July 31, 2017

Glenmark Pharmaceuticals (GLEPHA) ₹ 699

gZetia exclusivity, domestic growth drive Q1

- Revenues grew 20% YoY to ₹ 2363 crore (I-direct estimate: ₹ 2146 crore) mainly due to 50% YoY growth in the US to ₹ 1045 crore (I-direct estimate: ₹ 920 crore) led by gZetia Exclusivity. India business surprisingly grew 15% YoY to ₹ 616 crore (I-direct estimate: ₹ 437 crore) despite GST transition
- EBITDA margins increased 519 bps YoY to 24.4% (I-direct estimate: 18.6%) attributable to lower raw material, employee and other expenses. EBITDA increased 52% YoY to ₹ 578 crore (I-direct estimate: ₹ 399 crore)
- Adjusted net profit increased 47% YoY to ₹ 333 crore mainly due to a strong operational performance

US growth from new launches to offset base business price erosion

US generics (~44% of total revenues) grew at ~15% CAGR over FY12-17. Total USFDA filings as on date are 185. So far, the company has received approval for 118. Out of 67 pending ANDAs, ~27 are Para IV applications. Key therapies in the US, going forward, will be oncology dermatology and respiratory. The company expects to file 20-25 ANDAs and launch 10-15 ANDAs annually in the US. We expect US sales to remain subdued in FY17-19E to ₹ 3284 (ex-gZetia CAGR ~5% in constant currency), mainly due to higher base and pricing pressure in the US.

Targeting specific therapies in IPM

Glenmark is ranked fourteenth in domestic formulations with market share of 2.2%. It is a market leader in dermatology and improving its presence in therapies like respiratory, CVS, anti-infectives and even anti-diabetics. It has defied industry growth consistently for the last 60 months by continuous churning of the portfolio. In FY17, Glenmark's growth was 14% vis-à-vis IPM growth of 9% as per IMS MAT. We expect India sales to grow at 12% CAGR in FY17-19E to ₹ 2909 crore

US, India main growth drivers

The R&D setback in 2008-10 has, in fact, benefited the company as the focus shifted to more productive segments like the US generics, India and Europe. The changed focus has improved the leverage situation as the debt/EBITDA has improved from a high of 4.6x in FY09 to 1.8x in FY17. With a 10-year roadmap, the company has a well thought out strategy in place encompassing only three core therapy areas oncology, dermatology and respiratory across geographies and covering both specialty and generics. We expect improvement in FCF generation from FY18 on account of core business strength and lower debt stress.

Product launches in US to hold key; downgrade to HOLD

Strong Q1 was largely driven by gZetia exclusivity in the US and domestic formulation growth of 15% despite GST transition. The management has downgraded revenue guidance to 8-9% (12-15%) for FY18 owing to pricing pressure in the US and strengthening of the rupee. Despite strong 67 pending approvals in the US, we do not expect any meaningful launches at least in near term. Besides this, acute pricing pressure due to increased competition and client consolidation looms large on US growth in the near term. Ex-US, we expect strong growth from other markets due to new product launches and stabilisation of currency in emerging markets. However, a change in the product is likely to impact overall margins. We reduce our FY18E, FY19E EPS estimates by 18%, 20%, respectively. Accordingly, we arrive at our new target price of ₹ 730 based on 18x FY19E EPS of ₹ 40.6.

Rating matrix

Rating	:	Hold
Target	:	₹ 730
Target Period	:	12-15 months
Potential Upside	:	4%

What's Changed?

Target	Changed from ₹ 910 to ₹ 730
EPS FY18E	Changed from ₹ 47.2 to ₹ 38.7
EPS FY19E	Changed from ₹ 50.5 to ₹ 40.6
Rating	Unchanged

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	2,363.0	1,969.4	20.0	2,457.2	-3.8
EBITDA	577.5	379.1	52.3	443.8	30.1
EBITDA (%)	24.4	19.2	518.9	18.1	637.4
Adj. Net Profit	333.4	226.8	47.0	264.7	25.9

Key Financials

(₹ Crore)	FY16	FY17E	FY18E	FY19E
Revenues	7746.5	9287.7	9441.7	10075.9
EBITDA	1620.4	2138.8	1906.2	1964.1
Adjusted PAT	906.6	1294.2	1088.7	1143.1
EPS (₹)	32.2	46.0	38.7	40.6

Valuation summary

	FY16	FY17E	FY18E	FY19E
PE (x)	21.7	16.2	18.1	17.2
Target PE (x)	22.7	15.9	18.9	18.0
EV to EBITDA (x)	14.1	10.9	12.3	11.6
Price to book (x)	4.6	3.9	3.2	2.7
RoNW (%)	21.2	25.5	17.9	15.9
RoCE (%)	16.2	18.9	15.9	15.5

Stock data

Particular	Amount
Market Capitalisation	₹ 19717 crore
Debt (FY17E)	₹ 4724 crore
Cash (FY17E)	₹ 1011 crore
EV	₹ 23429 crore
52 week H/L (₹)	994/600
Equity capital	₹ 28.2 crore
Face value	₹ 1

Price performance (%)

	1M	3M	6M	1Y
Glenmark Pharma	5.1	18.7	5.7	-8.8
Divi's Labs	4.1	7.3	-3.7	-43.8
Cadila Healthcare	-10.9	-7.8	-20.6	-18.4

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Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	Q4FY17	YoY (%)	QoQ (%)	Comments
Revenue	2,363.0	2,146.0	1,969.4	2,457.2	20.0	-3.8	YoY growth mainly due to gZetia exclusivity in the US. Beat vis-à-vis I-direct estimates was mainly due to higher-than-expected sales in domestic formulations
Raw Material Expenses	721.5	678.6	623.6	776.9	15.7	-7.1	Sequential decline mainly due to incentivisation of channels to safeguard domestic sales, which were impacted due to GST implementation
Employee Expenses	384.4	386.3	372.0	384.7	3.3	-0.1	
Other Expenditure	679.7	682.7	594.7	851.7	14.3	-20.2	R&D spend was 11% of net sales
EBITDA	577.5	398.5	379.1	443.8	52.3	30.1	
EBITDA (%)	24.4	18.6	19.2	18.1	519 bps	637 bps	YoY increased mainly due to gZetia exclusivity in the US. Beat vis-à-vis I-direct estimates was mainly due to higher-than-expected-margins in gZetia
Interest	70.9	43.0	43.0	69.7	64.6	1.7	Cash interest expenses were ~₹ 47 crore
Depreciation	77.7	71.1	64.2	68.9	21.0	12.8	
Other Income	15.3	12.9	75.9	-51.3	-79.9	-129.8	
PBT before EO & Forex	444.2	297.3	347.7	254.0	27.7	74.9	
PBT	444.2	297.3	347.7	173.0	27.7	156.7	
Tax	110.8	74.3	120.9	-10.7	-8.4	-1,132.4	
PAT before MI	333.4	223.0	226.8	183.8	47.0	81.4	
Adj. Net Profit	333.4	223.0	226.8	264.7	47.0	25.9	YoY growth and miss vis-à-vis I-direct estimates was on account of strong operational performance, which was partly offset by lower other income and higher interest cost
Key Metrics							
US	1,045.0	919.8	698.2	1,000.4	49.7	4.5	YoY growth was mainly due to gZetia exclusivity. Beat vis-à-vis I-direct estimates was mainly due to higher-than-expected sales from new product launches
Europe	162.1	179.9	150.0	229.8	8.1	-29.5	YoY growth impacted due to depreciation of British Pound. The Western European region recorded constant currency growth of 18% YoY. Miss vis-à-vis I-direct estimate was mainly due to lower-than-expected sales from new launches
India	616.4	436.7	535.0	576.9	15.2	6.8	YoY growth and higher than estimates on account of better inventory sales management amid GST transition
Latin America	84.5	132.3	155.6	134.0	-45.7	-36.9	Sharp decline on account of sales from the Venezuela subsidiary recorded in Q2FY18. Excluding Venezuela revenue grew more than 15% in constant currency. The Mexico subsidiary grew 60% in constant currency. Miss vis-à-vis I-direct expectation was mainly due to longer-than-expected impact of Venezuela
RoW markets	226.5	224.1	194.9	288.9	16.2	-21.6	Russian business recorded 33% YoY growth (IMS May 2017)
API	204.8	200.8	196.3	199.7	4.3	2.5	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	9,741.1	9,441.7	-3.1	10,708.2	10,075.9	-5.9	Changed mainly due to higher-than-expected price erosion in the US base business and longer-than-expected impact of Venezuela
EBITDA	2,170.1	1,906.2	-12.2	2,248.7	1,964.1	-12.7	
EBITDA Margin (%)	22.3	20.2	-211 bps	21.0	19.5	-151 bps	Changed mainly due to change in product mix
PAT	1,329.2	1,088.7	-18.1	1,421.3	1,143.1	-19.6	
EPS (₹)	47.2	38.7	-18.1	50.5	40.6	-19.6	Changed mainly in sync with EBITDA and decline in other income

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier		Comments
(₹ crore)	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
US	2,420.4	3,700.7	3,470.4	3,283.6	3,485.8	3,555.4	Reduce mainly due to higher-than-expected price erosion in base business
Europe	717.1	710.1	834.3	1,001.2	852.2	1,022.6	
India	2,101.8	2,303.8	2,597.4	2,909.1	2,589.9	2,978.9	
Latin America	749.5	518.1	395.4	435.0	553.8	609.2	Changed due to longer-than-expected impact of Venezuela
RoW markets	903.3	988.8	1,139.4	1,310.3	1,137.1	1,307.7	
API	668.3	809.4	848.5	891.0	884.8	973.3	Changed mainly due to lower-than-expected sales in Q1 and increase captive consumption

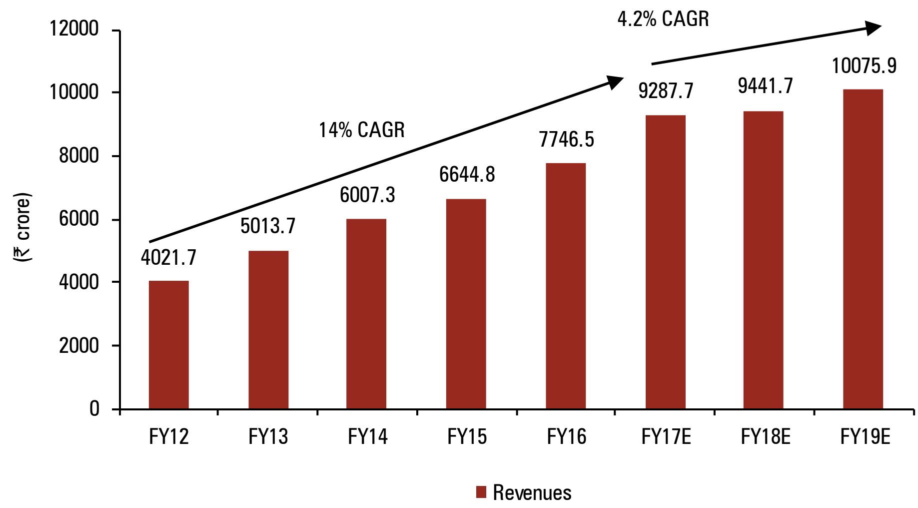
Company Analysis

Incorporated in 1977, Glenmark was never a mass-market player with a clear focus on niche areas like dermatology, respiratory and cardiology. The company was one of the few Indian players (like Dr Reddy's) to identify the importance of dedicated R&D efforts in the nineties. Post its maiden IPO in 2000, the company started ramping up the API business via small acquisitions. In 2005, it struck its first out-licensing R&D seal with US based Forest Laboratories for COPD, asthma molecule with Oglemilast. Similar R&D deals were struck with innovator companies such as Eli Lily and Merck KGaA (Germany). It received a substantial amount in the nature of upfront – milestone payments.

However, it received a setback in most deals, one after another in 2007-09, as clients were unsatisfied with the progress or uninterested in pursuing the same any further due to changed priorities or budgetary constraints. This had hit the company hard during that period as unlike other Indian players, which hived off the risky R&D ventures into separate companies to protect the core balance sheet, Glenmark hived off the generic business. Its balance sheet got stretched with huge debts. However, post the R&D debacle, the company refocused on the generics business, especially in the US and Indian formulations putting R&D on the backburner. The change has worked going by the performance in the last two or three years as strong traction in the US, backed by forays into niche areas such as oral contraceptives and dermatology, robust growth in Indian formulations and strong tractions from RoW and LatAm markets have improved the balance sheet and operating cash flows significantly.

The R&D deals are still active but the focus on innovative R&D and generic R&D is almost equal. The company has almost fully recovered the amount spent on innovative R&D, which is almost US$200 million in the last nine years. With other geographies also chipping in, the growth, going ahead, is likely to be broad based with India and the US, the largest geographies growing at a decent pace and emerging segments such as RoW markets and Latin America showing greater traction. The company also remains committed to API exports. We expect revenues to grow at a CAGR of 4% to ₹ 10076 crore in FY17-19E.

Exhibit 1: Revenues to grow at CAGR of 4% in FY17-19E

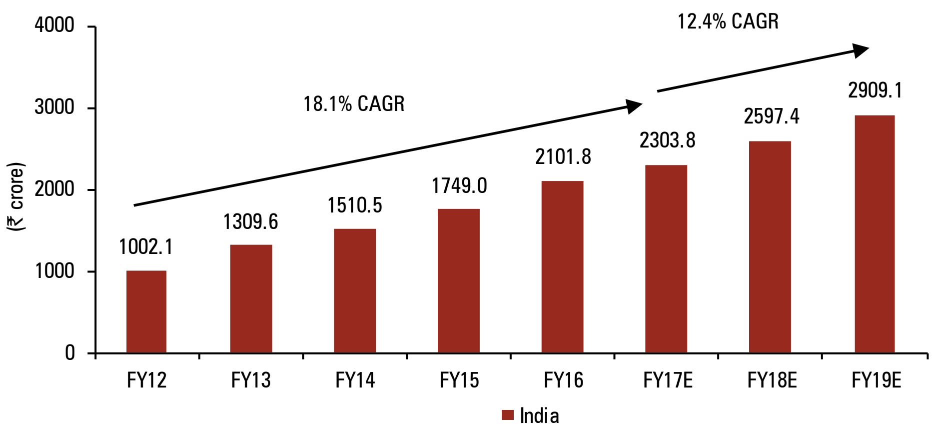


Source: Company, ICICIdirect.com Research

Glenmark has reclassified it operations into six categories - India, US, Europe, Latin America, RoW markets and APIs. Earlier, the classification was on the basis of - 1) specialty businesses and 2) generics businesses.

India (26% of overall sales) – In India, it operates through over 20 divisions with focus on dermatology, cardiology, respiratory and anti-infectives among all. The company markets over 400 products in India. As per AIOCD MAT June, 2017, Glenmark ranks fourteenth in IPM with a market share of 2.2%. Among therapies, it ranks first in dermatology, fourth in respiratory and seventh in cardiology. The current MR strength of the company is ~3200 (FY17). The acute: chronic: sub-chronic ratio for Glenmark is 39: 38: 23.

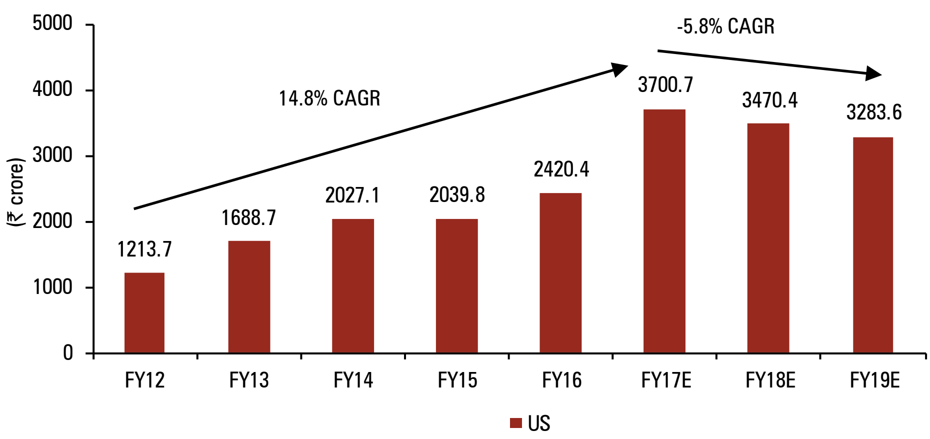
Exhibit 2: India business major growth driver…



Source: Company, ICICIdirect.com Research

US (44% of overall sales) – After toying with R&D success and subsequent setbacks, the company has successfully developed and nurtured the US generics franchise. US generics now comprise ~44% of total turnover and have grown at a CAGR of 15% over FY12-17. Total USFDA filings as on date are 185. So far, the company has received approvals for 118. From the pending 67 ANDAs, ~27 are Para IV applications. Key therapies in the US are dermatology, oncology and respiratory. We expect US sales to decline 5.8% in FY17-19E to ₹ 3283 crore on the back of base business price erosion.

Exhibit 3: US scenario to show subdued growth on the back of higher price erosion

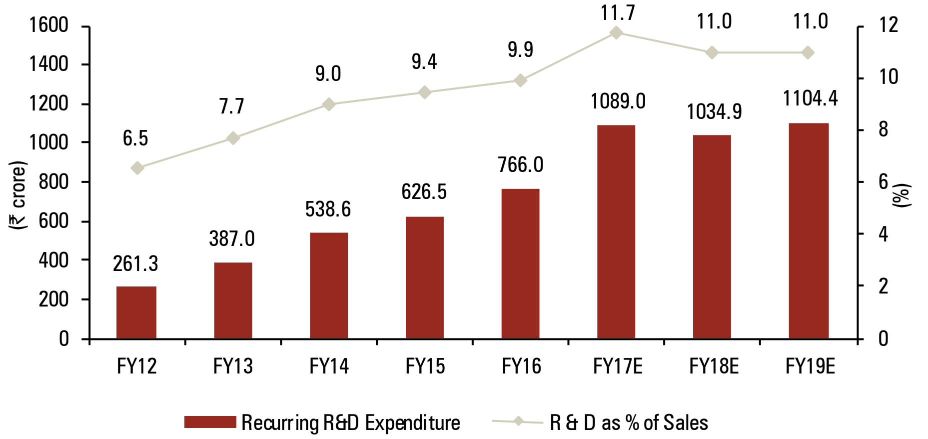


Source: Company, ICICIdirect.com Research

The drug discovery business is focusing on areas of inflammation (asthma/COPD, rheumatoid arthritis, etc), metabolic disorders (diabetes, obesity, etc) and pain (neuropathic pain and inflammatory pain).

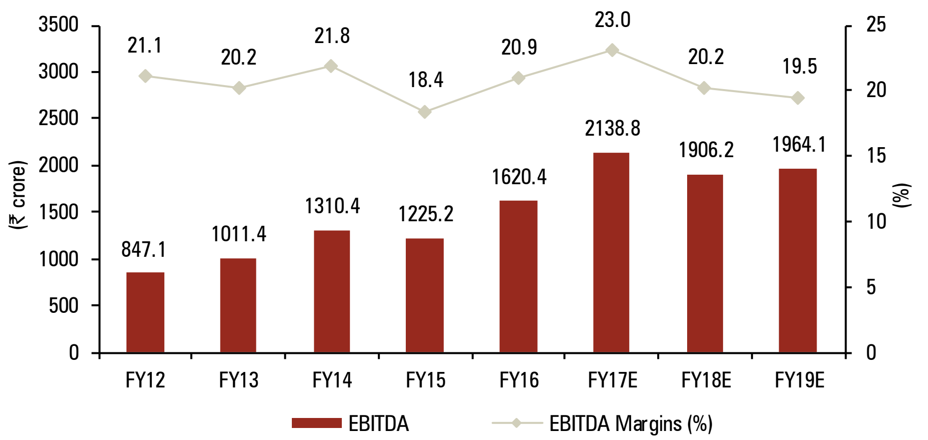
Glenmark has a pipeline of seven molecules – two NCEs and five NBEs in various stages of preclinical and preclinical development. Of these, five molecules are in clinical trials. Glenmark has been following a strategy of out-licensing research-staged molecules in clinical development to MNCs. So far, Glenmark has struck seven deals in the last nine years booking ~US$200 million as upfront and milestone payments.

Exhibit 4: Higher R&D spends here to stay….



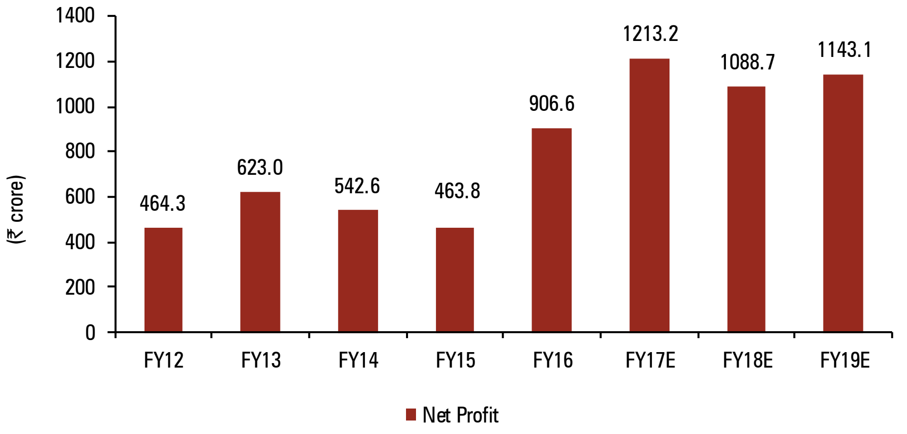
Source: Company, ICICIdirect.com Research

Exhibit 5: Margins remains remain strong despite higher R&D spend



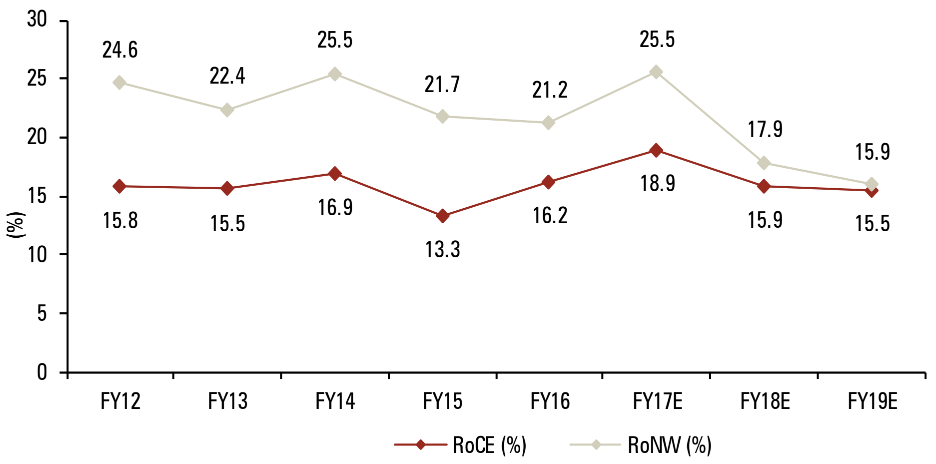
Source: Company, ICICIdirect.com Research

Exhibit 6: Net profit to grow at CAGR of 3% in FY17-19E on lower base



Source: Company, ICICIdirect.com Research

Exhibit 7: Return ratios to improve, going ahead…



Source: Company, ICICIdirect.com Research

Exhibit 8: Trends in quarterly financials

(₹ Crore)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
Total Operating Income	1486.9	1680.7	1701.3	1775.8	1647.7	1874.6	1778.3	2281.3	1969.4	2224.1	2535.0	2457.2	2363.0	20.0	-3.8
Raw Material Expenses	447.2	548.9	556.0	381.8	484.5	549.4	513.3	743.9	623.6	614.8	599.0	776.9	721.5	15.7	-7.1
% of revenue	30.1	32.7	32.7	21.5	29.4	29.3	28.9	32.6	31.7	27.6	23.6	31.6	30.5		
Gross Profit	1039.7	1131.8	1145.3	1394.0	1163.3	1325.2	1265.0	1537.3	1345.8	1609.4	1936.0	1680.2	1641.6	22.0	-2.3
Gross Profit Margin (%)	69.9	67.3	67.3	78.5	70.6	70.7	71.1	67.4	68.3	72.4	76.4	68.4	69.5	113 bps	109 bps
Employee Expenses	276.4	355.3	316.5	254.2	286.3	398.4	345.1	348.2	372.0	482.4	401.7	384.7	384.4	3.3	-0.1
% of revenue	18.6	21.1	18.6	14.3	17.4	21.3	19.4	15.3	18.9	21.7	15.8	15.7	16.3		
Other Manufacturing Exper	421.0	440.7	563.1	858.4	517.7	524.9	549.3	886.8	594.7	678.2	769.3	851.7	679.7	14.3	-20.2
% of revenue	28.3	26.2	33.1	48.3	31.4	28.0	30.9	38.9	30.2	30.5	30.3	34.7	28.8		
Total Expenditure	1144.6	1344.9	1435.6	1494.4	1288.4	1472.8	1407.7	1978.9	1590.3	1775.3	1770.0	2013.3	1785.6	12.3	-11.3
% of revenue	77.0	80.0	84.4	84.2	78.2	78.6	79.2	86.7	80.8	79.8	69.8	81.9	75.6		
EBITDA	342.3	335.8	265.7	281.4	359.3	401.9	370.6	302.4	379.1	448.8	765.0	443.8	577.5	52.3	30.1
EBITDA Margins (%)	23.0	20.0	15.6	15.8	21.8	21.4	20.8	13.3	19.2	20.2	30.2	18.1	24.4	519 bps	637 bps
Depreciation	65.1	65.0	65.5	64.5	65.4	63.4	51.5	58.4	64.2	68.7	62.5	68.9	77.7	21.0	12.8
Interest	48.1	51.6	51.3	39.7	41.9	42.6	46.9	47.5	43.0	62.9	61.7	69.7	70.9	64.6	1.7
Other Income	3.5	1.0	2.1	0.3	5.4	0.8	2.1	11.7	75.9	-1.8	14.6	-51.3	15.3	-79.9	-129.8
Forex & EO	0.0	0.0	0.0	-187.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-80.9	0.0		
PBT	232.6	220.2	151.0	-9.5	257.4	296.7	274.4	208.2	347.7	315.4	655.3	173.0	444.2	27.7	156.7
Total Tax	47.7	55.2	36.3	-20.1	74.5	96.2	78.3	59.4	120.9	91.8	178.2	-10.7	110.8	-8.4	-1132.4
Tax rate (%)	20.5	25.1	24.0	211.5	28.9	32.4	28.5	28.5	34.8	29.1	27.2	-6.2	24.9	-984 bps	3114 bps
PAT	184.9	165.0	114.8	10.6	182.9	200.4	196.1	148.7	226.8	223.6	477.1	183.8	333.4	47.0	81.4
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.1	0.0	0.0	NA	NA
PAT after MI	184.9	165.0	114.8	10.6	182.9	200.4	196.2	148.8	226.8	223.6	477.0	183.8	333.4	47.0	81.4
EPS (₹)	6.6	5.9	4.1	0.4	6.5	7.1	7.0	5.3	8.1	7.9	16.9	6.5	11.8	47.0	81.4

Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths - Prudent geographical mix covering high opportunity emerging markets as well as developed markets. Presence in niche therapies in the US such as oral contraceptives, dermatology, which is relatively less crowded. Time tested R&D focused business model with a portfolio of Innovative products. Well placed to monetise the R&D pipeline in with product in various stages of completion

Weakness - High debt level. Presence of substantial intangibles on the balance sheet. Higher R&D spends likely to put pressure on margins

Opportunities - In the US generics space, a lot of opportunities are panning out in the oral contraceptives and respiratory space

Industry specific threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US, pricing probe by the Department of Justice (DoJ) in the US and proposed tightening by the new regime by adapting to the bidding process

Company specific threat: Currency volatility in LatAm and RoW markets

Conference call highlights

- The management has achieved its guided range of $170-180 million for gZetia sales during exclusivity period
- On the out-licensing front, four molecules have been actively pursued. 1) GBR830 (dermatology): The management expects phase II data in a week and six to eight companies currently interested in it to co-develop the product. 2) GSP301 (respiratory): Has completed phase three and has a OTC component. ANDA filing in FY18 and launch in FY19. 3) GBR1342 (oncology): It received clearance from the USFDA on an Investigational New Drug Application (IND) for GBR 1342 in May 2017 and plans to initiate the study in the Q2-Q3 of this financial year
- The company is EBITDA and cash positive in Latin America
- On the domestic front, the company booked strong April-May sales. However, June sales were challenging due to GST transition
- The management expects domestic revenue growth for Q2FY17 at 10-15% and ~15% in FY18
- The management expects Q2FY18 to be challenging in terms of margins. However, for FY18 it has guided for ~22% margins
- The management has guided for Q2 US base of $125 million due to late approvals in Q1 and expects three to four good approvals in Q3 and Q4
- The management expects to file gAdvair in FY19 or FY20
- The management sees US base price erosion to continue in the range of 10-12%
- Net debt is expected to decline in FY18 by ₹ 300 crore

Market Share: Domestic

	MAT June 2017 (%)	MAT June 2016 (%)
Cardiac	4.0	3.9
Respiratory	4.6	4.1
Anti Diabetic	1.6	2.1
Derma	9.2	8.8

Source: IMS, Company, ICICIdirect.com Research

Exhibit 9: Facilities

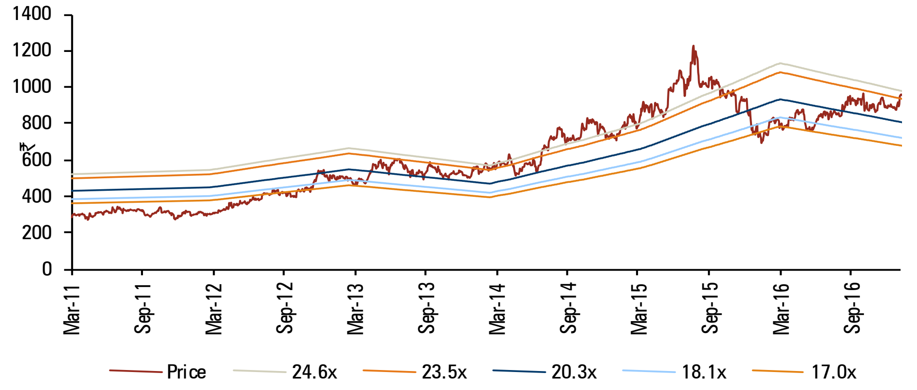
Location	Segment	Regulatory Approvals	Type
Nashik, India	Formulations	WHO GMP, ANVISA, NDA-Uganda, MOH-Nigeria, TFDA-Tanzania, MOH-Ethopia, MOH, Congo, MCC-SA, MOH-Oman, MOH-Ukraine, INVIMA-Colombia	solid & liquid orals, external creams & powders
Baddi, India	Formulations	USFDA, WHO GMP, ANVISA Brazil, UKMHRA, MCC SA, TGA Australia, NDA Uganda, Ukraine GMP, DDA Nepal, TPD Canada, FDA Ghana, CHMP Kenya	solid orals, semi-solid and liquid orals as well as external preparations like lotions, creams, etc
Nalagarh, India	Formulations	ANVISA (Brazil), UGANDA, WHO GMP, Local FDA	Liquid, Ointment/Cream, and Lotion
Sikkim, India	Formulations		Oral solids (Tablets and Capsules) Ointments, Creams, Lotions and Liquids
Vysoke Myto, Czech	Formulations	Manufacturing licence for medicinal products (issued by SUKL), Distribution licence for medicinal products (issued by SUKL), Certificate of GMP Compliance of Manufacturer (issued by SUKL), Certificate of GMP Compliance of a Manufacturer (issued by USKVBL)	solid-orals and semi-solids (ointments)
Sao Paulo, Brazil	Formulations	WHO-GMP, ANVISA Brazil	
Bardez, Goa	Formulations	USFDA, TPD (Canada), MCC (South Africa), WHO-GMP, ANVISA (Brazil), MHRA (UK), ISO 14001:2004	Oral Solids, Semi Solids & Hormones
Solan, HP	Formulations		
Pithampur, Indore	Formulations	USFDA, UKMHRA	solid oraldosage forms
Buenos Aires, Argentina	Formulations		cytotoxics, anti hormonals, lyophilizedinjectables and supportive therapies
Aurangabad, Maharashtra	Formulations		
Monroe, USA	Formulations		
Ankleshwar, Bharuch, Gujarat	API	WHO GMP, USFDA, MHRA - UK, MHRA - Romania and EMEA	
Solapur, Maharashtra	API		
Pune Maharashtra	API		
Bharuch, Gujarat	API		

Source: Company, ICICIdirect.com Research

Valuation

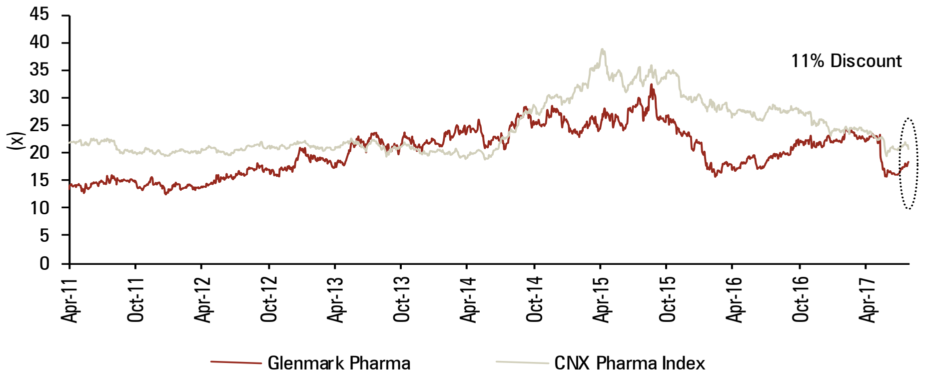
Strong Q1 was largely driven by gZetia exclusivity in the US and domestic formulation growth of 15% despite GST transition. The management has downgraded revenue guidance to 8-9% (12-15%) for FY18 owing to pricing pressure in the US and strengthening of the rupee. Despite strong 67 pending approvals in the US, we do not expect any meaningful launches at least in near term. Besides this, the acute pricing pressure due to increased competition and client consolidation looms large on US growth in the near term. Ex-US we expect strong growth from other market due to new product launches and stabilization of currency in emerging markets. However, change in the product is likely to impact overall margins. We have reduced our FY18E, FY19E EPS estimates by 18%, 20%, respectively. Accordingly, our new target price arises at ₹ 730 based on 18x FY19E EPS of ₹ 40.6.

Exhibit 10: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 11: One year forward PE of company vs. BSE Healthcare Index



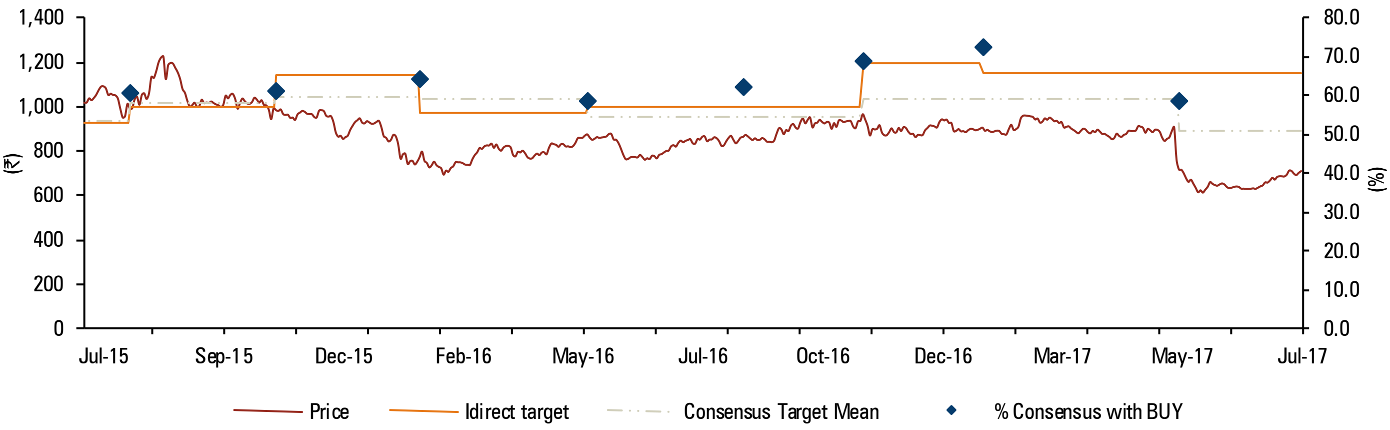
Source: Company, ICICIdirect.com Research

Exhibit 12: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	7746	16.6	32.2	39.3	21.7	14.1	21.2	16.2
FY17	9288	19.9	46.0	42.7	16.2	10.9	25.5	18.9
FY18E	9442	1.7	38.7	-15.9	18.1	12.3	17.9	15.9
FY19E	10076	6.7	40.6	5.0	17.2	11.6	15.9	15.5

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

Key events

Aug-09	Forest & Glenmark Pharma announce Phase IIb results for Oglemilast. The molecule did not show satisfactory results compare to its Placebo.
Oct-09	Launches four products in the UK market through its subsidiary Glenmark Generics Europe.
Mar-10	Receives USFDA approval for its new drug application for Oxycodone Hydrochloride capsules and liquid solutions filed as an NDA with USFDA under 505b2 route.
May-10	Enters into an agreement with Sanofi to out-license its GRC 15300 molecule. Receives US$ 20 million as an upfront payment.
Jan-11	Sanofi & Abbott win patent litigation case of generic Tarka. A Federal jury asks Glenmark to pay US$ 16 million as damages for launching at risk in the US market.
Apr-11	Enters into an exclusive agreement with a Canadian base company ImmanenceIntegrale Dermo Correction (IDC) to market high end dermatology products in eight countries including India & Brazil.
May-11	Out-licenses monoclonal antibody GBR 500 to Sanofi. Receives US$ 50 million as upfront payment.
Aug-12	The International Center for Dispute resolution rules in favor of Glenmark on the arbitration claim it filed against Napo Pharma. Glenmark will have rights to develop, commercialise and distribute Crofelemer in 140 emerging markets.
Jul-13	Confirms filing of ANDA for Lacosamide tablets and oral solutions with the USFDA under Para IV certification.
Mar-14	Provided ₹ 213 crore for Tarka liability
Jan-15	Receives shareholders' approval to raise up to $300 million (around ₹ 1,890 crore) through issue of securities
Oct-15	Sanofi calls off its deal with Glenmark related to the development of Vatelizumab drug (GBR 500), a monoclonal antibody (MaB) for multiple sclerosis.The drug is in Phase II clinical trials
Dec-16	Launched gZetia (CVS) in the US under exclusivity
Dec-16	Goa formulation facility receives four form 483 observations from the USFDA
Mar-17	Announces positive phase-III clinical trials result for GSP 301 (nasal spray) conducted in the US
Mar-17	USFSA clears investigational new drug (IND) application to begin a Phase II study of GSP 304 (tiotropium bromide; COPD)

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	sition Change
1	Saldanha Family Trust	31-Mar-17	45.5	128.2	0.0
2	Aranda Investments (Mauritius) Pte. Ltd.	31-Mar-17	4.0	11.3	0.0
3	OppenheimerFunds, Inc.	31-Mar-17	4.0	11.2	-1.7
4	The Vanguard Group, Inc.	30-Jun-17	1.6	4.5	0.0
5	T. Rowe Price International (UK) Ltd.	30-Jun-17	1.4	4.0	0.0
6	BlackRock Institutional Trust Company, N.A.	30-Jun-17	1.4	3.9	0.0
7	Life Insurance Corporation of India	31-Mar-17	1.3	3.7	-2.0
8	APG Asset Management	31-Mar-17	1.1	3.1	-1.2
9	GIC Private Limited	31-Mar-17	1.1	3.0	-0.3
10	Tata Asset Management Limited	31-Mar-17	1.1	3.0	-0.5

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	46.5	46.5	46.5	46.5	46.5
Others	53.5	53.5	53.5	53.5	53.5

Recent Activity

Buys			Sells		
Investor name	Value ($ mn)	Shares	Investor name	Value ($ mn)	Shares
Franklin Templeton Asset Management (India) Pvt. Ltd.	7.6	0.8	Life Insurance Corporation of India	-26.8	-2.0
Templeton Asset Management Ltd.	6.0	0.6	OppenheimerFunds, Inc.	-22.3	-1.7
Desjardins Global Asset Management	6.9	0.5	APG Asset Management	-15.2	-1.2
Amundi Hong Kong Limited	7.0	0.5	Sundaram Asset Management Company Limited	-10.5	-0.8
City of London Investment Management Co. Ltd.	2.4	0.2	Unigestion	-5.7	-0.6

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Revenues	7,746.5	9,287.7	9,441.7	10,075.9
Growth (%)	16.6	19.9	1.7	6.7
Raw Material Expenses	2,300.9	2,614.3	2,872.4	3,022.8
Employee Expenses	1,377.2	1,640.8	1,729.0	1,914.4
Other Manufacturing Expenses	2,448.0	2,893.8	2,934.1	3,174.6
Total Operating Expenditure	6,126.1	7,149.0	7,535.5	8,111.8
EBITDA	1,620.4	2,138.8	1,906.2	1,964.1
Growth (%)	32.2	32.0	-10.9	3.0
Interest	178.9	237.3	211.6	171.0
Depreciation	251.8	264.4	291.1	309.4
Other Income	20.0	37.4	36.4	40.5
PBT before Exceptional Items	1,209.7	1,674.4	1,440.0	1,524.2
PBT	1,209.7	1,593.5	1,440.0	1,524.2
Total Tax	303.3	380.2	351.3	381.0
PAT before MI	906.4	1,213.3	1,088.7	1,143.1
PAT	906.6	1,213.2	1,088.7	1,143.1
Adjusted PAT	906.6	1,294.2	1,088.7	1,143.1
Growth (%)	39.3	42.7	-15.9	5.0
EPS (Adjusted)	32.2	46.0	38.7	40.6

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit/(Loss) after taxation	906.6	1,213.2	1,088.7	1,143.1
Add: Depreciation & Amortization	251.8	264.4	291.1	309.4
Net Increase in Current Assets	-492.7	-1,333.7	-753.5	-394.5
Net Increase in Current Liabilities	15.2	548.2	76.5	171.7
Others	-2.0	0.0	0.0	0.0
CF from operating activities	678.9	692.1	702.8	1,229.8
(Inc)/dec in Investments	1.5	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-886.4	-808.1	-600.0	-600.0
Others	-273.4	-53.9	-18.4	-47.0
CF from investing activities	-1,158.3	-862.0	-618.4	-647.0
Inc / (Dec) in Equity Capital	1.1	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	188.2	735.4	-703.7	-600.0
Other	-417.9	-65.9	-65.9	-65.9
CF from financing activities	-228.7	669.5	-769.6	-665.9
Net Cash flow	-708.1	499.6	-685.2	-83.1
Opening Cash	1,219.8	511.8	1,011.3	326.1
Closing Cash	511.8	1,011.3	326.1	243.0
Free Cash Flow	-207.5	-116.0	102.8	629.8

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Equity Capital	28.2	28.2	28.2	28.2
Reserve and Surplus	4,242.0	5,039.3	6,062.1	7,139.3
Total Shareholders fund	4,270.2	5,067.6	6,090.3	7,167.6
Total Debt	3,988.1	4,723.5	4,019.9	3,419.9
Deferred Tax Liability	218.5	218.5	222.9	234.0
Minority Interest	-0.3	-0.3	-0.3	-0.3
Other Non Current Liabilities	77.0	80.8	82.5	86.6
Source of Funds	8,553.6	10,090.1	10,415.2	10,907.7
Gross Block - Fixed Assets	5,088.5	5,188.5	5,688.5	6,188.5
Accumulated Depreciation	1,181.0	1,445.4	1,736.4	2,045.9
Net Block	3,907.5	4,451.3	4,760.2	5,050.8
Goodwill on Consolidation	57.5	57.5	57.5	57.5
Investments	17.2	17.2	17.2	17.2
Inventory	1,567.8	2,139.1	2,028.4	2,141.9
Cash	861.8	1,011.3	326.1	243.0
Debtors	2,492.6	2,404.3	3,225.1	3,405.5
Other Current Assets	114.4	1,065.1	1,093.0	1,154.1
Total Current Assets	5,909.6	7,392.9	7,461.1	7,772.5
Creditors	2,006.6	2,530.1	2,596.2	2,741.4
Provisions & Other CL	494.4	519.1	529.5	555.9
Total Current Liabilities	2,501.0	3,049.2	3,125.7	3,297.4
Net Current Assets	3,408.7	4,343.7	4,335.5	4,475.1
LT L& A, Other Assets	595.8	625.2	637.7	669.6
Deferred Tax Assets	566.9	595.2	607.1	637.5
Application of Funds	8,553.6	10,090.1	10,415.2	10,907.7

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Adj EPS	32.2	46.0	38.7	40.6
BV	151.6	180.0	216.3	254.5
DPS	2.4	2.3	2.3	2.3
Cash Per Share	41.9	51.3	61.7	72.7
Operating Ratios (%)				
Gross Margin	70.3	71.9	69.6	70.0
EBITDA margins	20.9	23.0	20.2	19.5
Net Profit margins	11.7	13.9	11.5	11.3
Inventory days	74	84	78	78
Debtor days	117	94	125	123
Creditor days	95	99	100	99
Asset Turnover	1.5	1.8	1.7	1.6
EBITDA conversion Rate	41.9	32.4	36.9	62.6
Return Ratios (%)				
RoE	21.2	25.5	17.9	15.9
RoCE	16.2	18.9	15.9	15.5
RoIC	24.4	29.7	22.5	21.9
Valuation Ratios (x)				
P/E	21.7	16.2	18.1	17.2
EV / EBITDA	14.1	10.9	12.3	11.6
Market Cap / Sales	2.5	2.1	2.1	2.0
Price to Book Value	4.6	3.9	3.2	2.7
Solvency Ratios				
Debt / Equity	0.9	0.9	0.7	0.5
Debt / EBITDA	2.5	2.2	2.1	1.7
Current Ratio	1.7	1.8	2.0	2.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1403	1,880	Buy	12348.6	110.0	56.6	58.2	69.8	12.8	24.8	24.1	20.1	46.2	41.8	33.5	32.1	37.3	33.2	26.8	25.6
Alembic Pharma	ALEMPHA	532	570	Hold	10020.6	38.2	21.2	19.1	28.6	13.9	25.1	27.8	18.6	52.2	25.3	18.7	23.9	45.1	21.0	16.5	20.8
Apollo Hospitals	APOHOS	1263	1,400	Buy	17575.0	13.2	12.8	16.5	33.3	95.7	98.4	76.4	37.9	6.6	6.0	6.7	10.8	5.3	4.9	5.9	10.9
Aurobindo Pharma	AURPHA	727	755	Buy	42581.9	33.9	38.3	37.1	42.1	21.4	19.0	19.6	17.3	23.3	24.8	19.6	19.9	28.1	23.9	19.0	17.9
Biocon	BIOCON	392	380	Hold	23496.0	7.7	11.0	7.8	13.5	50.8	35.7	50.4	29.1	9.3	11.9	10.1	15.9	11.5	13.6	9.0	13.9
Cadila Healthcare	CADHEA	541	420	Hold	55430.5	15.0	13.7	14.9	20.1	36.2	39.5	36.3	27.0	26.7	13.4	15.0	18.5	28.6	20.2	18.9	21.3
Cipla	CIPLA	560	470	Hold	45073.8	18.5	12.9	17.8	25.3	30.3	43.6	31.4	22.2	12.0	8.0	11.0	14.5	12.5	8.1	10.4	13.1
Divi's Lab	DIVLAB	673	665	Hold	17863.4	41.5	39.3	34.6	41.5	16.2	17.1	19.4	16.2	30.5	25.0	20.3	21.5	25.7	19.5	15.4	16.4
Dr Reddy's Labs	DRREDD	2406	2,400	Hold	39880.8	141.4	70.6	72.4	126.2	17.0	34.1	33.2	19.1	15.3	6.1	6.8	11.9	19.2	9.5	9.0	13.9
Glenmark Pharma	GLEPHA	699	730	Hold	19716.5	32.2	46.0	38.7	40.6	21.7	15.2	18.1	17.2	16.2	18.9	15.9	15.5	21.2	25.5	17.9	15.9
Indoco Remedies	INDREM	201	180	Hold	1847.6	9.4	8.4	7.7	11.4	21.4	24.0	25.9	17.6	12.9	8.4	8.9	12.1	14.8	12.0	10.2	13.4
Ipca Laboratories	IPCLAB	477	525	Hold	6020.3	7.4	15.4	17.6	27.9	64.6	30.9	27.1	17.1	4.5	8.7	9.3	13.2	4.1	7.9	8.4	12.0
Jubilant Life	JUBLIF	720	845	Buy	11465.9	26.0	36.1	44.3	59.1	27.7	20.0	16.3	12.2	12.0	13.3	14.8	17.6	14.2	16.8	17.3	19.0
Lupin	LUPIN	1048	1,335	Buy	47363.5	50.4	56.6	51.1	66.0	20.8	18.5	20.5	15.9	17.8	16.6	13.7	15.9	20.3	18.9	15.0	16.7
Natco Pharma	NATPHA	977	1,055	Buy	17021.2	9.0	27.8	20.6	20.3	108.0	35.1	47.4	48.0	16.0	33.6	22.9	20.3	12.2	29.5	18.7	16.2
Sun Pharma	SUNPHA	533	550	Hold	127963.8	23.4	29.0	20.3	25.5	22.8	18.4	26.3	20.9	18.6	19.8	13.5	15.0	18.0	19.0	12.0	13.4
Syngene Int.	SYNINT	479	490	Hold	9571.0	11.1	14.3	14.3	17.4	43.6	33.6	33.6	27.7	14.1	16.8	16.2	17.8	21.6	20.3	17.2	17.4
Torrent Pharma	TORPHA	1214	1,070	Hold	20543.7	110.9	55.2	46.2	56.3	10.9	22.0	26.3	21.6	46.5	18.9	16.3	17.0	53.7	21.5	15.8	16.9
Unichem Lab	UNILAB	266	235	Hold	2415.3	12.3	12.0	11.8	16.6	21.6	22.2	22.5	16.0	13.8	12.0	11.0	13.9	11.7	10.5	9.5	12.0

Source: Company, ICICIdirect.com Research

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