

November 03, 2017

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Rating	Accumulate
Price	Rs627
Target Price	Rs733
Implied Upside	16.9%
Sensex	33,686
Nifty	10,453

(Prices as on November 03, 2017)

Trading data

Market Cap. (Rs bn)	176.9
Shares o/s (m)	282.2
3M Avg. Daily value (Rs m)	655.8

Major shareholders

Promoters	46.53%
Foreign	33.24%
Domestic Inst.	5.32%
Public & Other	14.91%

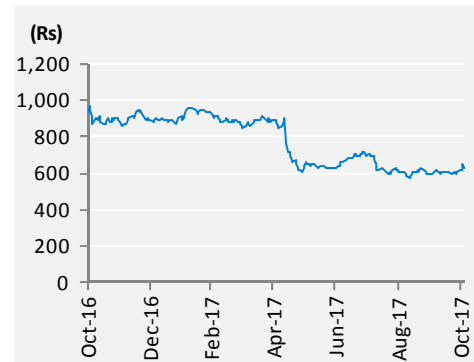
Stock Performance

(%)	1M	6M	12M
Absolute	5.0	(29.2)	(31.3)
Relative	(1.9)	(41.8)	(54.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	41.9	40.2	4.4
2019	45.8	45.8	0.0

Price Performance (RIC: GLEN.BO, BB: GNP IN)



Source: Bloomberg

■ **Adj. Revenues, EBITDA, PAT, EU Revenues above estimates:** Glenmark (GNP) sales and adj. EBITDA and PAT were Rs22.2bn, Rs3.3bn and Rs2.1bn respectively vs our estimates of Rs21.4bn, 1.1bn and Rs83mn respectively in Q2FY18. The higher revenue was due to growth of 49% YoY in EU sales while beat in headline profits were due to strong cost controls in COGS, R&D exps and other operating overheads. Employee costs however increased by 45% QoQ due to yearly bonus payments of Rs1.2bn and salary increment costs of Rs0.4bn in Q2FY18. Core US sales grew 8.4% QoQ to US\$113m and domestic sales grew 15.3% QoQ and 10% YoY in H1FY18.

■ **Core US sales guidance improved for FY18E:** While core US sales grew in Q2FY18, management guided for higher competition and price erosion. GNP's core portfolio sales had price erosion of 13% in Q2FY18 vs 12% in Q1FY18. Maintaining the benefits of being sole generic in gMupirocin, we believe that limited competition drugs gStrattera, gDesonide and few more derma drugs contributed incremental revenues of \$15m in Q2FY18.

■ **Mixed guidance:** GNP reduced guidance of constant-currency-sales growth to 6% from 8-10% for FY18E due to price erosion, competition and weaker USD while maintaining EBITDA margin guidance at 22%. Effective tax rate guided to be at 25% in FY18E while its cash tax rate was 66% in Q2FY18. R&D costs to be maintained at 11-13% in FY18E and was at 11.4% in H1FY18E. Net Debt increased by Rs1.36bn QoQ in Q2FY18 and management guided for the net debt to be Rs33bn FY18.

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Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	76,496	91,857	97,587	106,768
Growth (%)	16.0	20.1	6.2	9.4
EBITDA (Rs m)	14,372	20,367	20,737	22,208
PAT (Rs m)	7,430	11,088	11,826	12,927
EPS (Rs)	26.3	39.3	41.9	45.8
Growth (%)	50.3	49.2	6.7	9.3
Net DPS (Rs)	2.0	2.0	2.0	2.0

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	18.8	22.2	21.3	20.8
RoE (%)	22.4	27.3	23.4	20.8
RoCE (%)	11.6	15.2	14.3	14.1
EV / sales (x)	2.7	2.3	2.2	2.0
EV / EBITDA (x)	14.3	10.5	10.2	9.5
PE (x)	23.8	16.0	15.0	13.7
P / BV (x)	4.9	3.9	3.2	2.6
Net dividend yield (%)	0.3	0.3	0.3	0.3

Source: Company Data; PL Research

- Valuation- 'Accumulate' and reduce TP to Rs733:** While management expects few good approvals to increase sales of core US portfolio, there are lesser clarity on core sales growth in US due depreciating rupee and headwind in US generic landscape. **While we maintain our earnings estimates, there is deterioration in US generic pricing environment and slower offtake in India formulations.** There are overall reduction in valuation multiple for pharma sector due to increase in risk-return matrix. We expect GNP to be similarly impacted due to higher uncertainty in pharma industries of key geographies. We are reducing assigned PE to 16x (from 18x) on FY19 earnings. We maintain our recommendation 'Accumulate' while reduce TP to Rs733 (from Rs825).

Exhibit 1: Q2FY18 Result Overview (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Sales	22,234	21,732	2.3	23,294	45,528	40,827	11.5
Raw Material	7,512	6,148	22.2	7,214	14,727	12,383	18.9
<i>% of Net Sales</i>	<i>33.8</i>	<i>28.3</i>		<i>31.0</i>	<i>32.3</i>	<i>30.3</i>	
Personnel Cost	5,572	4,824	15.5	3,844	9,416	8,544	10.2
<i>% of Net Sales</i>	<i>25.1</i>	<i>22.2</i>		<i>16.5</i>	<i>20.7</i>	<i>20.9</i>	
Others	5,597	6,782	(17.5)	6,797	12,394	12,729	(2.6)
<i>% of Net Sales</i>	<i>25.2</i>	<i>31.2</i>		<i>29.2</i>	<i>27.2</i>	<i>31.2</i>	
Total Expenditure	18,682	17,753	5.2	17,856	36,537	33,657	8.6
EBITDA	3,552	3,978	(10.7)	5,438	8,991	7,171	25.4
<i>Margin (%)</i>	<i>16.0</i>	<i>18.3</i>		<i>23.3</i>	<i>19.7</i>	<i>17.6</i>	
Depreciation	752	687	9.5	777	1,530	1,330	15.0
EBIT	2,800	3,291	(14.9)	4,661	7,461	5,841	27.7
Other Income	629	491	28.1	489	1,118	1,849	(39.5)
Interest	698	629	11.1	709	1,407	1,059	32.9
PBT	2,731	3,154	(13.4)	4,441	7,172	6,630	8.2
Extra-Ord. Inc./Exps.	-	-		-	0	(630)	
Total Taxes	589	918	(35.8)	1,108	1,697	2,127	(20.2)
<i>ETR (%)</i>	<i>21.6</i>	<i>29.1</i>		<i>24.9</i>	<i>23.7</i>	<i>32.1</i>	
Reported PAT	2,141	2,236	(4.2)	3,334	5,475	5,134	6.6
Other Comprehensive Income	-	-		-			
Total Comprehensive Income	2,141	2,236	(4.2)	3,334	5,475	5,134	6.6

Source: Company Data, PL Research

**Exhibit 2: Major Sources of Revenue (Rs m)**

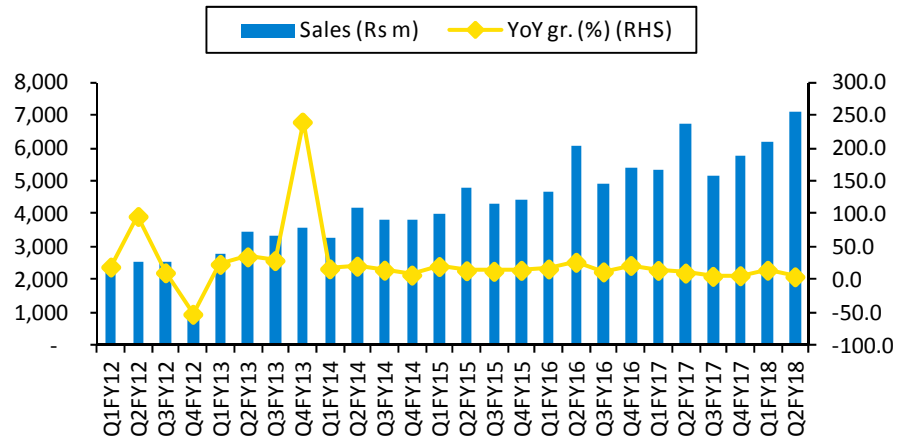
Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Glenmark generics	9,637	9,925	<i>(2.9)</i>	12,498	22,135	18,870	<i>17.3</i>
US generics	7,271	7,712	<i>(5.7)</i>	10,450	17,721	14,694	<i>20.6</i>
API & Other Op. income	2,366	2,213	<i>6.9</i>	2,048	4,414	4,176	<i>5.7</i>
Glenmark Pharma (Branded generics)	12,675	11,973	<i>5.9</i>	10,895	23,570	22,328	<i>5.6</i>
India Formulations	7,107	6,749	<i>5.3</i>	6,164	13,271	12,100	<i>9.7</i>
Semi-Reg market	2,521	2,538	<i>(0.7)</i>	2,265	4,786	4,487	<i>6.6</i>
Latam formulations	1,047	1,338	<i>(21.7)</i>	845	1,892	2,894	<i>(34.6)</i>
EU branded generics	2,000	1,347	<i>48.5</i>	1,621	3,621	2,846	<i>27.2</i>
Out license fees	254	343		237	491	737	<i>(33.4)</i>
Gross Revenues	22,566	22,241	<i>1.5</i>	23,630	46,196	41,935	<i>10.2</i>

Source: Company Data, PL Research

Key takeaways from Conference call

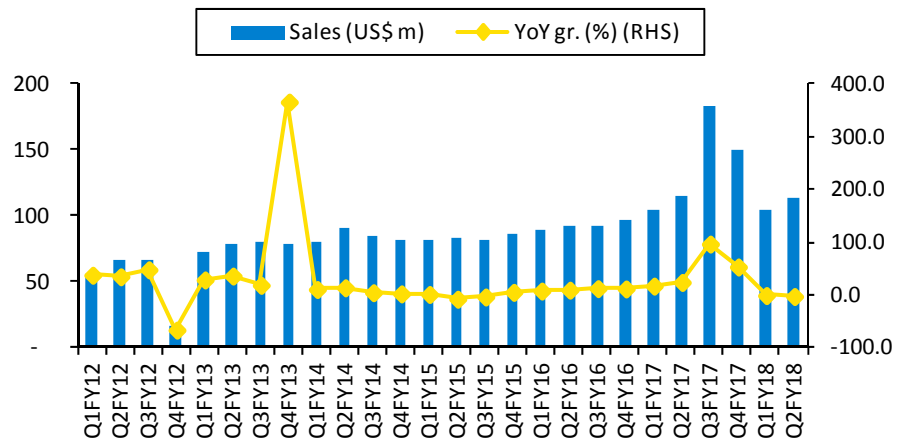
- Management guided for 6% YoY reported sales growth (including Zetia) in FY18E. gZetia launched in Dec 2016 with 180-days of exclusivity in US came to an end in May 2017 and management expect no windfall gain in sale/margin further as there are four new generics approved post exclusivity. Core US portfolio to grow around 10-12% on the back key approvals and 3-4 important derma products. India formulations will continue to see 12-13% growth in FY18E due to slower ramp up in volume offtake from channel partners post GST implementation. Management is also expecting revenues from out-licensing of molecules from at least one (GBR 830) out of the four products in FY18E
- GBR 830 is an atopic dermatitis product and achieve positive Phase II data in Q2FY18. Management previously guided that 7-8 companies are interested in the out-licensing deal tie-up should there be positive outcome from the clinical trials of the molecule
- Management guided for commencement of Ceylon product launches (Salmax-gAdvair/Seretide MDI) in multiple markets of EU in H2FY18E
- Management guided for 21-22% EBITDA margin and 68% gross margin in FY18E which would remain largely unchanged
- Glenmark continued to witness price erosion of 13% in US base business and management guided that they expect overall 10-15% price erosion impact in FY18E as well
- Cash tax rate increased to 66% in Q2FY18 compared to 25% in Q1FY18, cash tax payment was Rs1.1bn in Q1FY18 and guided cash tax outflow to be at Rs5bn in FY18E.
- Net debt was Rs3.5bn, reduced by Rs1.7bn vs net debt in Q4FY17 while increase by Rs1.4bn vs net debt of Q1FY18. Management guided for overall debt reduction of Rs3bn at FY18E end, with maintaining flat YoY growth in R&D expenses in FY18.
- Receivable days were flat at 98 days (down from 115, 110, 96 & 98 days in Q2FY17, Q3FY17, Q4FY17 and Q1FY18 respectively) while net working capital cycle was 107 days vs 101 days in Q1FY18
- R&D expenses were Rs2.7bn in Q2FY18. Management continues to maintain R&D expenses to be at 11-13% of sales in FY18E.

Exhibit 3: India formulation sales and growth



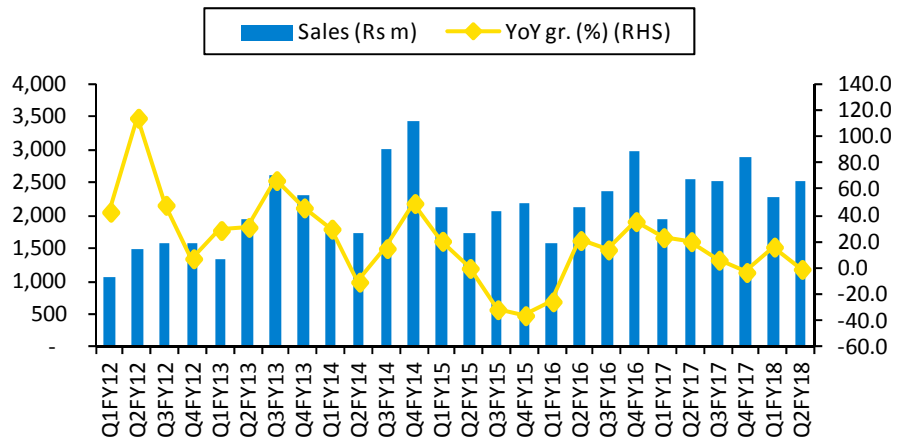
Source: Company Data, PL Research

Exhibit 4: US Generics: Sales and Growth



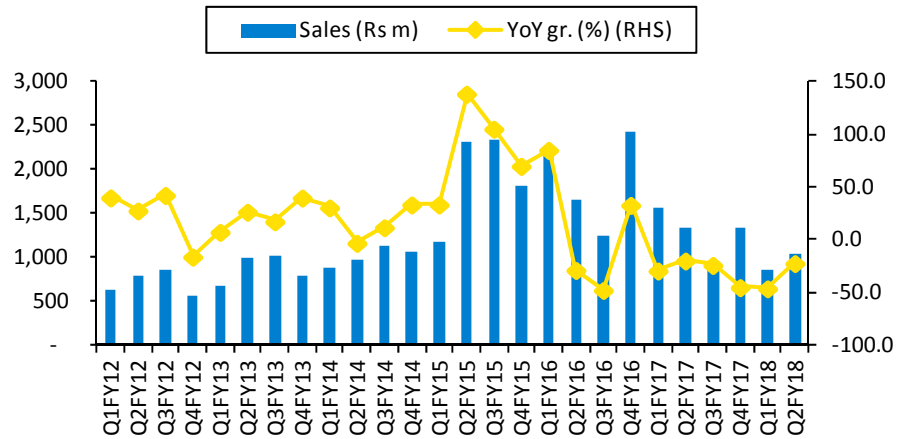
Source: Company Data, PL Research

Exhibit 5: Semi-Reg Mkts: Sales, Growth



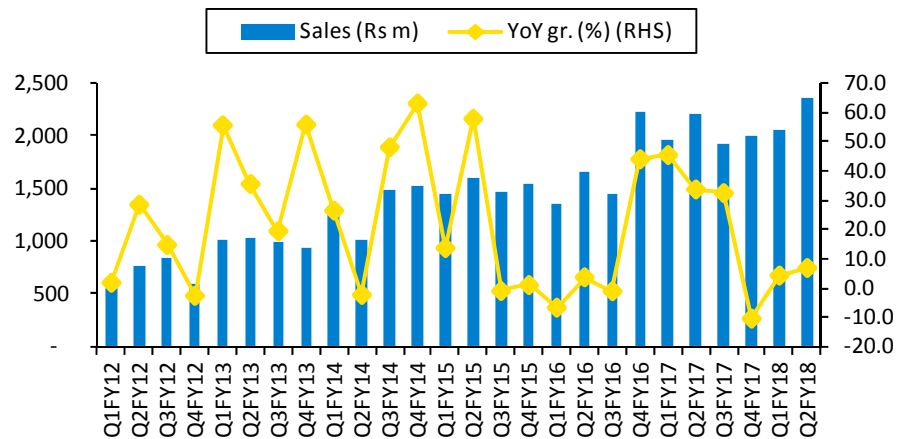
Source: Company Data, PL Research

Exhibit 6: Latam: Sales, Growth



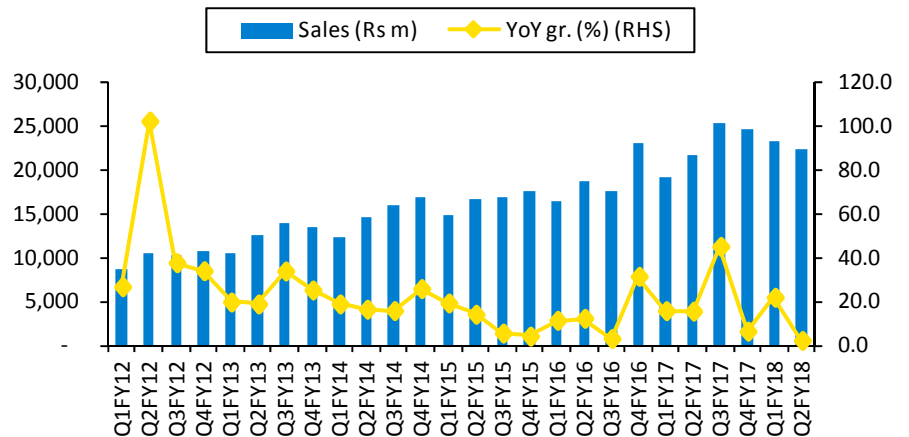
Source: Company Data, PL Research

Exhibit 7: API: Sales, Growth



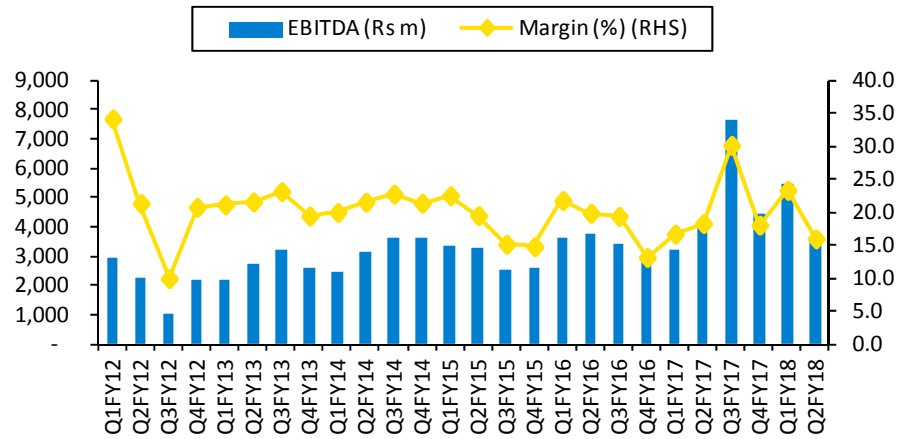
Source: Company Data, PL Research

Exhibit 8: Overall Sales, Growth



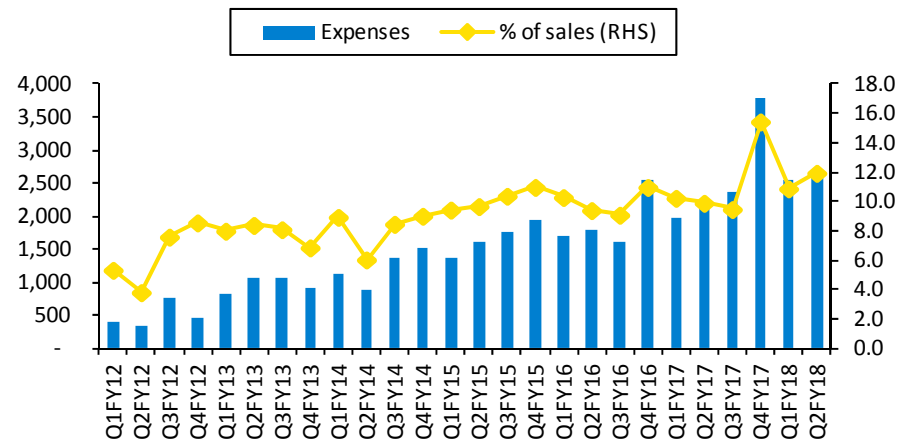
Source: Company Data, PL Research

Exhibit 9: EBITDA, margin



Source: Company Data, PL Research

Exhibit 10: R&D exps, % of sales



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	76,496	91,857	97,587	106,768
Raw Material Expenses	23,026	26,143	30,252	33,418
Gross Profit	53,470	65,714	67,335	73,349
Employee Cost	13,782	16,408	16,834	18,684
Other Expenses	25,317	28,938	29,764	32,457
EBITDA	14,372	20,367	20,737	22,208
Depr. & Amortization	2,343	2,644	2,524	2,839
Net Interest	1,789	2,373	2,830	2,530
Other Income	200	374	385	396
Profit before Tax	10,440	15,724	15,769	17,235
Total Tax	3,009	3,827	3,942	4,309
Profit after Tax	7,430	11,897	11,826	12,927
Ex-Od items / Min. Int.	—	(809)	—	—
Adj. PAT	7,430	11,088	11,826	12,927
Avg. Shares O/S (m)	282.2	282.2	282.2	282.2
EPS (Rs.)	26.3	39.3	41.9	45.8

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	3,448	3,603	(1,022)	7,089
C/F from Investing	(8,802)	(5,676)	(6,957)	(6,913)
C/F from Financing	6,287	12,388	(1,822)	(3,710)
Inc. / Dec. in Cash	934	10,315	(9,800)	(3,533)
Opening Cash	7,637	8,571	18,886	9,086
Closing Cash	8,571	18,886	9,086	5,552
FCFF	11,271	(2,313)	3,035	2,125
FCFE	6,019	7,325	(702)	(2,487)

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	16.0	20.1	6.2	9.4
EBITDA (%)	22.3	41.7	1.8	7.1
PAT (%)	56.3	49.2	6.7	9.3
EPS (%)	50.3	49.2	6.7	9.3
Profitability				
EBITDA Margin (%)	18.8	22.2	21.3	20.8
PAT Margin (%)	9.7	12.1	12.1	12.1
RoCE (%)	11.6	15.2	14.3	14.1
RoE (%)	22.4	27.3	23.4	20.8
Balance Sheet				
Net Debt : Equity	0.8	0.8	0.6	0.5
Net Wrkng Cap. (days)	60	128	149	165
Valuation				
PER (x)	23.8	16.0	15.0	13.7
P / B (x)	4.9	3.9	3.2	2.6
EV / EBITDA (x)	14.3	10.5	10.2	9.5
EV / Sales (x)	2.7	2.3	2.2	2.0
Earnings Quality				
Eff. Tax Rate	28.8	24.3	25.0	25.0
Other Inc / PBT	1.9	2.4	2.4	2.3
Eff. Depr. Rate (%)	5.5	5.4	4.5	4.5
FCFE / PAT	81.0	66.1	(5.9)	(19.2)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	36,296	44,925	56,091	68,358
Total Debt	37,597	47,235	43,498	38,886
Other Liabilities	(9,882)	(12,789)	(12,780)	(12,881)
Total Liabilities	64,012	79,371	86,810	94,363
Net Fixed Assets	31,204	34,781	39,257	43,419
Goodwill	575	479	527	632
Investments	458	520	598	777
Net Current Assets	31,775	43,591	46,428	49,535
Cash & Equivalents	8,571	10,564	9,086	5,552
Other Current Assets	50,472	58,183	62,936	69,338
Current Liabilities	27,268	25,155	25,593	25,355
Other Assets	—	—	—	—
Total Assets	64,012	79,371	86,810	94,363

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	25,350	24,572	23,294	22,234
EBITDA	7,650	4,438	5,438	3,552
% of revenue	30.2	18.1	23.3	16.0
Depr. & Amortization	625	689	777	752
Net Interest	617	697	709	698
Other Income	146	(513)	489	629
Profit before Tax	6,553	2,540	4,441	2,731
Total Tax	1,499	1,655	790	976
Profit after Tax	5,055	75	3,651	1,755
Adj. PAT	5,055	75	3,651	1,755

Key Operating Metrics (Rs m)

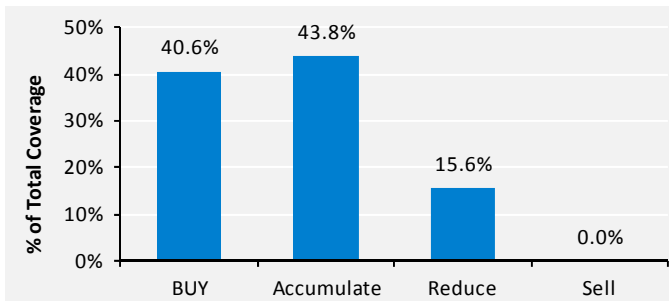
Y/e March	2016	2017	2018E	2019E
Generics	34,320	48,905	50,160	53,267
US Formulations	24,203	37,007	36,886	38,023
EU Formulations	2,940	3,409	3,805	4,375
LatAm Formulations	495	396	435	479
APIs	6,683	8,094	9,034	10,390
Branded	41,357	41,404	45,745	51,878
India Formulations	21,093	23,038	25,342	28,636
ROW Formulations	9,033	9,888	11,074	12,514
LatAm Formulations	7,001	4,786	5,207	5,988
EU Formulations	4,231	3,693	4,122	4,740

Source: Company Data, PL Research.

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