Equity Research

June 22, 2020

BSE Sensex: 34732

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Company update and target price revision

Pharmaceuticals

Target price: Rs488

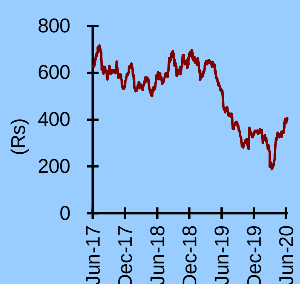
Target price revision
Rs488 from Rs390

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	46.6	46.6	46.6
Institutional investors	38.8	37.2	35.3
MFs and others	4.3	4.1	3.8
FIs/Banks	3.0	3.0	3.0
FIIs	31.5	30.2	28.5
Others	14.6	16.2	18.1

Source: BSE India

Price chart



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INDIA

Glenmark Pharma

BUY
Maintained
Rs409

Favipiravir approval for COVID-19 treatment

Glenmark Pharmaceuticals (Glenmark) announced the receipt of regulatory approval to manufacture and market oral antiviral *Favipiravir* in India. It has been launched by Glenmark under the brand name *'FabiFlu'* and is indicated for the treatment of mild to moderate COVID-19. This approval has been granted by DCGI under the accelerated approval process owing to the current precarious situation in India. Glenmark earlier received approval from DCGI for conducting clinical trials in India for *Favipiravir* in COVID-19 patients in early May and has now received marketing approval based on successful trials. *Favipiravir* showed clinical improvement of 88% in patients between age group of 20-90 years. This success reinforces company's R&D capabilities and would provide decent financial upside. Maintain BUY.

- **First company in India to receive approval for COVID-19 treatment (*Favipiravir*):** Glenmark initially received DCGI nod to conduct phase-3 clinical trials with oral antiviral *Favipiravir* among COVID-19 patients in early May'20 and has now received manufacturing & marketing approval in India for treatment of mild to moderate COVID-19 patients. Glenmark has launched it under its brand name *'FabiFlu'* and is working with the government and medical community to make it accessible quickly. This is a crucial success given deadly outbreak of COVID-19 in India. The sample included 150 subjects (90 mild and 60 moderate patients) in the age group of 20-90 years and improvements of up to 88% was seen. Glenmark has developed both the API and formulation in-house.
- **Global acceptability of *Favipiravir* for COVID treatment:** Favipiravir has been under compassionate use in Japan and 2050 patients have already been administered for clinical use and high recovery rates were observed at 7 and 14 days of treatment. It has also been approved by Italy and China for experimental/compassionate use in COVID-19 patients. *Favipiravir* can also be used in patients with co-morbid conditions like diabetes and heart disease as it has wide therapeutic safety margin.
- **Financial impact:** It is very difficult to estimate financial impact at this stage considering uncertainty over potential COVID-19 patients and its longevity. Glenmark has launched it at ~Rs103/tablet of 200mg. The indicated treatment includes dose of 3600mg on first day. Dose of 1,600mg/day to be given day 2 onwards which can be stretched maximum to day 14. This translates into maximum treatment cost of Rs12,566/patient.
- **Valuation and risks:** We maintain our estimates and raise target P/E(x) to 15x from 12x to factor in potential upside from *Favipiravir* and strong R&D capability. We maintain **BUY** rating with a revised target price of Rs488/share based on 15xFY22E EPS (earlier: Rs390/share). Downside risks: Regulatory hurdles and competitive pressures in the US.

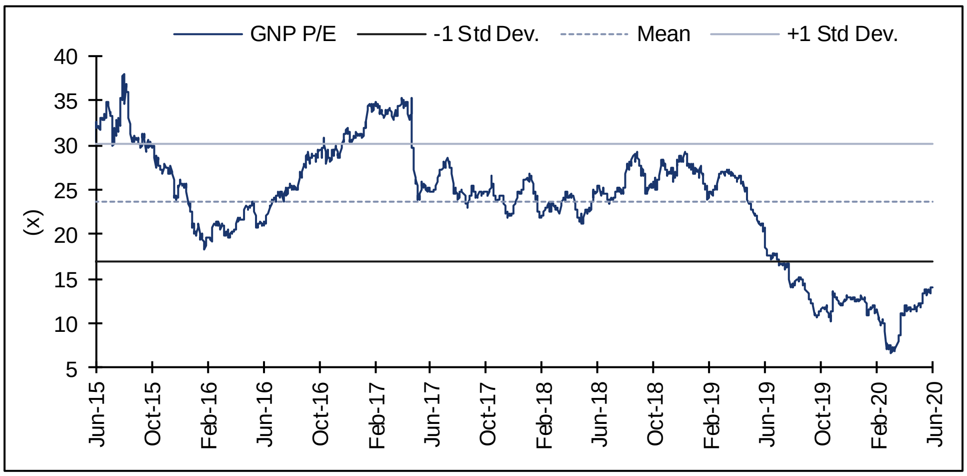
Market Cap	Rs115bn/US$1.5bn
Reuters/Bloomberg	GLEN.BO/GNP IN
Shares Outstanding (mn)	282.2
52-week Range (Rs)	639/168
Free Float (%)	53.4
FII (%)	28.5
Daily Volume (USD/'000)	16,883
Absolute Return 3m (%)	99.7
Absolute Return 12m (%)	(19.6)
Sensex Return 3m (%)	23.1
Sensex Return 12m (%)	(10.2)

Year to Mar	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)	98,655	106,003	115,941	125,429
Net Income (Rs mn)	8,917	7,165	8,022	9,172
EPS (Rs)	23.5	24.0	28.4	32.5
% Chg YoY	(9.2)	2.1	18.5	14.3
P/E (x)	17.4	17.0	14.4	12.6
CEPS (Rs)	36.6	38.0	43.4	49.0
EV/E (x)	9.3	9.0	7.9	7.1
Dividend Yield (%)	0.4	0.3	0.4	0.4
RoCE (%)	9.4	9.5	9.9	10.2
RoE (%)	12.3	11.4	12.1	12.4

Valuations

The stock currently trades at valuations of 14.4xFY21E and 12.6xFY22E earnings and EV/EBITDA multiple of 7.9xFY21E and 7.1xFY22E. We believe US revenues would gradually scale up with new launches. This would aid margin expansion in tandem with cost control measures that have been implemented. Company would also be able to strengthen its balance sheet by reducing debt with cash infusion from the strategic partner in Ichnos Sciences (innovative wing) and sale of non-core assets. At current market price valuations remain attractive. Hence, we maintain **BUY** with a revised target price of Rs488/share based on 15xFY22E earnings (earlier: Rs390/share based on 12xFY22E earnings). We have raised the target P/E(x) to 15x from 12x to factor in potential upside from Favipiravir opportunity in India and demonstration of strong R&D capability. The stock has traded at an average P/E of 23.6x over the past five years.

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
India	27,770	31,875	35,052	39,011
US	31,393	31,438	34,047	35,323
ROW	12,759	13,780	15,434	17,286
EU	11,207	11,767	12,944	14,239
Latam	4,180	5,015	5,517	6,069
Total formulations	87,308	93,875	102,993	111,927
APIs	9,493	10,253	11,073	11,626
Out-Lic./Other op. inc.	1,853	1,875	1,875	1,875
Total Revenue	**98,655**	**106,003**	**115,941**	**125,429**
yoy Growth%	8.4	7.4	9.4	8.2
Total Op. Exp.	**82,547**	**89,029**	**96,671**	**104,094**
EBITDA	**16,108**	**16,974**	**19,270**	**21,335**
Margins %	16.3	16.0	16.6	17.0
yoy Growth%	(0.3)	5.4	13.5	10.7
Depreciation	3,685	3,952	4,220	4,660
EBIT	**12,423**	**13,022**	**15,050**	**16,675**
Other Income	281	50	50	50
Interest	3,346	3,670	3,641	3,622
EO Items	3,222	550	0	0
PBT	**12,580**	**9,952**	**11,460**	**13,103**
Tax	3,663	2,787	3,438	3,931
Tax Rate (%)	29.1	28.0	30.0	30.0
Minority Interest	-	-	-	-
Reported PAT	**8,917**	**7,165**	**8,022**	**9,172**
Adj PAT	**6,633**	**6,769**	**8,022**	**9,172**
Net Margins (%)	9.0	6.8	6.9	7.3

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Paid-up Capital	282	282	282	282
Reserves & Surplus	55,770	62,328	69,671	78,067
Total Equity	**56,052**	**62,611**	**69,953**	**78,349**
Minority Interest	(4)	(4)	(4)	(4)
Total Debt	**44,487**	**44,487**	**46,529**	**44,029**
Deferred Liabilities	(13,830)	(13,830)	(13,830)	(13,830)
Capital Employed	**86,705**	**93,264**	**102,649**	**108,545**
Current Liabilities	32,353	35,570	39,294	43,013
Total Liabilities	**119,059**	**128,834**	**141,943**	**151,557**
Net Fixed Assets	**50,692**	**54,740**	**58,520**	**61,860**
Investments	297	297	297	297
Inventory	22,521	24,289	26,374	28,399
Debtors	21,946	27,118	31,143	35,376
Other Current Assets	14,226	14,994	16,034	17,027
Cash and Equivalents	9,378	7,396	9,575	8,598
Total Cur. Assets	**68,070**	**73,798**	**83,126**	**89,400**
Total Assets	**119,058**	**128,834**	**141,943**	**151,557**

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
PBT (Adj. for Extraordinary)	12,580	9,952	11,460	13,103
Depreciation	3,685	3,952	4,220	4,660
Net Chg in WC	2,667	(4,905)	(3,985)	(4,065)
Taxes	(4,765)	(2,787)	(3,438)	(3,931)
Others	1,809	413	558	533
CFO	**15,975**	**6,625**	**8,815**	**10,300**
Capex	(12,863)	(8,000)	(8,000)	(8,000)
Net Investments made	(150)	-	-	-
CFI	**(13,013)**	**(8,000)**	**(8,000)**	**(8,000)**
Change in Share capital	-	-	-	-
Change in Debts	(1,907)	-	2,042	(2,500)
Div. & Div Tax	(682)	(607)	(679)	(776)
Others	(3,342)	-	-	-
CFF	**(5,931)**	**(607)**	**1,363**	**(3,276)**
Total Cash Generated	**(2,969)**	**(1,982)**	**2,178**	**(976)**
Cash Opening Balance	**12,347**	**9,378**	**7,396**	**9,575**
Cash Closing Balance	**9,378**	**7,396**	**9,575**	**8,598**

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Adj EPS	23.5	24.0	28.4	32.5
YoY Growth%	(9.2)	2.1	18.5	14.3
Cash EPS	36.6	38.0	43.4	49.0
EBITDA - Core (%)	16.3	16.0	16.6	17.0
NPM (%)	9.0	6.8	6.9	7.3
Net Debt to Equity (x)	0.6	0.6	0.5	0.5
P/E (x)	17.4	17.0	14.4	12.6
EV/EBITDA Core (x)	9.3	9.0	7.9	7.1
P/BV (x)	2.1	1.8	1.6	1.5
EV/Sales (x)	1.5	1.4	1.3	1.2
RoCE (%)	9.4	9.5	9.9	10.2
RoE (%)	12.3	11.4	12.1	12.4
RoIC (%)	10.5	10.3	10.6	11.0
Book Value (Rs)	198.6	221.9	247.9	277.7
DPS (Rs)	2.0	1.8	2.0	2.3
Dividend Payout (%)	6.3	7.0	7.0	7.0
Div Yield (%)	0.4	0.3	0.4	0.4
Asset Turnover Ratio	0.9	0.9	0.9	0.9
Avg Collection days	95	96	96	96
Avg Inventory days	90	95	96	96

Source: Company data, I-Sec research

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