	32%	41%	41%	32%
INDIA	28%	25%	24%	26%
LATAM	10%	6%	6%	7%
Europe	9%	8%	7%	9%
ROW (Africa, CIS, Asia)	12%	11%	13%	16%
API	9%	9%	9%	9%

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	1,005	1,572	1,678	1,571
(inc)/Dec in Working Capital	1,431	2,053	2,241	1,955
Non Cash Op Exp	269	234	264	227
Interest Paid (+)	179	237	199	157
Tax Paid	(478)	(383)	(420)	(393)
others	(22)	-	-	-
CF from Op. Activities	345	(43)	1,534	1,756
(inc)/Dec in FA & CWIP	(890)	(571)	(508)	(677)
Free Cashflow	(545)	(614)	1,026	1,079
(Pur)/Sale of Investment	-	10	-	-
others	3	10	-	-
CF from Inv. Activities	(880)	(561)	(508)	(677)
inc/(dec) in NW	935	-	-	-
inc/(dec) in Debt	11	1,449	(755)	(843)
Interest Paid	179	237	199	157
Dividend Paid (inc tax)	(68)	(66)	(112)	(105)
others	-	-	-	-
CF from Fin. Activities	699	1,145	(1,067)	(1,104)
Inc/Dec) in Cash	163	541	(40)	(25)
Add: Opening Balance	764	857	1,056	1,016
Closing Balance	857	1,398	1,016	991