

INDUSTRY	PHARMA		
<b>CMP (as on 30 May 2018)</b>	Rs 525		
<b>Target Price</b>	Rs 710		
Nifty	10,614		
Sensex	34,906		
<b>KEY STOCK DATA</b>			
Bloomberg	GNP IN		
No. of Shares (mn)	282		
MCap (Rs bn) / (\$ mn)	148/2,166		
6m avg traded value (Rs mn)	558		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	Rs 748/484		
	3M	6M	12M
Absolute (%)	(4.9)	(8.2)	(17.0)
Relative (%)	(7.0)	(13.5)	(29.0)
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	46.5		
FIs & Local MFs	5.3		
FPIs	33.2		
Public & Others	15.0		
<i>Source : BSE</i>			

## Better days ahead

Affected by lack of lucrative product approvals for the US market and higher R&D spend, Glenmark pharma's (GNP) reported second consecutive quarter with sub-par profitability. EBITDA declined 41% YoY to Rs 2.9bn and EBITDA margin at 13.5% was down 735bps YoY. Top line decreased 7.2%YoY due to loss exclusivity in gZetia. The US business declined 30%YoY/5%QoQ to Rs 7bn. Reported PAT at ~Rs 1.5bn was up ~600%YoY/60%QoQ supported by forex gains of Rs 640mn (vs loss in 3QFY18).

**We continue to believe that GNP's push towards innovation and specialty is strategically sound. However, the capital allocation is weighing heavily on the business.** In the absence of lucrative product launches for the US market, the base margins have fallen from 18-19% in FY17 to 13-14% over last two quarters. However, with the recent gWelchol and gProtopoc approvals, margins are likely to normalise in 1HFY19. The management has also guided for additional 10+ launches in FY19 for the US market, which will help GNP to maintain 16-17% margins in FY19E. Foresee 6%/10% revenue/earnings CAGR over **Financial Summary**

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	22,479	24,244	(7.3)	21,715	3.5	91,857	91,031	96,491	109,595
EBIDTA	2,947	4,961	(40.6)	2,905	1.4	20,367	16,150	15,991	19,681
APAT	1,510	211	615.8	935	61.5	8,340	4,928	7,626	10,942
Diluted adj. EPS (Rs/sh)	5.4	0.7	615.8	3.3	61.5	29.6	17.5	27.0	38.8
P/E (x)						17.5	29.5	19.1	13.3
RoE (%)						18.1	9.4	12.8	16.1

Source: Company, HDFC sec Inst Research # Consolidated

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

**FY17-20E. Maintain BUY with a revised TP of Rs 710 (16x FY20E and Rs 135/sh for pipeline).**

### Highlights of the quarter

- US business:** GNP expects to launch additional 10 products in FY19, which includes 5-6 niche opportunities. It expects one player to enter Mupirocin market in 2HFY19. GNP has launched Tacrolimus and gWelchol in 1QFY19 and has garnered 10-15% market share, which it expects to scale up to 30%. Overall, we expect GNP's base business in the US to grow at 5% revenue CAGR over FY17-20E (after assuming substantial erosion in Mupirocin over FY19-20).
- Other highlights:** (1) GNP spent Rs 11bn on R&D in FY18, including Rs 7bn spent on speciality products, (2) Filed first speciality respiratory product (GSP 301) in the US in 4QFY18, (3) GNP to begin Phase 2b trials for GBR 830 (derma product) in FY19, (4) Will file several in-licensed complex generic products over next two years, (5) Expects 10-15% top line growth in FY19, (6) Europe growth at 40% was driven by several product launches (incl. Seretide inhaler). (7) Net debt stands at Rs 31.8bn.
- Near-term outlook:** Important product approvals remain the key near term triggers.

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**4QFY18 revenues 9% higher than our estimates**

**Other income included Rs 640mn forex gain in 4QFY18**

**R&D spend at Rs 14.3% of sales was ~150bps higher than 3QFY18**

### Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
<b>Net Sales</b>	<b>22,479</b>	<b>24,244</b>	<b>(7.3)</b>	<b>21,715</b>	<b>3.5</b>
Material Expenses	7,843	7,769	0.9	7,816	0.3
Employee Expenses	4,643	3,847	20.7	4,659	(0.4)
R&D Expenses	3,214	3,800	(15.4)	2,786	15.4
Other Expenses	3,832	3,867	(0.9)	3,549	8.0
<b>EBITDA</b>	<b>2,947</b>	<b>4,961</b>	<b>(40.6)</b>	<b>2,905</b>	<b>1.4</b>
Depreciation	894	845		895	
<b>EBIT</b>	<b>2,053</b>	<b>4,115</b>	<b>(50.1)</b>	<b>2,010</b>	<b>2.1</b>
Net Interest Income	271	(1,732)		(615)	
<b>PBT</b>	<b>2,323</b>	<b>2,384</b>	<b>(2.5)</b>	<b>1,395</b>	<b>66.5</b>
Tax	813	(425)		461	
Minority Interest	-	-		(1)	
<b>RPAT after Extraordinary Items</b>	<b>1,510</b>	<b>211</b>	<b>615.8</b>	<b>935</b>	<b>61.5</b>
EO Items (Adj For Tax)	-	-		-	
<b>APAT</b>	<b>1,510</b>	<b>211</b>	<b>615.8</b>	<b>935</b>	<b>61.5</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Material Expenses % Net Sales	34.9	32.0	284	36.0	(110)
Employee Expenses % Net Sales	20.7	15.9	478	21.5	(80)
R&D Expenses % Net Sales	14.3	15.7	(137)	12.8	147
Other Expenses % Net Sales	17.0	15.9	110	16.3	70
<b>EBITDA Margin (%)</b>	<b>13.1</b>	<b>20.5</b>	<b>(735)</b>	<b>13.4</b>	<b>(27)</b>
Tax Rate (%)	35.0	(17.8)	5,284	33.0	197
APAT Margin (%)	6.7	0.9	585	4.3	241

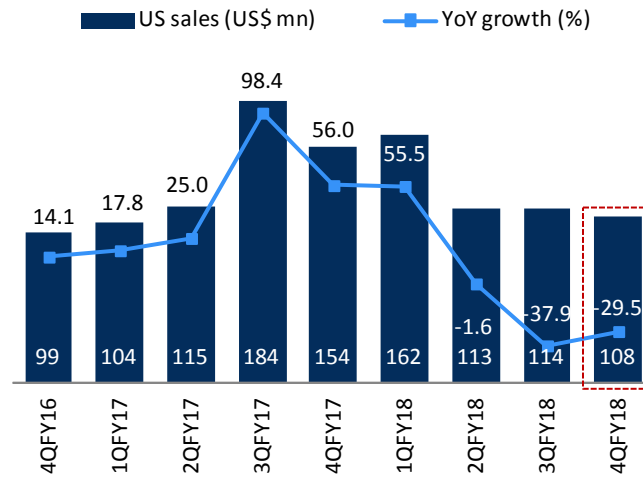
Source: Company, HDFC sec Inst Research

*US sales were in-line with estimates. Sluggish launch momentum has led to sequentially flat revenues*

*Domestic business continues to be a key market for GNP, expects 15% growth in coming years*

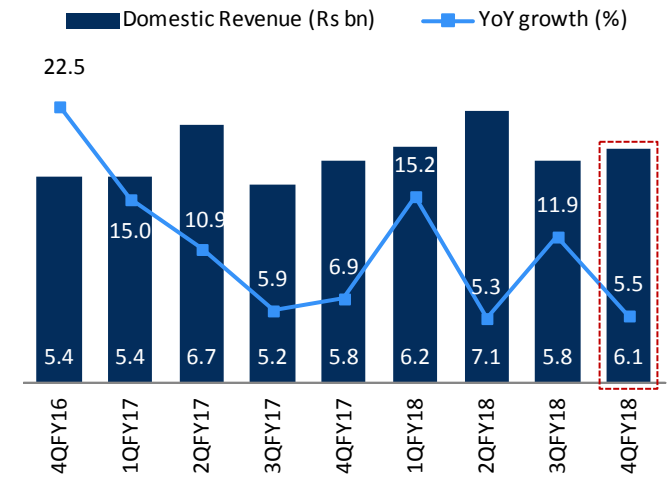
*European markets grew 40%YoY to Rs 3.2bn led by gSeretide launches in various countries*

**US Formulations: Largely Flat QoQ**



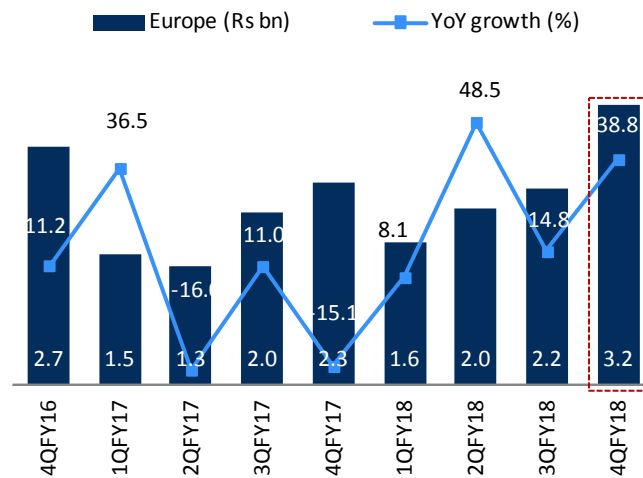
Source: Company, HDFC sec Inst Research

**Domestic Business: Mgt Confident Of Delivering 15% Growth Over Coming Years**



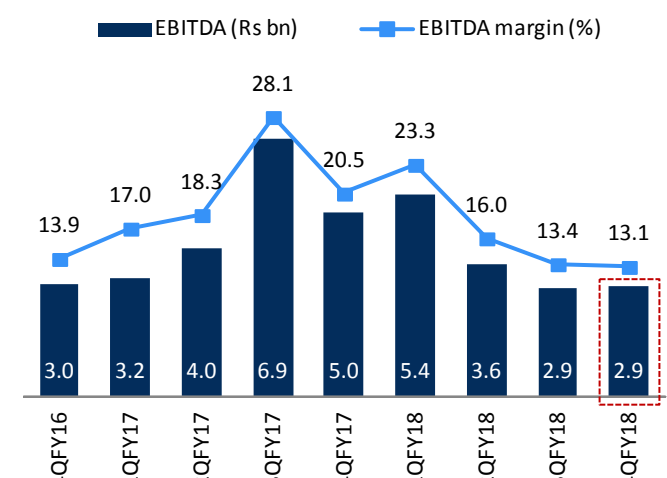
Source: Company, HDFC sec Inst Research

**~40% YoY Growth In Europe Markets**



Source: Company, HDFC sec Inst Research

**EBITDA Margin Impacted By Higher R&D Spend**



Source: Company, HDFC sec Inst Research

**Except Europe, all other segments delivered sub-par performance in 4QFY18**

**The US business recovery remains the key growth driver for top line growth over FY18-20E**

### Segmental Quarterly Performance

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
India	6,087	5,769	5.5	5,785	5.2
US	6,996	10,004	(30.1)	7,359	(4.9)
Europe	3,190	2,298	38.8	2,248	41.9
ROW	2,985	2,889	3.3	3,221	(7.3)
LATAM	1,276	1,340	(4.8)	898	42.1
API	2,049	1,997	2.6	2,316	(11.6)
Licensing Income	216	274	(21.1)	209	N/A
<b>Total</b>	<b>22,798</b>	<b>24,572</b>	<b>(7.2)</b>	<b>22,037</b>	<b>3.5</b>

Source: HDFC sec Inst Research

### Assumptions

	FY16	FY17	FY18	FY19E	FY20E
India	21,093	23,038	25,143	28,662	32,675
Growth (%)	20.6	9.2	9.1	14.0	14.0
US	24,203	37,007	32,076	30,836	35,228
Growth (%)	18.7	52.9	(13.3)	(3.9)	14.2
Europe	7,171	7,101	9,058	9,964	10,661
Growth (%)	11.3	(1.0)	27.6	10.0	7.0
RoW	9,033	9,888	10,992	12,641	14,916
Growth (%)	11.2	9.5	11.2	15.0	18.0
Latam	7,495	5,181	4,067	4,555	5,102
Growth (%)	(1.9)	(30.9)	(21.5)	12.0	12.0
API & Others	7,502	9,642	9,695	9,832	11,012
Growth (%)	18.1	28.5	0.6	1.4	12.0
<b>Total</b>	<b>76,496</b>	<b>91,857</b>	<b>91,031</b>	<b>96,491</b>	<b>109,595</b>
<b>Growth (%)</b>	<b>15.1</b>	<b>20.1</b>	<b>(0.9)</b>	<b>6.0</b>	<b>13.6</b>

Source: HDFC sec Inst Research

**Peer Valuations**

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Sun Pharma	1,190	495	NEU	530	26.0	14.0	20.1	27.2	19.0	35.4	24.6	18.2	17.9	9.1	12.3	14.8
Cipla	422	526	NEU	565	12.5	17.5	23.2	30.0	42.0	30.0	22.7	17.5	8.4	10.5	12.4	14.3
Cadila Healthcare	377	368	BUY	525	14.5	12.9	16.3	22.7	25.3	28.6	22.5	16.2	23.5	16.8	17.7	21.0
Lupin	350	779	BUY	1,190	33.4	38.0	39.6	59.7	23.4	20.5	19.7	13.0	12.2	12.7	12.5	16.8
Dr Reddy's Labs	333	1,962	NEU	2,130	72.7	59.2	75.5	102.1	27.0	33.2	26.0	19.2	9.5	7.8	9.5	11.5
Aurobindo Pharma	331	566	BUY	732	39.3	34.4	39.0	48.0	14.4	16.5	14.5	11.8	27.6	19.1	17.9	18.6
Divi's Labs	279	1,052	NEU	1,095	39.9	33.0	44.6	51.4	26.3	31.8	23.6	20.5	22.0	15.5	18.7	18.9
Alkem Laboratories	237	1,983	BUY	2,124	74.6	57.6	79.5	105.5	26.6	34.4	24.9	18.8	21.9	14.8	18.2	20.7
Torrent Pharma	227	1,339	BUY	1,748	51.2	38.9	62.0	79.5	26.2	34.4	21.6	16.9	22.1	14.9	21.5	23.2
<b>Glenmark</b>	<b>148</b>	<b>525</b>	<b>BUY</b>	<b>710</b>	<b>29.6</b>	<b>17.5</b>	<b>27.0</b>	<b>38.8</b>	<b>17.8</b>	<b>30.1</b>	<b>19.4</b>	<b>13.5</b>	<b>18.1</b>	<b>9.4</b>	<b>12.8</b>	<b>16.1</b>
Jubilant Life Sciences	121	779	BUY	1,060	37.0	46.6	65.5	80.4	21.1	16.7	11.9	9.7	18.0	19.3	22.4	22.5
Alembic Pharma	81	431	NEU	535	21.4	21.9	22.1	29.7	20.1	19.7	19.5	14.5	23.0	20.0	17.5	20.4
Dishman Carbogen Amcis	51	314	BUY	450	9.0	9.6	13.6	19.9	34.9	32.8	23.2	15.8	3.0	3.1	4.2	5.9
Strides Shasun	37	413	NEU	420	34.0	12.7	18.4	26.3	12.2	32.5	22.4	15.7	13.1	4.4	6.5	8.7
Granules India	20	80	BUY	115	7.5	5.2	7.1	9.6	10.6	15.3	11.3	8.3	21.0	12.0	13.1	16.1
Neuland Labs	6	712	BUY	1,000	42.6	11.0	28.9	62.3	16.7	64.9	24.7	11.4	12.8	2.2	5.5	11.1

Source: HDFC sec Inst Research

**Change In Estimates (Consolidated)**

Rs mn	Previous			New			% Chg		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Net Sales	88,835	96,081	110,270	91,031	96,491	109,595	2.5	0.4	(0.6)
EBITDA	16,219	16,899	21,513	16,150	15,991	19,681	(0.4)	(5.4)	(8.5)
APAT	5,219	8,466	12,356	4,928	7,626	10,942	(5.6)	(9.9)	(11.4)

Source: HDFC sec Inst Research

**Income Statement (Consolidated)**

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Revenues</b>	<b>76,340</b>	<b>91,857</b>	<b>91,031</b>	<b>96,491</b>	<b>109,595</b>
<b>Growth (%)</b>	<b>15.7</b>	<b>20.3</b>	<b>(0.9)</b>	<b>6.0</b>	<b>13.6</b>
Material Expenses	23,614	26,143	30,386	30,877	33,974
Employee Expenses	13,782	16,408	18,718	20,965	23,061
SG&A Expenses	11,691	12,376	9,550	12,351	14,028
Other Operating Expenses	13,082	16,563	16,227	16,307	18,850
<b>EBITDA</b>	<b>14,172</b>	<b>20,367</b>	<b>16,150</b>	<b>15,991</b>	<b>19,681</b>
<b>EBITDA Margin (%)</b>	<b>18.6</b>	<b>22.2</b>	<b>17.7</b>	<b>16.6</b>	<b>18.0</b>
<b>EBITDA Growth (%)</b>	<b>20.6</b>	<b>43.7</b>	<b>(20.7)</b>	<b>(1.0)</b>	<b>23.1</b>
Depreciation	2,691	3,168	3,541	4,077	3,818
<b>EBIT</b>	<b>11,480</b>	<b>17,199</b>	<b>12,610</b>	<b>11,915</b>	<b>15,863</b>
Other Income	356	373	914	850	1,000
Interest	1,789	2,373	2,856	2,318	2,076
<b>PBT</b>	<b>10,047</b>	<b>15,199</b>	<b>10,668</b>	<b>10,446</b>	<b>14,787</b>
Tax (Incl Deferred)	3,028	3,442	2,925	2,821	3,845
<b>RPAT</b>	<b>7,019</b>	<b>11,757</b>	<b>7,743</b>	<b>7,626</b>	<b>10,942</b>
Minority Interest	-	-	-	-	-
EO (Loss) / Profit (Net Of Tax)	-	3,417	2,815	-	-
<b>APAT</b>	<b>7,019</b>	<b>8,340</b>	<b>4,928</b>	<b>7,626</b>	<b>10,942</b>
<b>APAT Growth (%)</b>	<b>47.7</b>	<b>18.8</b>	<b>(40.9)</b>	<b>54.8</b>	<b>43.5</b>
<b>Adjusted EPS (Rs)</b>	<b>24.9</b>	<b>29.6</b>	<b>17.5</b>	<b>27.0</b>	<b>38.8</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	282	282	282	282	282
Reserves	42,420	49,112	55,608	62,574	72,856
<b>Total Shareholders Funds</b>	<b>42,702</b>	<b>49,394</b>	<b>55,891</b>	<b>62,856</b>	<b>73,138</b>
Minority Interest	(3)	(4)	(4)	(4)	(4)
Long Term Debt	24,873	45,363	41,418	37,276	33,548
Short Term Debt	15,008	1,872	2,950	2,655	2,390
<b>Total Debt</b>	<b>39,881</b>	<b>47,235</b>	<b>44,368</b>	<b>39,931</b>	<b>35,938</b>
<b>Net Deferred Taxes</b>	<b>(9,073)</b>	<b>(11,914)</b>	<b>(12,202)</b>	<b>(8,750)</b>	<b>(8,750)</b>
<b>Other Non-current Liabilities &amp; Provns</b>	<b>770</b>	<b>303</b>	<b>-</b>	<b>450</b>	<b>550</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>74,277</b>	<b>85,014</b>	<b>88,053</b>	<b>94,484</b>	<b>100,873</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	19,346	21,160	22,255	31,817	35,499
CWIP	5,726	7,556	11,632	5,500	5,500
Intangibles	14,578	12,070	13,296	14,796	16,296
Other Non-current Assets	403	516	-	625	650
<b>Total Non-current Assets</b>	<b>40,053</b>	<b>41,302</b>	<b>47,184</b>	<b>52,738</b>	<b>57,945</b>
<b>Cash &amp; Equivalent</b>	<b>8,743</b>	<b>10,721</b>	<b>12,494</b>	<b>5,664</b>	<b>1,640</b>
Inventories	15,678	21,390	20,306	22,470	25,522
Debtors	24,926	24,043	23,318	29,079	33,029
Other Current Assets	9,886	12,749	14,707	14,540	16,514
<b>Total Current Assets</b>	<b>50,490</b>	<b>58,183</b>	<b>58,331</b>	<b>66,089</b>	<b>75,065</b>
Creditors	21,961	19,035	18,698	21,149	24,021
Other Current Liabilities & Provns	3,049	6,156	11,257	8,859	9,756
<b>Total Current Liabilities</b>	<b>25,010</b>	<b>25,191</b>	<b>29,954</b>	<b>30,008</b>	<b>33,777</b>
<b>Net Current Assets</b>	<b>25,481</b>	<b>32,992</b>	<b>28,376</b>	<b>36,082</b>	<b>41,288</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>74,277</b>	<b>85,014</b>	<b>88,053</b>	<b>94,484</b>	<b>100,873</b>

Source: Company, HDFC sec Inst Research

## Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	10,047	12,602	10,668	10,446	14,787
Non-operating & EO items	(356)	(2,970)	(914)	(850)	(1,000)
Interest expenses	1,789	2,373	2,856	2,318	2,076
Depreciation	2,691	3,168	3,541	4,077	3,818
Working Capital Change	(5,410)	(8,090)	4,828	(7,881)	(5,131)
Tax Paid	(7,286)	(9,019)	(3,532)	631	(3,845)
<b>OPERATING CASH FLOW ( a )</b>	<b>1,475</b>	<b>(1,937)</b>	<b>17,447</b>	<b>8,742</b>	<b>10,706</b>
Capex	(8,980)	(4,304)	(16,077)	(2,868)	(9,000)
Free cash flow (FCF)	(7,505)	(6,241)	1,370	5,874	1,706
Investments	193	15	10	-	-
Non-operating Income	356	373	914	850	1,000
<b>INVESTING CASH FLOW ( b )</b>	<b>(8,431)</b>	<b>(3,916)</b>	<b>(15,152)</b>	<b>(2,018)</b>	<b>(8,000)</b>
Debt Issuance/(Repaid)	1,882	7,354	(2,867)	(4,437)	(3,993)
Interest Expenses	(1,789)	(2,373)	(2,856)	(2,318)	(2,076)
FCFE	(6,863)	(872)	(3,428)	(31)	(3,364)
Share Capital Issuance	9,355	-	-	-	-
Impact of currency translation	(699)	-	(586)	-	-
Others	(199)	927	-	-	-
Dividend	(660)	(660)	(660)	(660)	(660)
<b>FINANCING CASH FLOW ( c )</b>	<b>7,890</b>	<b>5,248</b>	<b>(6,969)</b>	<b>(7,415)</b>	<b>(6,730)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>934</b>	<b>(605)</b>	<b>(4,675)</b>	<b>(691)</b>	<b>(4,024)</b>
EO Items, Others	-	2,598	-	-	-
<b>Closing Cash &amp; Equivalents</b>	<b>8,572</b>	<b>10,563</b>	<b>5,889</b>	<b>11,656</b>	<b>1,493</b>

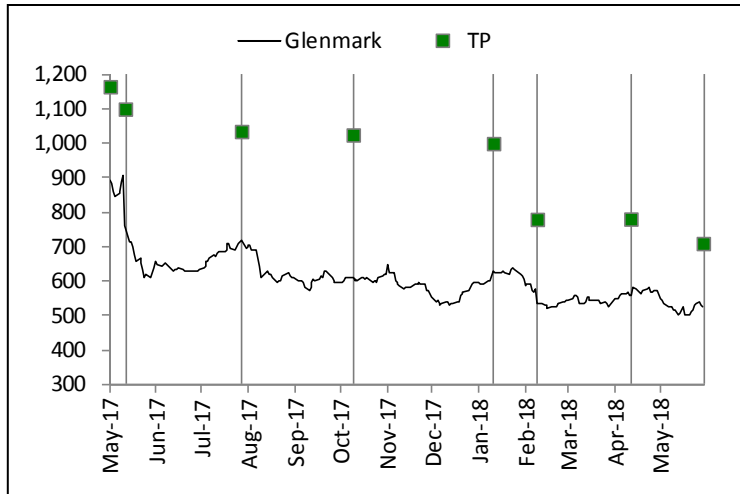
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	69.1	71.5	66.6	68.0	69.0
EBITDA Margin	18.6	22.2	17.7	16.6	18.0
APAT Margin	9.2	9.1	5.4	7.9	10.0
RoE	19.3	18.1	9.4	12.8	16.1
RoIC (or Core RoCE)	13.4	19.2	12.3	10.6	12.6
RoCE	12.1	12.8	8.1	10.2	12.8
<b>EFFICIENCY</b>					
Tax Rate (%)	30.1	22.6	27.4	27.0	26.0
Fixed Asset Turnover (x)	1.7	1.9	1.5	1.4	1.4
Inventory (days)	75.0	85.0	81.4	85.0	85.0
Debtors (days)	119.2	95.5	93.5	110.0	110.0
Other Current Assets (days)	47.3	50.7	59.0	55.0	55.0
Payables (days)	105.0	75.6	75.0	80.0	80.0
Other Current Liab & Provns (days)	14.6	24.5	45.1	33.5	32.5
Cash Conversion Cycle (days)	121.8	131.1	113.8	136.5	137.5
Debt/EBITDA (x)	2.8	2.3	2.7	2.5	1.8
Net D/E (x)	0.7	0.7	0.6	0.5	0.5
Interest Coverage (x)	6.4	7.2	4.4	5.1	7.6
<b>PER SHARE DATA (Rs)</b>					
Core EPS	24.9	29.6	17.5	27.0	38.8
Dividend	2.0	2.0	2.0	2.0	2.0
Book Value	151.3	175.1	198.1	222.8	259.2
<b>VALUATION</b>					
P/E (x)	20.7	17.5	29.5	19.1	13.3
P/BV (x)	3.4	2.9	2.6	2.3	2.0
EV/EBITDA (x)	12.5	8.9	11.0	11.2	9.1
EV/Revenues (x)	2.3	2.0	1.9	1.9	1.6
OCF/EV (%)	0.8	(1.1)	9.8	4.9	6.0
FCF/EV (%)	(4.2)	(3.4)	0.8	3.3	0.9
FCFE/Mkt Cap (%)	(4.7)	(0.6)	(2.4)	(0.0)	(2.3)
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
3-May-17	894	BUY	1,165
13-May-17	759	BUY	1,100
28-Jul-17	717	BUY	1,035
10-Oct-17	610	BUY	1,025
11-Jan-18	627	BUY	1,000
10-Feb-18	535	BUY	780
13-Apr-18	558	BUY	781
31-May-18	525	BUY	710

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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**Any holding in stock –No**

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