

GLENMARK PHARMACEUTICALS

Debt rises again; outlook gloomy

India Equity Research | Pharmaceuticals



Glenmark Pharmaceuticals (GNP) reported weak Q2FY18 numbers with revenue up mere 2% and EBITDA & PAT declining 13% and 4% YoY, respectively. It, yet again, pruned FY18 revenue growth guidance to 6% (12-15% at the start of the year) and margin to 21% (23% earlier). Post a temporary relief on account of Zetia (net debt had declined by INR3.9bn in Q1), net debt jumped by INR1.35bn in Q2FY18. Moreover, if we adjust for cash tax rate instead of reported tax rate and expense the intangibles addition in P&L, PAT is lower at INR30mn (reported INR2,141mn). Only trigger is outsourcing of GBR 830 molecule, which has completed Phase 2A studies and GNP intends to start phase 2B in FY19. Maintain 'HOLD'.

Earnings in line; gZetia opportunity ends

Weak all round performance as: 1) US sales (32% share) declined 2% YoY and 30% QoQ in CC to USD113mn; 2) India (31% share) grew 5% YoY; 3) API (10%) grew 7% YoY. EBITDA margin declined 300bps to 17% despite other expenses falling 34%, which will rebound going forward as business picks up. Higher cash tax rate (INR1.8bn vs reported tax of INR589mn) and capex (INR2.6bn) led to negative cash flows and INR1.35bn increase in debt.

Deleveraging challenges persist

gZetia has generated INR7bn free cash for GNP over the past 6 months, whereas total debt fell by INR3.9bn during the same period. In the current quarter, debt again jumped by INR1.35bn and any reduction in net debt in FY18 looks unlikely. Large part of R&D spend goes towards innovation R&D where it has 4 promising assets (as per GNP), which are in various stages of development. Out licensing GBR 830 is critical, failing which GNP may find it difficult to delever and jumpstart sustainable growth trajectory with prudent organic/inorganic initiatives.

Outlook and valuations: Limited upside; maintain 'HOLD'

Niche launches like Welchol, Renvela/ Renagel and Finacea have been pushed to FY19 and are built into estimates. Current cash flows are insufficient to take care of current cost structure. Out-licensing deals over the next 12 months could lend some upside. Current valuation stands at 14.8x FY19E EPS. We maintain 'HOLD/SP' with target price of INR670 (16x FY19E EPS).

Financials (Consolidated)

(INR mn)

| Year to March | Q2FY18 | Q2FY17 | % change | Q1FY18 | % change | FY17 | FY18E | FY19E |
|---------------------|--------|--------|----------|--------|----------|--------|--------|---------|
| Net revenue | 22,566 | 22,241 | 1.5 | 23,630 | (4.5) | 91,857 | 95,558 | 108,826 |
| EBITDA | 3,884 | 4,488 | (13.5) | 5,774 | (32.7) | 20,367 | 20,203 | 21,153 |
| Adj. net profit | 2,141 | 2,236 | (4.2) | 3,334 | (35.8) | 11,689 | 11,373 | 11,944 |
| Adj. core EPS (INR) | 7.6 | 7.9 | (4.2) | 11.8 | (35.8) | 41.4 | 40.3 | 42.3 |
| Diluted P/E (x) | | | | | | 15.1 | 15.5 | 14.8 |
| Core ROAE (%) | | | | | | 28.8 | 22.6 | 19.5 |

EDELWEISS 4D RATINGS

| | |
|--------------------------------|-------------|
| Absolute Rating | HOLD |
| Rating Relative to Sector | Performer |
| Risk Rating Relative to Sector | Medium |
| Sector Relative to Market | Equalweight |

MARKET DATA (R: GLEN.BO, B: GNP IN)

| | |
|------------------------------|---------------|
| CMP | : INR 627 |
| Target Price | : INR 670 |
| 52-week range (INR) | : 973 / 568 |
| Share in issue (mn) | : 282.2 |
| M cap (INR bn/USD mn) | : 177 / 2,740 |
| Avg. Daily Vol.BSE/NSE('000) | : 978.2 |

SHARE HOLDING PATTERN (%)

| | Current | Q1FY18 | Q4FY17 |
|---|---------|--------|--------|
| Promoters * | 46.5 | 46.5 | 46.5 |
| MF's, FI's & BK's | 5.3 | 5.4 | 6.0 |
| FII's | 33.2 | 33.5 | 34.8 |
| Others | 14.9 | 14.6 | 12.7 |
| * Promoters pledged shares (% of share in issue) | : | | NIL |

PRICE PERFORMANCE (%)

| | Stock | Nifty | EW Pharma Index |
|-----------|--------|-------|-----------------|
| 1 month | 5.0 | 6.0 | 7.2 |
| 3 months | (10.8) | 4.4 | 3.7 |
| 12 months | (31.3) | 23.2 | (8.1) |

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November 3, 2017

Q2FY18 earnings call: Key takeaways

Concall: Key highlights

- Once again, net debt increased by INR1.3bn. Looks like P&L is bloated by capitalizing the expenses by showing lower SG&A
- Revenue growth guidance cut to 6-8% compared to 12-15% six months ago.
- Cash tax three times the reported tax at INR1.8bn.

Overall guidance for FY18

- Revenue: 6-8% growth in FY18 compared to 8-10% in Q1FY18 and 12-15% in Q4FY17.
- INR2.5-3bn debt reduction in FY18.
- R&D 11% of sales in FY18 and expected to jump to 12-13%.
- US revenue to be USD125mn in Q3 compared to USD113mn in Q2FY18.
- EBITDA margin: 21-22% for FY18.

US

- 8 products bagged approval; 17 approvals in H1FY18.
- 13% price erosion in the quarter compared to 10-12% earlier.
- Some of the approvals were received late in the quarter, which will reflect in Q3FY18.
- Welcol: Expects to be among the first wave of launch.

Innovation pipeline

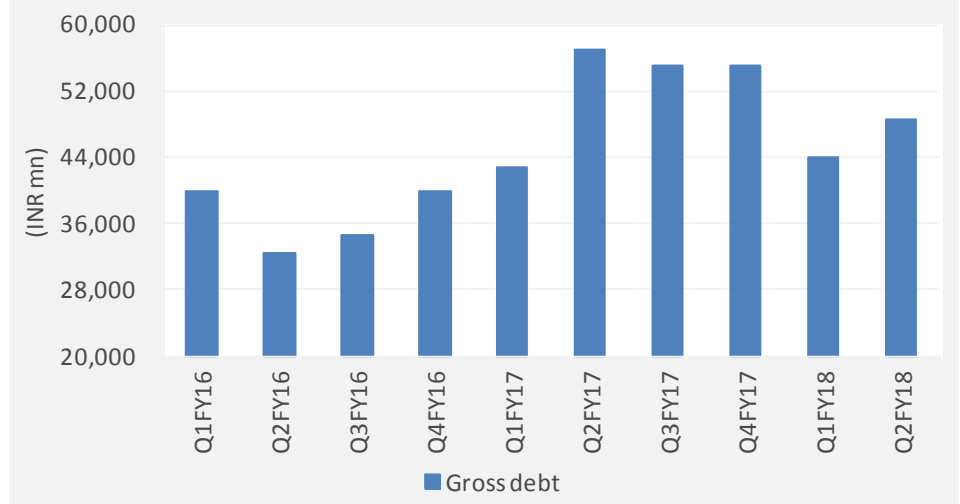
1. GBR 1342 – Phase I to start.
2. GBR 1302 – Phase 1 enrolment ongoing.
3. GBR 830 (moderate-to-severe atopic dermatitis)– Phase 2A completed. Positive data. Phase 2B to start in FY19. Most promising candidate in terms of outsourcing.
4. GSP 301 (seasonal allergic rhinitis)- Phase III completed. NDA to be filed. Dymista is the closest competitor, which has USD150mn. GLNP is targeting FY19 launch.

India

- India business grew 8% adjusted for GST.
- Overall slowdown in market growth.

Financials

- Gross debt - INR48.48bn, Net debt - INR34.98bn, debt increase by INR1.3bn. INR3.5bn repayment debt which is in current liabilities.
- R&D expense - INR2.67bn and INR5.2bn for H1FY18.
- Inventory days - 82 days, debtors days - 96 days, payables- 78 days.
- Total capex in H1 - INR4.2bn, Fixed asset - INR3.2bn, Intangible - INR900mn, Software - INR100mn,
- Cash tax INR1.8bn compared to reported tax of INR590mn.
- Other expenditure – Selling expenses are on the lower side. Excise expense by lower by INR250-300mn
- Employee cost include INR1.1bn in SG&A.

Chart 1: Debt increased further

Source: Company, Edelweiss research

Table 1: Difference between cash tax and reported tax continues

| | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | H1FY18 |
|-----------------------|-------|-------|-------|-------|-------|-------|--------|
| Reported tax | 238 | 1,107 | 1,513 | 1,190 | 3,009 | 3,827 | 1,697 |
| Reported tax rate (%) | 4.9 | 15.0 | 21.7 | 20.0 | 28.8 | 25.7 | 11.4 |
| Cash tax | 1,330 | 1,650 | 2,629 | 3,178 | 4,782 | 6,990 | 2,900 |
| Cash tax rate (%) | 27.2 | 22.3 | 37.7 | 53.5 | 45.8 | 46.9 | 19.5 |

Source: Company, Edelweiss research

Table 2: PAT at INR30mn (adjusted for cash tax and intangible asset addition)

| | INR mn |
|---------------------------|--------|
| Reported EBITDA | 3,884 |
| Less: depreciation | 752 |
| Less: intangible addition | 900 |
| Add: other income | 297 |
| Less: interest | 698 |
| Less: cash tax | 1,800 |
| Adjusted PAT | 30 |
| Reported PAT | 2,141 |

Source: Company, Edelweiss research

Table 3: Actual versus estimates (Consolidated)

(INR mn)

| | Q2FY18 | | Edel | | Deviation from |
|--------------------------|--------|-----------|-----------|---------|----------------|
| | Actual | YoY (%) | estimates | YoY (%) | Actual (%) |
| Net revenue | 22,234 | 2.3 | 22,420 | 3.2 | (0.8) |
| Other Operating Income | 332 | (34.9) | 300 | (41.1) | 10.5 |
| Cost of revenue | 7,512 | 22.2 | 7,497 | 22.0 | 0.2 |
| Gross profit | 15,053 | (6.5) | 15,222 | (5.4) | (1.1) |
| Gross margin (%) | 68 | | 68 | | (0.3) |
| Employee expenses | 5,572 | 15.5 | 5,444 | 12.9 | 2.4 |
| S,G&A | 2,947 | (33.5) | 3,710 | (16.3) | (20.6) |
| R&D expenses | 2,650 | | 3,067 | | |
| Total operating expenses | 18,682 | 5.2 | 19,719 | 11.1 | (5.3) |
| EBITDA | 3,884 | (13.5) | 3,001 | (33.1) | 29.4 |
| EBITDA margin (%) | 17.5 | | 13.4 | | |
| Less: Depreciation | 752.3 | 9.5 | 800.0 | 16.4 | (6.0) |
| Less : Interest | 698 | 11.1 | 400 | (36.4) | 74.6 |
| Add: Other income | 297 | (1,718.2) | 100 | (644.4) | 197.3 |
| Profit before tax | 2,731 | (13.4) | 1,901 | (39.7) | 43.6 |
| Less: Provision for Tax | 589 | (35.8) | 475 | (48.2) | 24.0 |
| Tax rate (%) | 22 | | 25 | | |
| Reported PAT | 2,141 | (4.2) | 1,426 | (36.2) | 50.2 |
| Adjusted PAT | 2,141 | (4.2) | 1,426 | (36.2) | 50.2 |
| Adj. EPS | 8 | (4.2) | 5 | (36.2) | 50.2 |

Source: Company, Edelweiss research

Table 4: Revenue mix by segment (Consolidated)

(INR mn)

| | Q2FY18 | Q2FY17 | % change | Q1FY18 | % change | Comments |
|----------------------|--------|--------|----------|--------|----------|---|
| US | 7,271 | 7,712 | (5.7) | 10,450 | (30.4) | Down 2% YoY/ 30% QoQ in CC to USD113mn. Q1FY18 included Zetia contribution of ~USD55mn. During the quarter, Glenmark filed 3 ANDA |
| India | 7,107 | 6,749 | 5.3 | 6,164 | 15.3 | Adjusted for change in accounting for indirect taxes, it grew 8% YoY. |
| LATAM | 1,047 | 1,338 | (21.7) | 845 | 23.9 | Declined 22% YoY on back of Venezuela in the base quarter. However excluding Venezuela, Latam business grew by more than 20% in CC. |
| Europe | 2,000 | 1,347 | 48.5 | 1,621 | 23.4 | |
| RoW | 2,521 | 2,538 | (0.7) | 2,265 | 11.3 | |
| API | 2,366 | 2,213 | 6.9 | 2,048 | 15.6 | |
| Core sales | 22,312 | 21,898 | 1.9 | 23,393 | (4.6) | |
| Out licensing income | 254 | 343 | (26.0) | 237 | 6.8 | |
| Net sales | 22,566 | 22,241 | 1.5 | 23,630 | (4.5) | |

Source: Company, Edelweiss research

Chart 2: Revenue declines as gZetia wanes

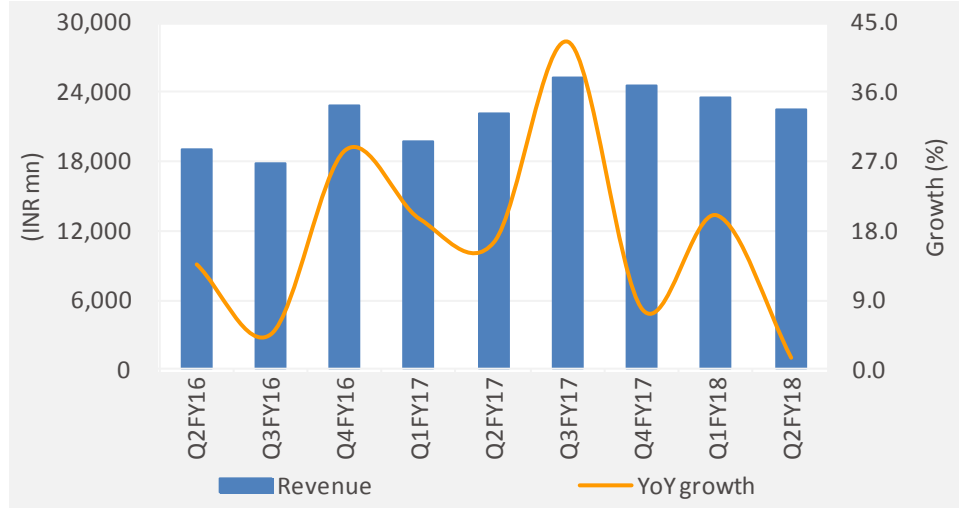


Chart 3: Core margin declines

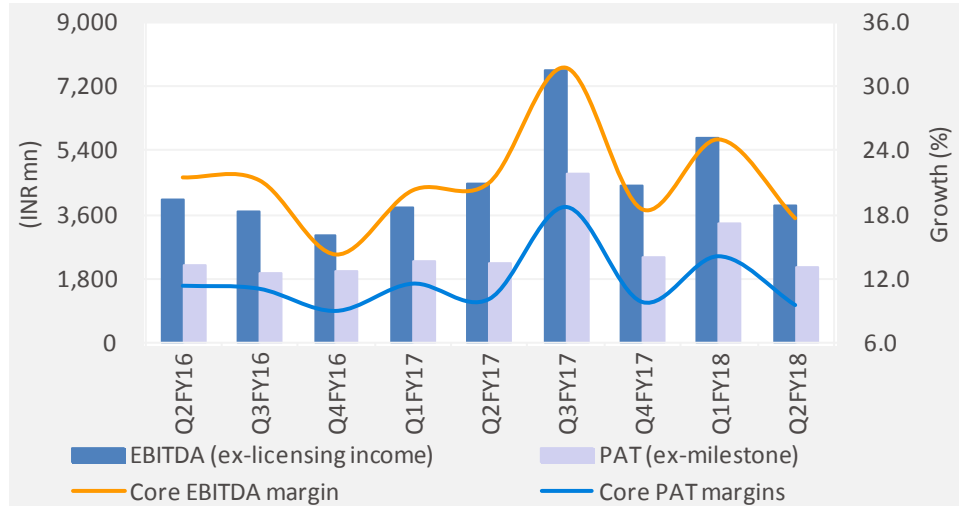
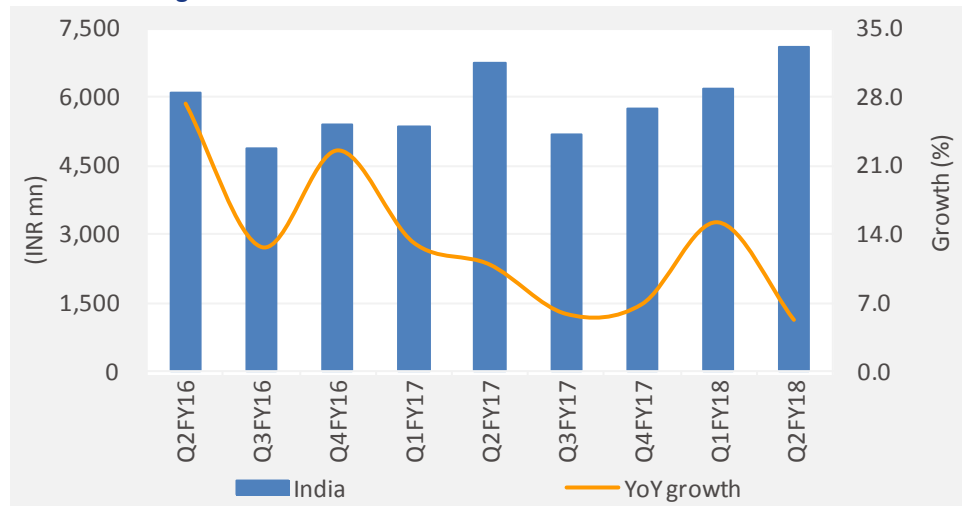
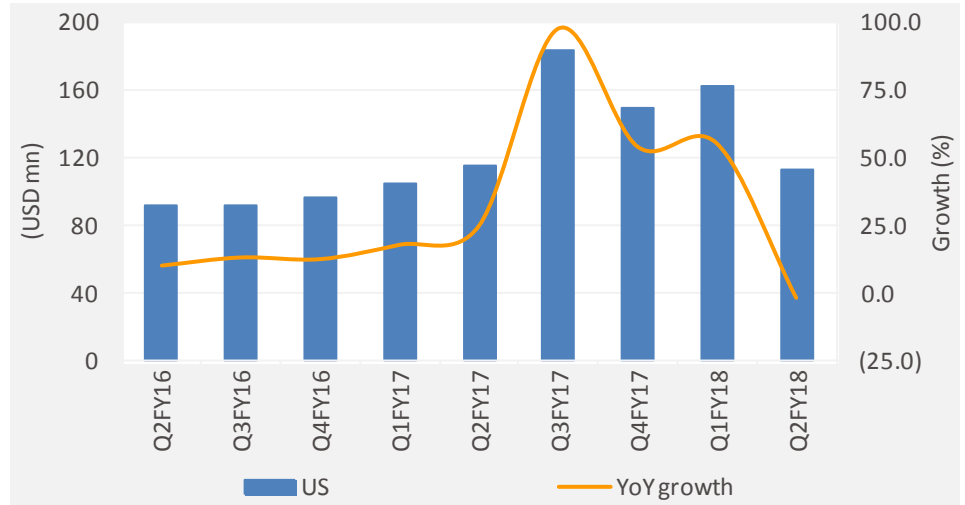
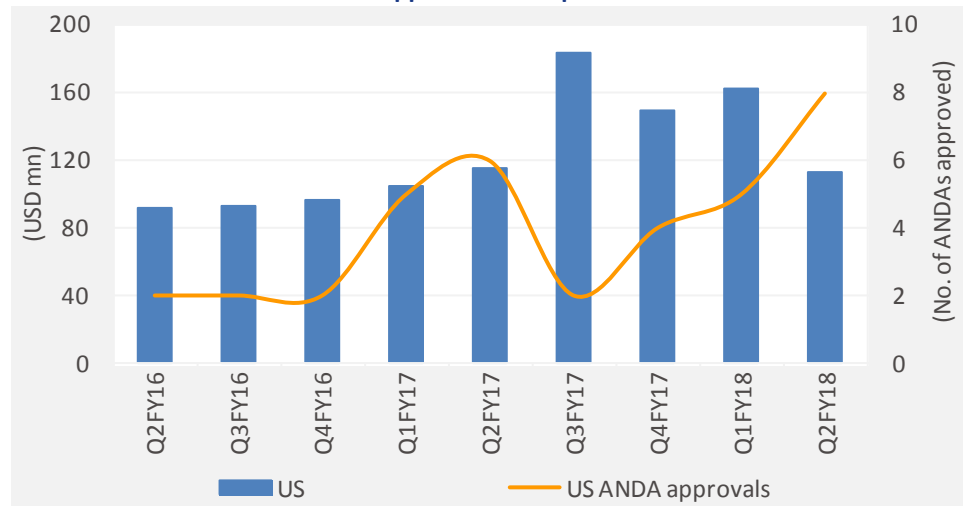
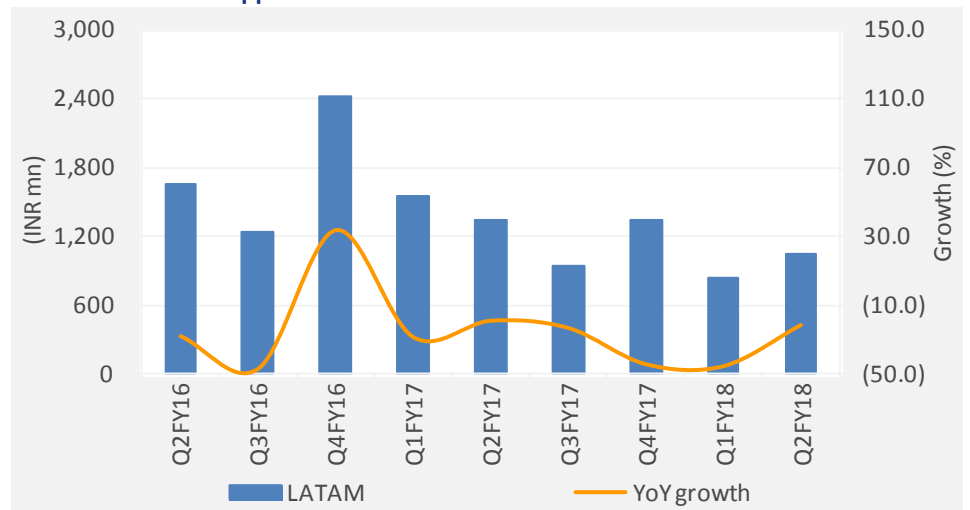


Chart 4: India—grows 5%

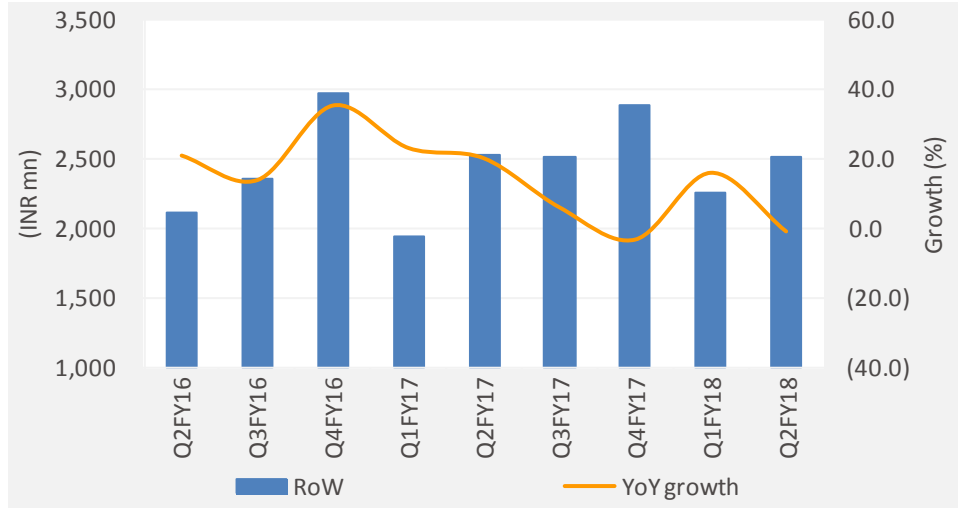


Source: Company, Edelweiss research

Chart 5: US business declines – 13% price erosion

Chart 6: US revenue versus ANDA approvals each quarter

Chart 7: LatAm—Disappoints due to Venezuela


Source: Company, Edelweiss research

Chart 8: RoW markets declined 1%



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

| Year to March | Q2FY18 | Q2FY17 | % change | Q1FY18 | % change | YTD18 | FY18E | FY19E |
|-------------------------|--------|--------|-----------|--------|----------|--------|--------|---------|
| Net revenues | 22,566 | 22,241 | 1.5 | 23,630 | (4.5) | 46,196 | 95,558 | 108,826 |
| Cost of revenue | 7,512 | 6,148 | 22.2 | 7,214 | 4.1 | 14,727 | 29,623 | 35,368 |
| Gross profit | 15,053 | 16,094 | (6.5) | 16,416 | (8.3) | 31,469 | 65,935 | 73,457 |
| R&D | 2,650 | 2,350 | 12.8 | 2,562 | 3.4 | 5,212 | 11,467 | 13,059 |
| Other expenses | 2,947 | 4,432 | (33.5) | 4,235 | (30.4) | 7,182 | 17,200 | 20,133 |
| EBITDA | 3,884 | 4,488 | (13.5) | 5,774 | (32.7) | 9,658 | 20,203 | 21,153 |
| EBITDA margin | 17.2 | 20.2 | | 24.4 | | 20.9 | 21.1 | 19.4 |
| Depreciation | 752 | 687 | 9.5 | 777 | (3.2) | 1,530 | 3,472 | 3,566 |
| EBIT | 3,132 | 3,801 | (17.6) | 4,997 | (37.3) | 8,129 | 16,731 | 17,587 |
| Other income | 297 | (18) | (1,718.2) | 153 | 94.5 | 450 | 700 | 700 |
| Interest | 698 | 629 | 11.1 | 709 | (1.4) | 1,407 | 2,267 | 2,362 |
| Add: Prior period items | | | | | | | | |
| Add: Exceptional items | | | | | | | | |
| Profit before tax | 2,731 | 3,154 | (13.4) | 4,441 | (38.5) | 7,172 | 15,164 | 15,925 |
| Provision for taxes | 589 | 918 | (35.8) | 1,108 | (46.8) | 1,697 | 3,791 | 3,981 |
| Reported net profit | 2,141 | 2,236 | (4.2) | 3,334 | (35.8) | 5,475 | 11,373 | 11,944 |
| Adjusted Profit | 2,141 | 2,236 | (4.2) | 3,334 | (35.8) | 5,475 | 11,373 | 11,944 |
| Diluted shares (mn) | 282 | 282 | | 282 | | 282 | 282 | 282 |
| Diluted P/E (x) | - | - | | - | | - | 15.5 | 14.8 |
| ROAE (%) | - | - | | - | | - | 22.6 | 19.5 |

As % of net revenues

| | | | | | | | | |
|---------------------|------|------|--|------|--|------|------|------|
| Cost of revenue | 33.3 | 27.6 | | 30.5 | | 31.9 | 31.0 | 32.5 |
| Gross profit | 66.7 | 72.4 | | 69.5 | | 68.1 | 69.0 | 67.5 |
| Total expenses | 71.0 | 69.3 | | 64.7 | | 67.8 | 66.9 | 68.6 |
| Operating profit | 13.9 | 17.1 | | 21.1 | | 17.6 | 17.5 | 16.2 |
| Reported net profit | 9.5 | 10.1 | | 14.1 | | 11.9 | 11.9 | 11.0 |
| Tax rate | 21.6 | 29.1 | | 24.9 | | 23.7 | 25.0 | 25.0 |

Company Description

GNP is a research driven company and has established presence globally. US & India are its largest markets and contribute c60% to revenue. In India, it is among the top-25 companies and is among the fastest growing companies. In the US, it has achieved reasonable scale by launching products in niche categories like derma, hormones, controlled substances and modified release products. The company is also gradually gaining scale in emerging markets like Brazil, Mexico, Russia and eastern European countries. GNP's novel research pipeline is more advanced as compared to Indian peers and a key differentiator.

Investment Theme

Niche launches like Welchol, Renvela/ Renagel, Finacea, are built in our estimates and critical to prune debt, which continues to inch up. Any out-licensing deals over the next 12-18 months could lend some upside.

Key Risks

- Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business.
- Currency risk in LatAm and Russia.
- Setback on the novel research pipeline could hurt multiples.

Financial Statements

Key Assumptions

| Year to March | FY16 | FY17 | FY18E | FY19E |
|-----------------------|------|------|-------|-------|
| Macro | | | | |
| GDP(Y-o-Y %) | 7.9 | 6.6 | 6.8 | 7.4 |
| Inflation (Avg) | 4.9 | 4.5 | 4.0 | 4.5 |
| Repo rate (exit rate) | 6.8 | 6.3 | 5.8 | 5.8 |
| USD/INR (Avg) | 65.5 | 67.1 | 65.0 | 66.0 |
| Sector | | | | |
| IPM growth (Y-o-Y) % | 12.0 | 12.0 | 12.0 | 12.0 |
| Company | | | | |
| R&D (% of sales) | 9.5 | 11.6 | 12.0 | 12.0 |

Income statement

(INR mn)

| Year to March | FY16 | FY17 | FY18E | FY19E |
|--------------------------|---------|--------|--------|---------|
| Net revenue | 76,496 | 91,857 | 95,558 | 108,826 |
| Income from operations | 76,496 | 91,857 | 95,558 | 108,826 |
| Materials costs | 23,026 | 26,143 | 29,623 | 35,368 |
| Employee costs | 13,782 | 16,408 | 17,064 | 19,112 |
| R&D Cost | 7,250 | 10,660 | 11,467 | 13,059 |
| EBITDA | 14,372 | 20,367 | 20,203 | 21,153 |
| Operating profit | 14,372 | 20,367 | 20,203 | 21,153 |
| EBIT | 12,029 | 17,723 | 16,731 | 17,587 |
| Add: Other income | 200.00 | 373.65 | 700.00 | 700.00 |
| Less: Interest Expense | 1,789 | 2,373 | 2,267 | 2,362 |
| Add: Exceptional items | - | (809) | - | - |
| Profit Before Tax | 10,440 | 14,914 | 15,164 | 15,925 |
| Less: Provision for Tax | 3,009 | 3,827 | 3,791 | 3,981 |
| Reported Profit | 7,430 | 11,088 | 11,373 | 11,944 |
| Exceptional Items | (1,423) | (602) | - | - |
| Adjusted Profit | 8,854 | 11,689 | 11,373 | 11,944 |
| Shares o /s (mn) | 282 | 282 | 282 | 282 |
| Adjusted Basic EPS | 31.4 | 41.4 | 40.3 | 42.3 |
| Diluted shares o/s (mn) | 282 | 282 | 282 | 282 |
| Adjusted Diluted EPS | 31.4 | 41.4 | 40.3 | 42.3 |
| Adjusted Cash EPS | 39.7 | 50.8 | 52.6 | 55.0 |
| Dividend per share (DPS) | 2.4 | 2.4 | 2.5 | 2.6 |
| Dividend Payout Ratio(%) | 9.1 | 6.1 | 6.1 | 6.1 |

Common size metrics

| Year to March | FY16 | FY17 | FY18E | FY19E |
|--------------------|------|------|-------|-------|
| Operating expenses | 81.2 | 77.8 | 78.9 | 80.6 |
| Materials costs | 30.1 | 28.5 | 31.0 | 32.5 |
| Staff costs | 18.0 | 17.9 | 17.9 | 17.6 |
| R & D cost | 9.5 | 11.6 | 12.0 | 12.0 |
| Depreciation | 3.1 | 2.9 | 3.6 | 3.3 |
| Interest Expense | 2.3 | 2.6 | 2.4 | 2.2 |
| EBITDA margins | 18.8 | 22.2 | 21.1 | 19.4 |
| Net Profit margins | 11.6 | 12.7 | 11.9 | 11.0 |

Growth ratios (%)

| Year to March | FY16 | FY17 | FY18E | FY19E |
|-----------------|------|------|-------|-------|
| Revenues | 15.4 | 20.1 | 4.0 | 13.9 |
| EBITDA | 40.6 | 41.7 | (0.8) | 4.7 |
| PBT | 75.7 | 42.9 | 1.7 | 5.0 |
| Adjusted Profit | 41.7 | 32.0 | (2.7) | 5.0 |
| EPS | 41.7 | 32.0 | (2.7) | 5.0 |

| Balance sheet | | (INR mn) | | | |
|--------------------------|---------------|---------------|---------------|---------------|--|
| As on 31st March | FY16 | FY17 | FY18E | FY19E | |
| Share capital | 282 | 282 | 282 | 282 | |
| Reserves & Surplus | 36,014 | 44,643 | 55,319 | 66,531 | |
| Shareholders' funds | 36,296 | 44,925 | 55,601 | 66,813 | |
| Minority Interest | (3) | (4) | (4) | (4) | |
| Short term borrowings | 7,874 | 1,872 | 1,872 | 1,872 | |
| Long term borrowings | 24,873 | 45,363 | 45,363 | 45,363 | |
| Total Borrowings | 32,747 | 47,235 | 47,235 | 47,235 | |
| Long Term Liabilities | 770 | 327 | 327 | 327 | |
| Def. Tax Liability (net) | (10,649) | (13,113) | (16,322) | (19,340) | |
| Sources of funds | 59,162 | 79,371 | 86,838 | 95,031 | |
| Gross Block | 47,859 | 54,301 | 64,301 | 74,301 | |
| Depreciation | 2,343 | 2,644 | 3,472 | 3,566 | |
| Net Block | 30,789 | 34,153 | 40,681 | 47,114 | |
| Goodwill | 575 | 479 | 479 | 479 | |
| Total Fixed Assets | 31,363 | 34,632 | 41,160 | 47,593 | |
| Non current investments | 873 | 1,148 | 1,262 | 1,280 | |
| Cash and Equivalents | 8,571 | 10,564 | 9,625 | 6,542 | |
| Inventories | 15,678 | 21,391 | 24,348 | 29,070 | |
| Sundry Debtors | 24,926 | 24,043 | 26,180 | 29,815 | |
| Loans & Advances | 9,868 | 12,749 | 11,945 | 13,386 | |
| Current Assets (ex cash) | 50,472 | 58,183 | 62,473 | 72,271 | |
| Trade payable | 19,408 | 19,035 | 21,101 | 25,194 | |
| Other Current Liab | 12,710 | 6,120 | 6,580 | 7,461 | |
| Total Current Liab | 32,118 | 25,155 | 27,682 | 32,655 | |
| Net Curr Assets-ex cash | 18,353 | 33,028 | 34,791 | 39,616 | |
| Uses of funds | 59,162 | 79,371 | 86,838 | 95,031 | |
| BVPS (INR) | 128.7 | 159.2 | 197.1 | 236.8 | |

| Free cash flow | | (INR mn) | | | |
|-----------------------|----------------|--------------|--------------|--------------|--|
| Year to March | FY16 | FY17 | FY18E | FY19E | |
| Reported Profit | 7,430 | 11,088 | 11,373 | 11,944 | |
| Add: Depreciation | 2,343 | 2,644 | 3,472 | 3,566 | |
| Interest (Net of Tax) | 1,273 | 1,764 | 1,700 | 1,771 | |
| Others | (6,596) | 5,753 | (3,342) | (3,128) | |
| Less: Changes in WC | 1,002 | 14,674 | 1,763 | 4,825 | |
| Operating cash flow | 3,448 | 6,574 | 11,440 | 9,329 | |
| Less: Capex | 8,887 | 7,334 | 10,000 | 10,000 | |
| Free Cash Flow | (5,438) | (760) | 1,440 | (671) | |

Peer comparison valuation

| Name | Market cap (USD mn) | Diluted P/E (X) | | EV / EBITDA (X) | | ROAE (%) | |
|--------------------------------|------------------------|-----------------|-------|-----------------|-------|----------|-------|
| | | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| Glenmark Pharmaceuticals | 2,740 | 15.5 | 14.8 | 10.6 | 10.3 | 22.6 | 19.5 |
| Lupin | 7,335 | 26.5 | 20.6 | 14.7 | 11.9 | 12.5 | 14.4 |
| Natco Pharma | 2,584 | 32.6 | 20.3 | 23.5 | 14.1 | 27.4 | 33.5 |
| Sun Pharmaceuticals Industries | 20,494 | 36.0 | 23.2 | 21.0 | 14.3 | 9.9 | 13.4 |
| Torrent Pharmaceuticals | 3,451 | 23.8 | 18.1 | 15.2 | 12.0 | 20.0 | 22.7 |
| Median | - | 26.5 | 20.3 | 15.2 | 12.0 | 20.0 | 19.5 |
| AVERAGE | - | 26.9 | 19.4 | 17.0 | 12.5 | 18.5 | 20.7 |

Source: Edelweiss research

| Cash flow metrics | | FY16 | FY17 | FY18E | FY19E |
|---------------------|--|---------|---------|----------|----------|
| Year to March | | | | | |
| Operating cash flow | | 3,448 | 6,574 | 11,440 | 9,329 |
| Investing cash flow | | (8,802) | (7,123) | (9,415) | (9,317) |
| Financing cash flow | | 6,986 | 5,432 | (2,964) | (3,094) |
| Net cash Flow | | 1,633 | 4,882 | (939) | (3,082) |
| Capex | | (8,887) | (7,334) | (10,000) | (10,000) |
| Dividend paid | | (679) | (678) | (697) | (732) |

Profitability and efficiency ratios

| Year to March | FY16 | FY17 | FY18E | FY19E |
|-------------------------|------|------|-------|-------|
| ROAE (%) | 26.7 | 28.8 | 22.6 | 19.5 |
| ROACE (%) | 18.9 | 24.2 | 19.3 | 18.3 |
| Inventory Days | 225 | 259 | 282 | 276 |
| Debtors Days | 119 | 97 | 96 | 94 |
| Payable Days | 316 | 268 | 247 | 239 |
| Cash Conversion Cycle | 28 | 88 | 130 | 131 |
| Current Ratio | 1.8 | 2.7 | 2.6 | 2.4 |
| Gross Debt/EBITDA | 2.3 | 2.3 | 2.3 | 2.2 |
| Gross Debt/Equity | 0.9 | 1.1 | 0.8 | 0.7 |
| Adjusted Debt/Equity | 0.9 | 1.1 | 0.8 | 0.7 |
| Net Debt/Equity | 0.7 | 0.8 | 0.7 | 0.6 |
| Interest Coverage Ratio | 6.7 | 7.5 | 7.4 | 7.4 |

Operating ratios

| Year to March | FY16 | FY17 | FY18E | FY19E |
|----------------------|------|------|-------|-------|
| Total Asset Turnover | 1.3 | 1.3 | 1.1 | 1.2 |
| Fixed Asset Turnover | 2.4 | 2.8 | 2.5 | 2.5 |
| Equity Turnover | 2.3 | 2.3 | 1.9 | 1.8 |

Valuation parameters

| Year to March | FY16 | FY17 | FY18E | FY19E |
|-------------------------|------|------|-------|-------|
| Adj. Diluted EPS (INR) | 31.4 | 41.4 | 40.3 | 42.3 |
| Y-o-Y growth (%) | 41.7 | 32.0 | (2.7) | 5.0 |
| Adjusted Cash EPS (INR) | 39.7 | 50.8 | 52.6 | 55.0 |
| Diluted P/E (x) | 20.0 | 15.1 | 15.5 | 14.8 |
| P/B (x) | 4.9 | 3.9 | 3.2 | 2.6 |
| EV / Sales (x) | 2.6 | 2.3 | 2.2 | 2.0 |
| EV / EBITDA (x) | 14.0 | 10.5 | 10.6 | 10.3 |
| Dividend Yield (%) | 0.4 | 0.4 | 0.4 | 0.4 |

Additional Data

Directors Data

| | | | |
|--------------------|------------------------------|------------------|------------------------|
| Glenn Saldanha | Chairman & Managing Director | Rajesh V. Desai | Executive Director |
| B. E. Saldanha | Non-Executive Director | Julio Ribeiro | Non-Executive Director |
| Natvarlal B. Desai | Non-Executive Director | Sridhar Gorthi | Non-Executive Director |
| D.R. Mehta | Non-Executive Director | Brian W. Tempest | Non-Executive Director |
| Bernard Munos | Non-Executive Director | | |

Auditors - Walker Chandiok & Co

Holding – Top10

| | Perc. Holding | | Perc. Holding |
|---------------------------|---------------|---------------------------|---------------|
| Massachusetts Mutual Life | 4.07 | Blackrock | 1.71 |
| Temasek Holdings | 3.99 | New Horizon Opp fund | 1.42 |
| HSBC | 2.92 | LIC | 1.31 |
| Vanguard group | 2.36 | Stichting Dep APG EMRG EQ | 1.11 |
| Franklin Resources | 2.33 | GIC Private Ltd | 1.06 |

**in last one year*

Bulk Deals

| Data | Acquired / Seller | B/S | Qty Traded | Price |
|-------------------|-------------------|-----|------------|-------|
| No Data Available | | | | |

**in last one year*

Insider Trades

| Reporting Data | Acquired / Seller | B/S | Qty Traded |
|----------------|-------------------|-----|------------|
| 02 Mar 2017 | Blanche Saldanha | Buy | 29635.00 |
| 28 Feb 2017 | Blanche Saldanha | Buy | 29635.00 |

**in last one year*

| Company | Absolute reco | Relative reco | Relative risk | Company | Absolute reco | Relative reco | Relative Risk |
|-------------------------|---------------|---------------|---------------|--------------------------------|---------------|---------------|---------------|
| Aurobindo Pharma | HOLD | SP | H | Cadila Healthcare | BUY | SO | M |
| Cipla | HOLD | SP | L | Divi's Laboratories | REDUCE | SU | H |
| Dr.Reddys Laboratories | BUY | SP | M | Glenmark Pharmaceuticals | HOLD | SP | M |
| Ipca Laboratories | REDUCE | SU | M | Lupin | HOLD | SP | M |
| Natco Pharma | BUY | SO | M | Sun Pharmaceuticals Industries | BUY | SO | M |
| Torrent Pharmaceuticals | BUY | SO | H | | | | |

ABSOLUTE RATING

| Ratings | Expected absolute returns over 12 months |
|---------|--|
| Buy | More than 15% |
| Hold | Between 15% and - 5% |
| Reduce | Less than -5% |

RELATIVE RETURNS RATING

| Ratings | Criteria |
|----------------------------|-------------------------------------|
| Sector Outperformer (SO) | Stock return > 1.25 x Sector return |
| Sector Performer (SP) | Stock return > 0.75 x Sector return |
| | Stock return < 1.25 x Sector return |
| Sector Underperformer (SU) | Stock return < 0.75 x Sector return |

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

| Ratings | Criteria |
|------------|---------------------------------------|
| Low (L) | Bottom 1/3rd percentile in the sector |
| Medium (M) | Middle 1/3rd percentile in the sector |
| High (H) | Top 1/3rd percentile in the sector |

Risk ratings are based on Edelweiss risk model

SECTOR RATING

| Ratings | Criteria |
|------------------|-------------------------------------|
| Overweight (OW) | Sector return > 1.25 x Nifty return |
| Equalweight (EW) | Sector return > 0.75 x Nifty return |
| | Sector return < 1.25 x Nifty return |
| Underweight (UW) | Sector return < 0.75 x Nifty return |

Edelweiss
Ideas create, values protect



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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

| Date | Company | Title | Price (INR) | Recos |
|-----------|--------------------|---|-------------|--------|
| 02-Nov-17 | Max India | Earnings soft on regulatory interventions; <i>Result Update</i> | 134 | Buy |
| 02-Nov-17 | Divis Laboratories | Overcomes regulatory hurdle, but valuations expensive; <i>Event Update</i> | 1,073 | Reduce |
| 31-Oct-17 | Divis Laboratories | Import alert continues to impact business; <i>Result Update</i> | 882 | Reduce |

Distribution of Ratings / Market Cap

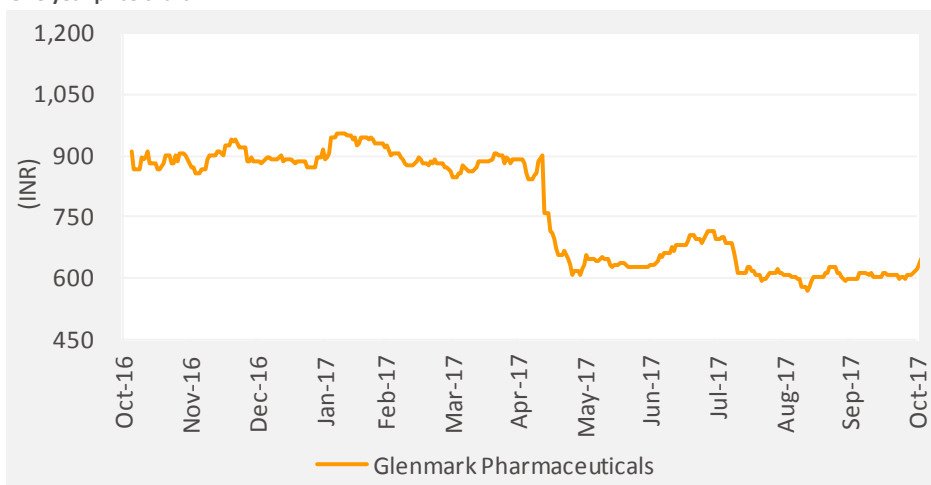
Edelweiss Research Coverage Universe

| | Buy | Hold | Reduce | Total |
|------------------------|--------|------------------------|--------|-------|
| Rating Distribution* | 161 | 67 | 11 | 240 |
| * 1stocks under review | | | | |
| | > 50bn | Between 10bn and 50 bn | < 10bn | |
| Market Cap (INR) | 156 | 62 | 11 | |

Rating Interpretation

| Rating | Expected to |
|--------|---|
| Buy | appreciate more than 15% over a 12-month period |
| Hold | appreciate up to 15% over a 12-month period |
| Reduce | depreciate more than 5% over a 12-month period |

One year price chart



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