

## Institutional Equity Research

## Glenmark Pharma

Pharmaceuticals | India

4QFY19 Result Update | May 30, 2019

CMP* (Rs)	551
Upside/ (Downside) (%)	5
Bloomberg Ticker	GNP IN
Market Cap. (Rs bn)	156
Free Float (%)	53
Shares O/S (mn)	282

**HOLD** 

Target Price: Rs580

## Limited Upside; Maintain HOLD

Glenmark Pharmaceuticals (GNP) has delivered a lower-than-expected performance on all metrics in 4QFY19, with its revenue/EBITDA/PAT missing our estimates by 2%/10%/13%, respectively while margin missed our estimate by 134bps. Revenue grew by 12.4% YoY (flat on QoQ basis) to Rs25.6bn. India business grew by 9.7% YoY to Rs6.7bn (in-line), while its US business grew by 10% YoY to Rs7.7bn (flat YoY and down 8% QoQ on CC basis to US\$109mn vs. our estimates of US\$120mn due to higher price erosion in key molecules). RoW/API business grew by 29%/21% YoY. Despite weak US business, gross margin remained stable at 66.4% (+80bps YoY) due to healthy margin in India and RoW market. Adjusted to one-off (clinical trial and marketing expense relating to Remogliflozin; Rs350mn in operating expenses), EBITDA margin fell by 144bps QoQ to 15.6%. EBITDA grew by 22% YoY to Rs4bn. GNP's adjusted PAT – excluding impact of forex gain of Rs380 other income – came in at Rs1.5bn. **We maintain our HOLD recommendation on the stock with a revised Target Price of Rs580 (from Rs610 earlier).**

## Key Quarterly Highlights

- **US Biz (31% of Sales):** Despite new launches, its US sales fell by 8% QoQ to US\$109mn due to higher competition (10% QoQ and 20% YoY price erosion, as per IMS). GNP indicated that US generics environment remains challenging and there is higher price erosion in derma therapy. GNP expects single-digit price erosion (excluding Mupirocin). It expects generic competition to its key molecule Mupirocin in 4QFY20 or FY21. Cumulatively, GNP filed 205 ANDAs out of which 53 are pending for approvals (including Para-IV: 28). It expects to launch Ryaltis in Oct'19 and also looking to bring a partner for its commercialisation. The Management highlighted that it is difficult to grow generics business beyond 10-12% in the US due to increased competition. It expects US business to grow by mid-single digit in FY20 and witness higher growth in FY21 led by launch of branded products (Ryaltis and other derma products). On the US FDA, GNP maintained its clean compliance record. It received EIR for Goa (product approvals started; the largest plant for US).
- **India Biz (27% of Sales):** GNP's India business grew by 9.7% YoY (flat on QoQ basis). As per IQVIA MAT Mar'19, GNP's market share increased in respiratory and CVS segments on YoY basis. Its consumer care business grew by >35% YoY in 4QFY19 (29% YoY in FY19 to Rs1.9bn). The Management expects FY20 and FY21 would be a very good year for domestic business led by new launches. GNP launched its novel, patent protected Remogliflozin (SGLT2) in India. GNP is seeing very good up-tick and it is gaining market share from other SGLT2s and other anti-diabetics due to competitive pricing. It also working on line extension, which is expected to be launched over the next 6 months.

## Outlook &amp; Valuation

We continue to remain positive on GNP's growth prospects in the medium-to-long-term driven by niche product pipeline. On innovation R&D side, we continue to expect value unlocking over the next 12-18 months. Looking ahead, GNP's India business is likely to recover with 13% CAGR over FY19-21E. **In light of increasing pricing pressure in the US and rolling over our earnings estimate to FY21E, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs580.**

Quarterly Performance	4QFY19	4QFY18	YoY, %	3QFY19	QoQ, %
Revenue	25,635	22,798	12.4	25,550	0.3
Operating Expenses	21,643	19,532	10.8	21,204	2.1
EBIDTA	3,991	3,266	22.2	4,347	(8.2)
EBIT	3,131	2,417	29.5	3,621	(13.5)
PBT	2,312	1,674	38.1	2,735	(15.5)
Tax	779	813	(4.2)	359	116.9
Adj. PAT	1,533	861	78.1	2,376	(35.5)
Adj EPS (Rs)	5.4	3.0	78.1	8.4	(35.5)

Source: Company, RSec Research

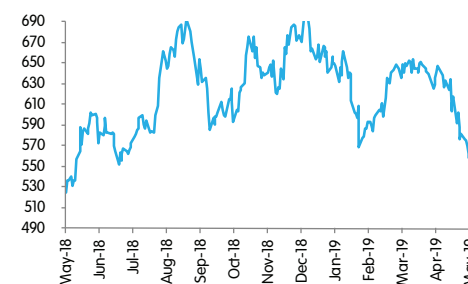
Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(13.3)	(7.1)	4.1
Relative to Nifty	(14.3)	(17.0)	(7.4)

Shareholding Pattern (%)	Mar-19	Dec-18
Promoter	46.5	46.5
Public	53.5	53.5

Key Financials (Rs mn)	FY19	FY20E	FY21E
Sales	98,655	1,04,279	1,14,722
EBITDA	15,859	17,206	20,076
Adj. PAT	7,579	8,068	10,228
EPS (Rs)	26.9	28.6	36.2
P/E (x)	20.5	19.3	15.2
EV/Sales (x)	1.9	1.8	1.6
EV/EBITDA (x)	11.7	10.8	9.1
ROE (%)	13.5	12.7	14.0
ROCE (%)	15.3	14.4	16.1

Change of Estimates (% change)	FY20E	FY21E
Revenue	0.4	0.5
EBITDA	(9.0)	(3.3)
PAT	(21.5)	(11.5)

## 1 Year Stock Price Performance



Source: CMP as on May 30, 2018

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## Other Key Highlights

- **Ryaltis (Specialty Drug | Respiratory):** GNP expects to launch the drug in Oct'19. PDUFA Target Action Date (TAD) on June 21, 2019.
- **Debt:** GNP's net debt reduced by Rs2bn to Rs32.3bn as of 4QFY19-end vs. Rs34bn in FY18
- **Capex and R&D spend:** GNP incurred Rs11.4bn capex in FY19 and expects to incur Rs8-9bn capex in FY20 (maintenance: Rs5bn and intangibles/in-licensing: Rs3bn). Its R&D spend stood at Rs12.98bn (13.4% of sales) in FY19, which the Company expects to be lower in absolute terms in FY20, most R&D spend has been done in FY19 for Ryaltis.

## Risks to View

- **Upside Risks:** Lower than expected price erosion in US and faster ANDA approvals.
- **Downward Risks:** Inordinate delay in getting product approvals from the US FDA; higher-than-expected price erosion in the US business; and lower-than-expected recovery in domestic business.

## Exhibit 1: Segment-wise sales performance

(Rs mn)	4QFY19	4QFY18	YoY, %	3QFY19	QoQ, %
US	7,696	6,996	10.0	8,557	(10.1)
India	6,678	6,087	9.7	6,675	0.0
ROW	3,853	2,985	29.1	3,401	13.3
Europe	3,184	3,190	(0.2)	3,217	(1.0)
Latin America	1,204	1,276	(5.7)	1,014	18.7
API	2,488	2,049	21.4	2,392	4.0
<b>Gross sales</b>	<b>25,103</b>	<b>22,582</b>	<b>11.2</b>	<b>25,257</b>	<b>(0.6)</b>
NCE pipeline	532	216		293	
<b>Total sales (including NCE)</b>	<b>25,635</b>	<b>22,798</b>	<b>12.4</b>	<b>25,550</b>	<b>0.3</b>
<b>US (USD mn)</b>	<b>109</b>	<b>109</b>	<b>0.5</b>	<b>119</b>	<b>(8.4)</b>

Source: Company, RSec Research

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## Exhibit 2: Quarterly Performance

(Rs mn)	4QFY19	4QFY18	YoY, %	3QFY19	QoQ, %
<b>Net Sales</b>	<b>25,635</b>	<b>22,798</b>	<b>12.4</b>	<b>25,550</b>	<b>0.3</b>
Cost of Revenues	8,607	7,843	9.7	8,620	(0.1)
<b>Gross Profit</b>	<b>17,028</b>	<b>14,955</b>	<b>13.9</b>	<b>16,930</b>	<b>0.6</b>
% of net sales	66.4	65.6	83bps	66.3	16bps
Employee expenses	4,946	4,643	6.5	5,031	(1.7)
Other Expenses	8,090	7,046	14.8	7,553	7.1
Total operating expenses	21,643	19,532	10.8	21,204	2.1
<b>EBITDA</b>	<b>3,991</b>	<b>3,266</b>	<b>22.2</b>	<b>4,347</b>	<b>(8.2)</b>
EBITDA margin (%)	15.6	14.3	124bps	17.0	(144)bps
Depreciation	871	894	(2.6)	936	(6.9)
<b>EBIT</b>	<b>3,131</b>	<b>2,417</b>	<b>29.5</b>	<b>3,621</b>	<b>(13.5)</b>
Other Income	11	46	(76.7)	210	(95.0)
Interest	819	744	10.1	885	(7.5)
<b>PBT</b>	<b>2,312</b>	<b>1,674</b>	<b>38.1</b>	<b>2,735</b>	<b>(15.5)</b>
Total tax	779	813	(4.2)	359	116.9
Tax Rate (%)	33.7	48.6	(1,490)bps	13.1	2,056bps
<b>Adjusted PAT</b>	<b>1,533</b>	<b>861</b>	<b>78.1</b>	<b>2,376</b>	<b>(35.5)</b>
PAT margin (%)	6.0	3.8	221bps	9.3	(332)bps
Exceptional	(30)	(650)		1300	
<b>Reported PAT</b>	<b>1,563</b>	<b>1,511</b>	<b>3.5</b>	<b>1,076</b>	<b>45.2</b>
Adj. EPS (Rs)	5.4	3.0	78.1	8.4	(35.5)

Source: Company, RSec Research

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## Profit & Loss Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>91,031</b>	<b>98,655</b>	<b>1,04,279</b>	<b>1,14,722</b>
Total Expenditure	74,875	82,796	87,073	94,645
Cost of Materials	30,384	33,623	36,498	40,153
Personnel	18,718	20,560	21,899	24,092
R&D Expense	10,906	12,980	12,514	12,619
Other expenses	14,867	15,633	16,163	17,782
<b>EBITDA</b>	<b>16,156</b>	<b>15,859</b>	<b>17,206</b>	<b>20,076</b>
EBITDA margin	17.7	16.1	16.5	17.5
Depreciation& Amortisation	3,019	3,259	3,987	4,397
<b>EBIT</b>	<b>914</b>	<b>2,081</b>	<b>900</b>	<b>900</b>
Interest & other Charges	14,051	14,681	14,119	16,580
Other Income	2,856	3,346	2,914	2,374
<b>PBT</b>	<b>11,195</b>	<b>11,335</b>	<b>11,205</b>	<b>14,206</b>
Tax	3,155	3,756	3,137	3,978
% of PBT	28.2	33.1	28.0	28.0
Minority Interest	0.9	0.1	0.1	0.1
<b>Adjusted PAT</b>	<b>8,040</b>	<b>7,579</b>	<b>8,068</b>	<b>10,228</b>
Less: Extraordinary item	0	(1,672)	0	0
<b>Reported PAT</b>	<b>7,299</b>	<b>9,250</b>	<b>8,068</b>	<b>10,228</b>
<b>EPS (Rs)</b>	<b>28.5</b>	<b>26.9</b>	<b>28.6</b>	<b>36.2</b>

## Balance Sheet

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	282	282	282	282
Reserves & Surplus	51,347	55,771	63,237	72,703
Shareholders Funds	51,629	56,053	63,519	72,985
Net deferred tax liability	(13,203)	(13,830)	(13,830)	(13,830)
Total Loans	46,393	38,773	33,773	28,773
Other non current liabilities	30	904	949	996
<b>Total Liabilities</b>	<b>84,842</b>	<b>81,893</b>	<b>84,404</b>	<b>88,918</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	54,444	64,454	71,204	77,204
Less: Acc. Depreciation	23,385	26,644	30,630	35,027
Net Block	31,059	37,810	40,573	42,177
Capital Work-in-progress	9,933	12,340	14,590	16,590
Goodwill on consolidation	521	550	550	550
Investments	147	300	315	331
Current Assets	69,887	66,968	66,516	71,287
Cash	12,334	9,363	3,116	1,541
Loans & Advances	13,929	13,135	13,883	15,272
Current liabilities	27,903	37,183	39,303	43,238
Net Current Assets	41,984	29,785	27,213	28,049
Other non-current financial assets	1,197	1,108	1,163	1,221
<b>Total Assets</b>	<b>84,842</b>	<b>81,893</b>	<b>84,404</b>	<b>88,918</b>

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## Cash Flow Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Profit before tax	11,193	11,335	11,205	14,206
Depreciation	3,019	3,259	3,987	4,397
Interest Provided	2,856	3,346	2,914	2,374
Change in Working Capital	3,091	10,102	(3,630)	(2,364)
Tax Paid	(3,516)	(4,383)	(3,137)	(3,978)
Others	(162)	(2,590)	0	0
<b>Cash Flow from Operations</b>	<b>16,481</b>	<b>21,069</b>	<b>11,339</b>	<b>14,634</b>
(Inc.)/ Dec. in Fixed Assets	(10,446)	(12,445)	(9,000)	(8,000)
(Inc.)/ Dec. in Investments	0	(153)	(15)	(16)
Other non-current assets	313	89	(55)	(58)
<b>Cash Flow from Investing</b>	<b>(10,133)</b>	<b>(12,509)</b>	<b>(9,070)</b>	<b>(8,074)</b>
Inc./(Dec.) in loans	(1,870)	(7,620)	(5,000)	(5,000)
Dividend Paid (Incl. Tax)	(679)	(565)	(601)	(762)
Interest Provided	(2,130)	(3,346)	(2,914)	(2,374)
Others	102	0	0	0
<b>Cash Flow from Financing</b>	<b>(4,577)</b>	<b>(11,531)</b>	<b>(8,515)</b>	<b>(8,136)</b>
Inc./(Dec.) in Cash	1,770	(2,971)	(6,247)	(1,575)
Opening Cash balances	10,564	12,334	9,363	3,116
<b>Closing Cash balances</b>	<b>12,334</b>	<b>9,363</b>	<b>3,116</b>	<b>1,541</b>

## Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
<b>Valuation Ratio (x)</b>				
P/E	19.3	20.5	19.3	15.2
P/CEPS	14.1	14.4	12.9	10.6
P/BV	3.0	2.8	2.4	2.1
Dividend yield (%)	0.4	0.4	0.4	0.5
EV/Sales	2.1	1.9	1.8	1.6
EV/EBITDA	11.7	11.7	10.8	9.1
<b>Per Share Data (Rs)</b>				
EPS	28.5	26.9	28.6	36.2
Cash EPS	39.2	38.4	42.7	51.8
DPS	2.4	2.0	2.1	2.7
Book Value (BV)	183.0	198.6	225.1	258.7
<b>Returns (%)</b>				
RoCE	14.3	15.3	14.4	16.1
RoE	15.6	13.5	12.7	14.0
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	1.7	1.5	1.5	1.5
Asset Turnover (Net Block)	2.9	2.6	2.6	2.7
Inventory (days)	81	83	83	83
Receivables (days)	93	81	90	90
Payables (days)	96	121	121	121

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**Rating History**

Date	Reco	CMP	TP
08-Apr-19	HOLD	645	610
15-Feb-19	BUY	570	610
14-Nov-18	BUY	655	610
14-Aug-18	BUY	583	610
31-May-18	BUY	536	615
12-Feb-18	BUY	535	630
6-Nov-17	BUY	626	790
31-Jul-17	BUY	696	900
15-May-17	BUY	717	900

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

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