

Rating: SELL | CMP: Rs469 | TP: Rs365

June 29, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	SELL		SELL	
Target Price	365		257	
Sales (Rs. m)	1,10,663	1,19,180	1,07,526	1,14,157
% Chng.	2.9	4.4		
EBITDA (Rs. m)	15,493	17,221	14,032	15,582
% Chng.	10.4	10.5		
EPS (Rs.)	26.8	30.4	24.3	25.7
% Chng.	10.6	18.3		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	97,051	1,03,972	1,10,663	1,19,180
EBITDA (Rs. m)	14,254	14,543	15,493	17,221
Margin (%)	14.7	14.0	14.0	14.5
PAT (Rs. m)	9,250	7,760	7,573	8,572
EPS (Rs.)	32.8	27.5	26.8	30.4
Gr. (%)	10.2	(16.1)	(2.4)	13.2
DPS (Rs.)	2.0	2.0	2.5	2.0
Yield (%)	0.4	0.4	0.5	0.4
RoE (%)	17.2	13.3	11.8	12.0
RoCE (%)	11.5	10.4	10.2	11.2
EV/Sales (x)	1.7	1.6	1.4	1.3
EV/EBITDA (x)	11.3	11.4	10.3	9.0
PE (x)	14.3	17.0	17.5	15.4
P/BV (x)	2.4	2.2	2.0	1.8

Key Data

GLEN.BO | GNP IN

52-W High / Low	Rs.573 / Rs.162
Sensex / Nifty	34,962 / 10,312
Market Cap	Rs.132bn/ \$ 1,749m
Shares Outstanding	282m
3M Avg. Daily Value	Rs.7197.9m

Shareholding Pattern (%)

Promoter's	46.62
Foreign	28.51
Domestic Institution	6.75
Public & Others	18.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	32.0	34.6	5.7
Relative	22.4	60.1	19.1

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Earnings led by one-off opportunities. Tepid guidance mismatch to rich valuation

Quick Pointers:

- India and EU revenues rise on high stock up and peers supply issues
- US derma portfolio (25-30% of US revenue) witnessed strong price erosion

We continue to maintain SELL with TP of Rs365 (earlier Rs257) based on 12x PE (earlier 10x) of FY22E. We increase our earnings estimate (11% FY21 and 18% FY22E) and assigned multiple after taking into account the best possible scenario from our assumptions, as guided by GNP. Q4FY20 performance was led by one-off opportunities and the guidance for FY21E continues with its concerns related to 1)US derma products (25-30% of US revenue) pricing pressures 2)insignificant EBITDA contribution from the new Monroe facility even with qualitative approvals (due to higher operating cost) 3)USD appreciation to increase the gross debt figure 4)LATAM and Semi-regulated market to be impacted due to COVID and currency volatility and 5)much-hyped Favipiravir to fall short of its expectation in coming months.

Earnings led by one-off opportunities: Revenue grew 7% YoY to Rs27.1bn (PLe Rs25.2bn). India formulation grew 15% YoY, while US(Gx), API's and Semi-regulated market declined 5%, 1%, 1.4% QoQ. LatAm and EU grew 13% and 33% QoQ. Adj. EBITDA grew 25% YoY to Rs4bn (PLe Rs2.5bn). EBITDA margin was 15.1% (PLe 10.1%) v/s 13% YoY and QoQ. PBT grew 19% to Rs2.85bn (PLe Rs1.4bn).

Conference Call and Key Highlights

- India:** Revenue grew 15% YoY on account of stock-up in the last 2 weeks of March. Consumer business grew 31% YoY due to a 38% YoY growth of Candid dusting powder. During the quarter, GNP divested VWash brand to HUL and the transaction was completed in CY-June20.
- Favipiravir:** India's drug regulator recently approved anti-viral drug Favipiravir for "restricted emergency use" in mild to moderate cases of COVID-19. With restricted use and lack of data to support clinical trials, GNP peak sales in the domestic market from Favipiravir could only be worth Rs400-500m assuming a three players market and GNP has no plan to export the drug. Clinical trials outcome for Favipiravir combination could take 2-3 months, until than COVID-19 maybe already peaked out or a vaccine could be made available.
- US:** Revenue was US\$105m v/s US\$112m (Q3FY20). Its derma products (25-30% of US revenue in FY20 and 40-45% in FY19) observed a 20% price erosion due to competition in Mupirocin, Atomoxetine HCL, and Calcipotriene whereas price erosion in orals solid was 5-6%. In FY20, GNP filed 8 ANDA's, launched 16 products and guided to launch 10 ANDAs in FY21E. GNP would response to Ryaltris CRL soon, while Monroe facility benefits may be insignificant at EBITDA/PAT level, despite qualitative approvals (injectable and nebulizers) because of the higher operating expense of the new facility.

- Europe:** Grew 33% QoQ on account of one-time opportunity from the Italian market as one of its competitors was not able to supply adequately. GNP stated this growth would be unsustainable but decent growth in the European market in FY21E is possible with the launch of in-licensed respiratory products. The company has filed Ryaltris with the regulator and is seeking partners in the European market.
- LatAm:** Revenue growth of 13% QoQ with no one-off opportunities, however GNP guided for weak Q1FY21E due to the COVID scenario.
- Semi-Regulated Market:** Declined 3% QoQ due to subdued demand in Russia and the Asian country. FY21E could be challenging for the Semi-regulated market due to muted demand led by COVID and currency depreciation.
- Debt and CAPEX:** Gross debt was Rs44.8b in FY20 v/s Rs38.7b (FY19) and Rs35.1b in 1HFY20. Gross debt increased by Rs3.7bn on account of currency movement. Its Rs4.0b debt to be refinanced in FY21E and guided to monetize one more non-core asset to reduce debt. CAPEX for FY20 was Rs9bn and guided for Rs7-8bn in FY21E with Rs6b towards routine CAPEX while rest towards in-license deals.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	27,113	25,261	7.3	26,386	1,03,972	97,051	7.1
Raw Material	9,761	8,607	13.4	9,263	36,986	33,623	10.0
<i>% of Net Sales</i>	<i>36.0</i>	<i>34.1</i>		<i>35.1</i>	<i>35.6</i>	<i>34.6</i>	
Employee Costs	5,242	4,946	6.0	5,572	22,548	20,561	9.7
<i>% of Net Sales</i>	<i>19.3</i>	<i>19.6</i>		<i>21.1</i>	<i>21.7</i>	<i>21.2</i>	
Others	8,015	8,440	(5.0)	8,119	29,895	28,613	4.5
<i>% of Net Sales</i>	<i>29.6</i>	<i>33.4</i>		<i>30.8</i>	<i>28.8</i>	<i>29.5</i>	
Total Expenditure	23,018	21,993	4.7	22,955	89,429	82,797	8.0
EBITDA	4,095	3,267	25.3	3,431	14,543	14,254	2.0
<i>Margin (%)</i>	<i>15.1</i>	<i>12.9</i>		<i>13.0</i>	<i>14.0</i>	<i>14.7</i>	
Depreciation	1,263	810	56.0	1,060	4,172	3,259	28.0
EBIT	2,832	2,458	15.2	2,371	10,372	10,995	(5.7)
Other Income	1,004	764	31.3	1,299	4,033	3,685	9.4
Interest	985	819	20.2	961	3,773	3,346	12.8
PBT	2,851	2,403	18.6	2,710	10,632	11,334	(6.2)
Extra-Ord. Inc./Exps.	(329)	-		-	(329)	(1,672)	
Total Taxes	977	786	24.2	801	3,201	3,756	(14.8)
<i>ETR (%)</i>	<i>34.3</i>	<i>32.7</i>		<i>29.6</i>	<i>30.1</i>	<i>33.1</i>	
Reported PAT	2,203	1,617	36.3	1,908	7,760	9,250	(16.1)

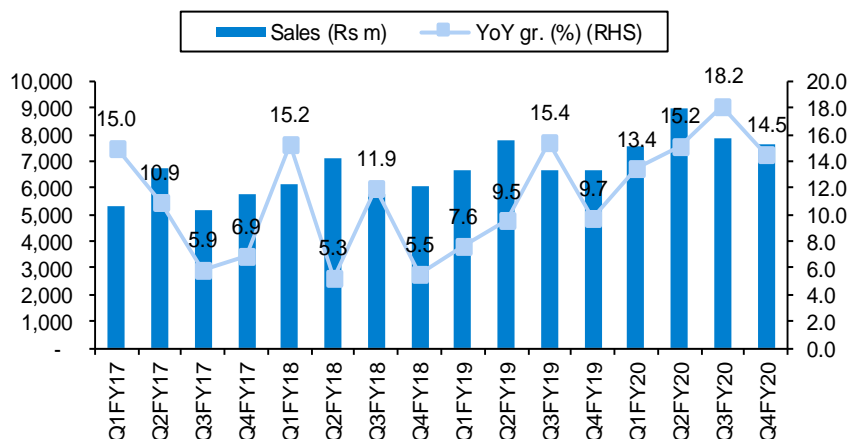
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Glenmark generics	10,233	10,184	0.5	10,620	41,644	40,886	1.9
US generics	7,619	7,696	(1.0)	7,998	31,404	31,393	0.0
APIs	2,614	2,488	5.1	2,622	10,239	9,493	7.9
Glenmark Pharma (Branded generics)	16,897	14,919	13.3	15,955	62,716	55,916	12.2
India Formulations	7,648	6,678	14.5	7,888	32,022	27,770	15.3
Semi-Reg market	3,365	3,853	(12.6)	3,414	12,854	12,759	0.7
Latam formulations	1,769	1,204	46.9	1,563	5,356	4,180	28.1
EU branded generics	4,116	3,184	29.3	3,089	12,484	11,207	11.4
Outlicense fees	545	532	2.4	-	1,269	1,853	(31.5)
Net Sales	27,675	25,635	8.0	26,575	1,05,629	98,655	7.1

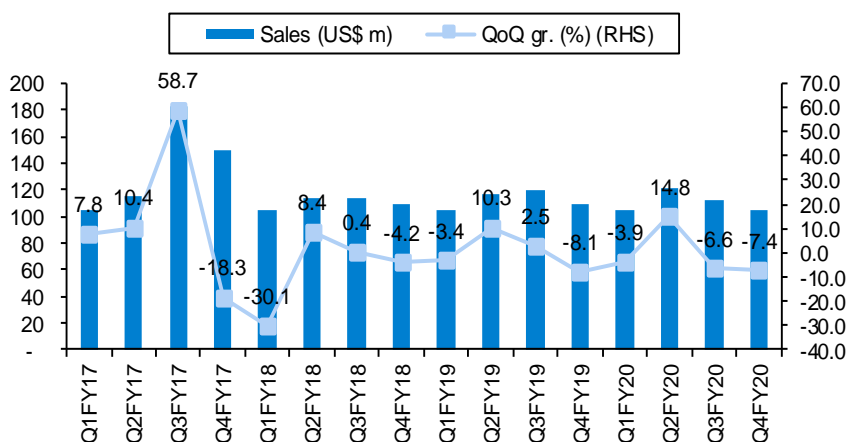
Source: Company, PL

Exhibit 3: India formulation sales



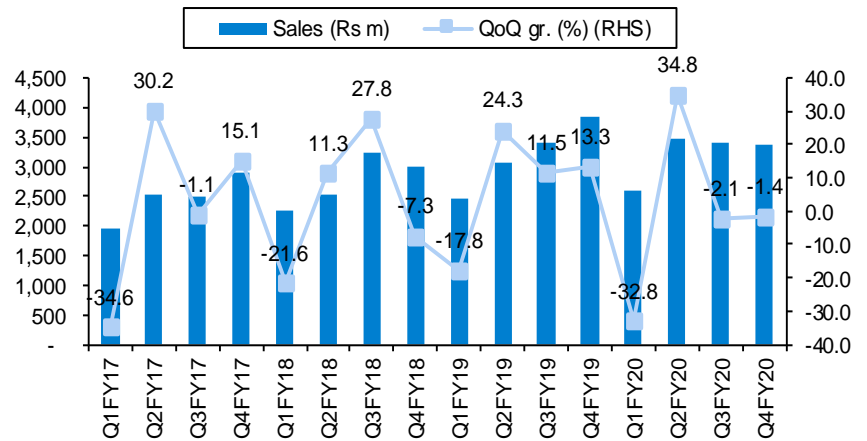
Source: Company, PL

Exhibit 4: US Generics



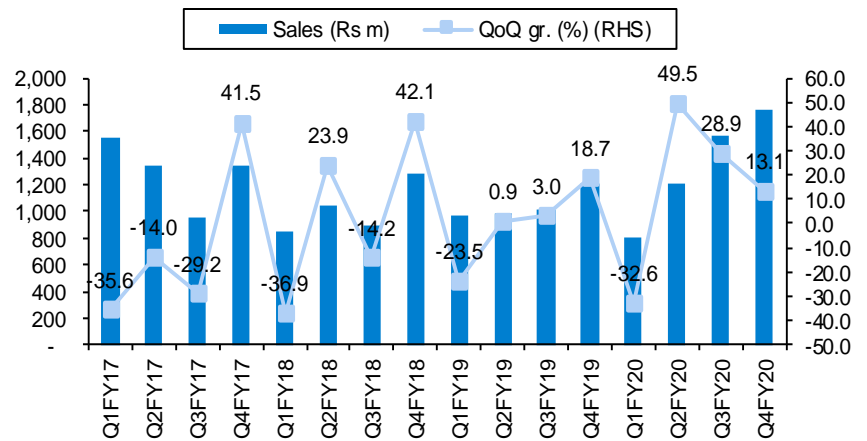
Source: Company, PL

Exhibit 5: Semi-Reg Markets



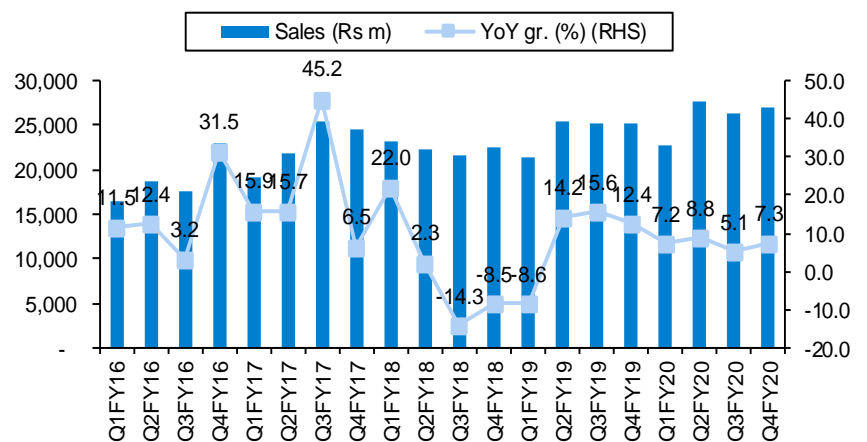
Source: Company, PL

Exhibit 6: Latam: Sales growth



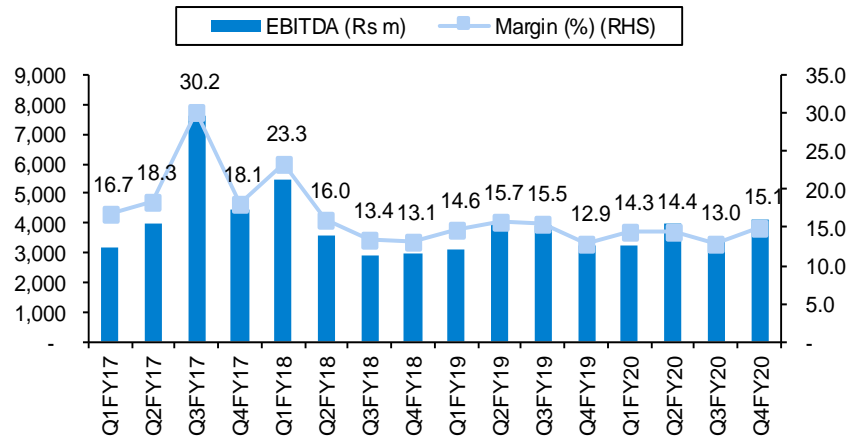
Source: Company, PL

Exhibit 7: Overall Sales



Source: Company, PL

Exhibit 8: EBITDA and Margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	97,051	1,03,972	1,10,663	1,19,180
YoY gr. (%)	8.2	7.1	6.4	7.7
Cost of Goods Sold	33,623	36,986	39,009	41,713
Gross Profit	63,427	66,986	71,654	77,467
Margin (%)	65.4	64.4	64.8	65.0
Employee Cost	20,561	22,548	24,069	25,683
Other Expenses	13,172	13,544	13,280	13,706
EBITDA	14,254	14,543	15,493	17,221
YoY gr. (%)	(4.0)	2.0	6.5	11.2
Margin (%)	14.7	14.0	14.0	14.5
Depreciation and Amortization	3,259	4,172	4,622	4,982
EBIT	10,995	10,372	10,871	12,240
Margin (%)	11.3	10.0	9.8	10.3
Net Interest	3,346	3,773	3,835	3,906
Other Income	3,685	4,033	3,630	3,739
Profit Before Tax	11,334	10,632	10,666	12,073
Margin (%)	11.7	10.2	9.6	10.1
Total Tax	3,756	3,201	3,093	3,501
Effective tax rate (%)	33.1	30.1	29.0	29.0
Profit after tax	7,578	7,431	7,573	8,572
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	9,250	7,760	7,573	8,572
YoY gr. (%)	10.2	(16.1)	(2.4)	13.2
Margin (%)	9.5	7.5	6.8	7.2
Extra Ord. Income / (Exp)	(1,672)	(329)	-	-
Reported PAT	7,578	7,431	7,573	8,572
YoY gr. (%)	(9.7)	(1.9)	1.9	13.2
Margin (%)	7.8	7.1	6.8	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,578	7,431	7,573	8,572
Equity Shares O/s (m)	282	282	282	282
EPS (Rs)	32.8	27.5	26.8	30.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	62,581	67,581	72,581	77,581
Tangibles	30,447	33,447	36,447	39,447
Intangibles	32,134	34,134	36,134	38,134
Acc: Dep / Amortization	26,426	29,818	34,440	39,422
Tangibles	9,469	10,703	13,121	15,779
Intangibles	16,957	19,115	21,319	23,643
Net fixed assets	36,155	49,756	38,141	38,159
Tangibles	20,978	34,737	23,326	23,668
Intangibles	15,177	15,019	14,815	14,491
Capital Work In Progress	13,989	12,219	13,119	15,519
Goodwill	547	529	635	762
Non-Current Investments	798	902	1,172	1,524
Net Deferred tax assets	13,830	14,393	14,450	14,330
Other Non-Current Assets	600	849	637	700
Current Assets				
Investments	-	-	-	-
Inventories	22,521	21,356	21,633	22,229
Trade receivables	21,946	24,090	27,287	28,734
Cash & Bank Balance	9,378	11,112	12,734	13,134
Other Current Assets	10,321	10,228	11,763	10,586
Total Assets	1,32,888	1,46,847	1,43,132	1,47,395
Equity				
Equity Share Capital	282	282	282	282
Other Equity	55,770	60,423	67,170	75,082
Total Networth	56,052	60,705	67,452	75,364
Non-Current Liabilities				
Long Term borrowings	35,738	40,430	36,387	32,748
Provisions	-	-	-	-
Other non current liabilities	6	5	3	2
Current Liabilities				
ST Debt / Current of LT Debt	3,030	4,426	3,983	3,585
Trade payables	22,208	21,258	21,223	24,489
Other current liabilities	14,973	15,575	11,085	9,109
Total Equity & Liabilities	1,32,888	1,46,848	1,43,132	1,47,395

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	11,334	10,632	10,666	12,073
Add. Depreciation	3,259	4,172	4,622	4,982
Add. Interest	3,346	3,773	3,835	3,906
Less Financial Other Income	3,685	4,033	3,630	3,739
Add. Other	(3,166)	(8,463)	(9,952)	(10,939)
Op. profit before WC changes	14,773	10,114	9,171	10,021
Net Changes-WC	1,515	749	(8,129)	1,640
Direct tax	(3,756)	(3,201)	(3,093)	(3,501)
Net cash from Op. activities	12,532	7,662	(2,051)	8,161
Capital expenditures	(12,410)	(3,229)	(5,900)	(7,400)
Interest / Dividend Income	13	13	13	13
Others	251	103	271	352
Net Cash from Inv. activities	(12,147)	(3,113)	(5,616)	(7,035)
Issue of share cap. / premium	-	-	-	-
Debt changes	(5,600)	6,088	(4,486)	(4,037)
Dividend paid	(660)	(660)	(825)	(660)
Interest paid	3,346	3,773	3,835	3,906
Others	-	-	-	-
Net cash from Fin. activities	(2,915)	9,201	(1,476)	(791)
Net change in cash	(2,529)	13,750	(9,143)	334
Free Cash Flow	122	4,432	(7,951)	761

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	32.8	27.5	26.8	30.4
CEPS	44.3	42.3	43.2	48.0
BVPS	198.6	215.1	239.0	267.1
FCF	0.4	15.7	(28.2)	2.7
DPS	2.0	2.0	2.5	2.0
Return Ratio(%)				
RoCE	11.5	10.4	10.2	11.2
ROIC	8.5	8.1	8.2	9.0
RoE	17.2	13.3	11.8	12.0
Balance Sheet				
Net Debt : Equity (x)	0.5	0.6	0.4	0.3
Net Working Capital (Days)	84	85	91	81
Valuation(x)				
PER	14.3	17.0	17.5	15.4
P/B	2.4	2.2	2.0	1.8
P/CEPS	10.6	11.1	10.8	9.8
EV/EBITDA	11.3	11.4	10.3	9.0
EV/Sales	1.7	1.6	1.4	1.3
Dividend Yield (%)	0.4	0.4	0.5	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

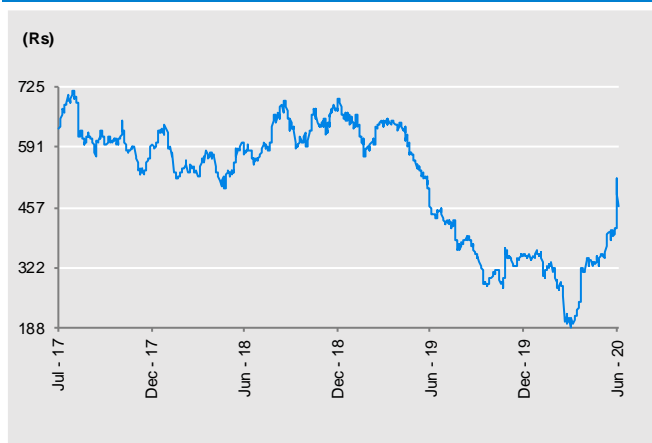
Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	22,836	27,637	26,386	27,113
YoY gr. (%)	7.2	8.8	5.1	7.3
Raw Material Expenses	8,101	9,861	9,263	9,761
Gross Profit	14,735	17,776	17,123	17,352
Margin (%)	64.5	64.3	64.9	64.0
EBITDA	3,276	3,991	3,431	4,095
YoY gr. (%)	5.5	0.1	(11.9)	25.3
Margin (%)	14.3	14.4	13.0	15.1
Depreciation / Depletion	907	942	1,060	1,263
EBIT	2,369	3,049	2,371	2,832
Margin (%)	10.4	11.0	9.0	10.4
Net Interest	930	898	961	985
Other Income	409	1,321	1,299	1,004
Profit before Tax	1,848	3,473	2,710	2,851
Margin (%)	8.1	12.6	10.3	10.5
Total Tax	506	918	801	977
Effective tax rate (%)	27.4	26.4	29.6	34.3
Profit after Tax	1,343	2,555	1,908	1,874
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,343	2,555	1,908	1,546
YoY gr. (%)	(51.1)	220.9	64.0	(4.4)
Margin (%)	5.9	9.2	7.2	5.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,343	2,555	1,908	1,546
YoY gr. (%)	(51.1)	220.9	64.0	(4.4)
Margin (%)	5.9	9.2	7.2	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,343	2,555	1,908	1,546
Avg. Shares O/s (m)	282	282	282	282
EPS (Rs)	4.8	9.1	6.8	5.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Generics	48,695	46,275	51,651	54,315
US Formulations	31,393	31,404	33,353	34,698
EU Formulations	7,330	4,105	4,489	4,809
LatAm Formulations	479	527	579	637
APIs	9,493	10,239	13,229	14,171
Branded	48,107	54,291	59,011	64,865
India Formulations	27,770	32,022	35,544	39,809
ROW Formulations	12,759	12,854	13,497	14,307
LatAm Formulations	3,701	4,829	5,098	5,579
EU Formulations	3,877	4,586	4,872	5,169

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Jun-20	Sell	257	520
2	18-Apr-20	Sell	257	314
3	14-Apr-20	Hold	325	248
4	17-Feb-20	Reduce	325	310
5	03-Jan-20	Reduce	335	352
6	15-Nov-19	Reduce	335	301
7	03-Oct-19	Reduce	385	320
8	14-Aug-19	Reduce	385	383
9	01-Aug-19	Reduce	417	423
10	04-Jul-19	Reduce	589	440

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	759
2	Cadila Healthcare	Reduce	329	362
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	Accumulate	576	520
7	Glenmark Pharmaceuticals	Sell	257	520
8	Indoco Remedies	Hold	219	211
9	Ipca Laboratories	BUY	1,839	1,563
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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