

Retail Equity Research

Glenmark Pharmaceuticals Limited

Pharmaceuticals

BSE CODE: 532296

NSE CODE: GLENMARK

Bloomberg CODE: GNP:IN

SENSEX: 60,008

ACCUMULATE

 12 Months Investment period
 CMP Rs. 502 TARGET Rs. 575 RETURN 14% 

 (Closing: 17-11-21)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Glenmark reports steady results in Q2

Glenmark Pharma Ltd (GNP) is an India-based pharmaceutical company with commercial presence in more than 80 countries across the globe. GNP is primarily focused on generics, specialty and OTC businesses. The company has strong regional/country-specific presence in diabetes, cardiovascular and oral contraceptives.

- Q2FY22 revenue up 7.5% YoY (+6.1% QoQ) primarily owing to strong performance in the Africa, Asia, and CIS regions (ROW), and Europe.
- EBITDA grew 6.8% YoY, though margin saw a negligible contraction of 10bps YoY at 18.9% owing to higher operating costs.
- During the quarter, company paid off a substantial portion of debt on its books using internal accruals and IPO proceeds.
- We remain cautious of near term performance, esp. in the domestic India business and Americas, as margins may come under stress in the coming quarters with further rise in input costs. Company's long-term potential however remains positive. We revise our rating down to ACCUMULATE with a revised TP of Rs. 575 based on 13x FY23E adj. EPS.

ROW and Europe drive topline growth

During Q2FY22, consolidated revenue grew 7.5% YoY to Rs. 3,125cr (+6.1% QoQ). Company recorded a strong 71.5% YoY growth in the Africa, Asia (excl. India) and CIS regions (ROW) at Rs. 653cr. Revenue from Europe went up 6.4% YoY to Rs. 338cr, while USA sales remained largely flat at Rs. 754cr (+0.3% YoY). On the other hand, India business recorded a 7.8% YoY degrowth in revenue to Rs. 969cr. Similarly, Latin America sales declined 2.4% YoY to Rs. 96cr. EBITDA grew 6.8% YoY to Rs. 590cr, while EBITDA margin came in at 18.9% (-10bps YoY) owing to higher operating costs. Adj. PAT increased by 11.6% YoY to Rs. 258cr, however was down 16.0% sequentially owing to non-operating losses of 13cr as against an income of 59cr during Q1FY22.

Key highlights

- As per IQVIA MAT Sep-21, company further strengthened its market share in its core therapy area in the domestic business to 5.32% (vs. 5.17% in Q2FY21).
- Company launched 10 new products during the quarter. Its market share in the domestic cardiology market improved to 4.75% (as against 4.72% in prior year).

Innovative world-first products launched during the quarter

During Q2FY22, company introduced Remogliflozin + Vildagliptin + Metformin fixed dose combination at affordable price for treatment of Type 2 diabetes in adults in India. The product will be marketed under two brand names, viz. Remo MV and Remozzen MV. Separately, it launched Tavulius for treatment of chronic obstructive pulmonary disease in Spain, which is world's first bioequivalent version of Boehringer Ingelheim's Spiriva Handihaler which is a dry power inhaler under an in-licensing agreement.

Valuation

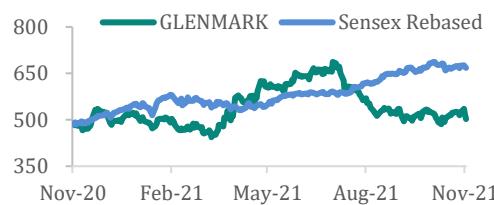
New product launches and formulations should aid topline and margin growth over the long term. In the near term however, company's margins may remain under pressure as input costs continue to rise further. It remains to be seen how the company manages to improve its sales realisations in its two major markets, i.e., India, and the US. Factoring in further debt reductions expected in the coming quarters and steady improvement in free cash flows, we estimate PAT to grow at 16.1% FY21-23E CAGR. In the interim however taking a cautious view of potential impact on margins in the near term, we downgrade our rating to ACCUMULATE on the stock with a revised target price of Rs. 575 based on 13x FY23E Adj. EPS.

Company Data

Market Cap (cr)	Rs. 14,172		
Enterprise Value (cr)	Rs. 16,812		
Outstanding Shares (cr)	28.2		
Free Float	53.0%		
Dividend Yield	0.5%		
52 week high	Rs. 691		
52 week low	Rs. 442		
6m average volume (lacs)	1.1		
Beta	0.8		
Face value	Rs. 1		
Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	46.6	46.6	46.7
FII's	25.8	26.8	25.9
MFs/Insti	9.2	9.7	9.0
Public	15.9	14.4	16.0
Others	2.5	2.4	2.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.3%	-16.9%	3.1%
Absolute Sensex	7.6%	21.0%	36.5%
Relative Return*	-16.9%	-37.9%	-33.4%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	10,944	12,148	13,108
Growth (%)	2.8	11.0	7.9
EBITDA	2,084	2,331	2,525
EBITDA Margin (%)	19.0	19.2	19.3
Adj. PAT	925	1,080	1,248
Growth (%)	24.5	16.7	15.5
Adj. EPS	32.8	38.3	44.2
Growth (%)	24.5	16.7	15.5
P/E	14.2	13.1	11.4
P/B	1.9	1.8	1.5
EV/EBITDA	8.1	7.2	6.4
ROE (%)	13.7	13.4	13.5
D/E	0.7	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	3,125	2,908	7.5	2,946	6.1	6,072	5,217	16.4
EBITDA	590	553	6.8	574	2.9	1,164	1,031	12.9
EBITDA margins	18.9	19.0	(10bps)	19.5	(60bps)	19.2	19.8	(60bps)
Depreciation	123	104	18.4	113	8.9	236	217	8.7
EBIT	467	449	4.1	461	1.4	927	814	14.0
Interest	69	81	(14.5)	76	(8.8)	145	174	(17.1)
Other Income	(13)	(32)	59.0	59	n.m.	46	27	71.1
Exceptional Items	-	3	n.m.	-	-	-	31	n.m.
PBT	385	339	13.4	444	(13.2)	829	697	18.9
Tax	110	105	4.5	137	(19.6)	247	209	18.3
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	17	(0)	n.m.	(0)	n.m.	17	0	n.m.
Reported PAT	258	234	10.1	307	(16.0)	564	488	15.6
Adjustments	-	(3)	n.m.	-	-	-	(31)	n.m.
Adj. PAT	258	231	11.6	307	(16.0)	564	457	23.5
No. of shares	28.2	28.2	-	28.2	-	28.2	28.2	-
Adj. EPS (Rs.)	9.1	8.2	11.6	10.9	(16.0)	20.0	16.2	23.5

Segment Revenue

Segments (Cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
India	969	1,051	(7.8)	1,225	(20.9)	2,194	1,831	19.9
US	754	752	0.3	788	(4.2)	1,542	1,495	3.2
RoW	653	381	71.5	269	143.0	921	593	55.5
Europe	338	318	6.4	306	10.6	644	592	8.8
Latin America	96	98	(2.4)	67	42.4	163	164	(0.5)
API	335	321	4.4	304	10.3	639	556	15.0
Others	2	31	n.m.	6	(69.4)	8	67	n.m.
Total Sales	3,147	2,953	6.6	2,965	6.2	6,112	5,297	15.4

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	12,093	13,299	12,148	13,108	0.4	(1.4)
EBITDA	2,308	2,547	2,331	2,525	1.0	(0.9)
Margins (%)	19.1	19.2	19.2	19.3	10bps	10bps
Adj. PAT	1,052	1,189	1,080	1,248	2.7	4.9
Adj. EPS	37.3	42.2	38.3	44.2	2.7	4.9

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	9,865	10,641	10,944	12,148	13,108
% change	8.4	7.9	2.8	11.0	7.9
EBITDA	1,586	1,698	2,084	2,331	2,525
% change	(1.8)	7.1	22.7	11.8	8.3
Depreciation	326	417	444	484	500
EBIT	1,260	1,281	1,641	1,847	2,025
Interest	335	377	353	277	193
Other Income	375	192	95	75	68
PBT	1,301	1,096	1,382	1,645	1,900
% change	16.2	(15.7)	26.1	19.0	15.5
Tax	376	320	412	494	570
<i>Tax Rate (%)</i>	28.9	29.2	29.8	30.0	30.0
Reported PAT	925	776	970	1,080	1,248
Adj*	(167)	(33)	(45)	-	-
Adj PAT	758	743	925	1,080	1,248
% change	(5.8)	(1.9)	24.5	16.7	15.5
No. of shares (cr)	28.2	28.2	28.2	28.2	28.2
Adj EPS (Rs.)	26.9	26.3	32.8	38.3	44.2
% change	(5.8)	(1.9)	24.5	16.7	15.5
DPS (Rs.)	2.0	2.5	2.5	2.5	2.5
CEPS (Rs.)	38.4	41.1	48.5	55.4	61.9

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	938	1,111	1,139	1,183	1,382
Accounts Receivable	2,195	2,409	2,572	2,687	2,966
Inventories	2,252	2,136	2,277	2,471	2,621
Other Cur. Assets	1,312	1,148	1,372	1,218	1,117
Investments	30	25	25	25	25
Gross Fixed Assets	2,817	3,592	4,267	4,960	5,708
Net Fixed Assets	2,098	2,978	2,851	2,826	2,840
CWIP	1,234	1,091	1,325	1,559	1,793
Intangible Assets	1,737	2,182	2,335	2,336	2,336
Def. Tax (Net)	1,383	1,456	1,535	1,481	1,710
Other Assets	110	150	174	169	163
Total Assets	13,289	14,685	15,604	15,953	16,953
Current Liabilities	3,718	3,683	3,328	3,810	4,015
Provisions	-	-	-	-	-
Debt Funds	3,877	4,486	4,986	3,752	3,292
Other Liabilities	89	446	225	246	241
Equity Capital	28	28	28	28	28
Reserves & Surplus	5,577	6,042	7,036	8,046	9,224
Shareholder's Fund	5,605	6,071	7,065	8,075	9,252
Minority Interest	(0)	(0)	(0)	71	154
Total Liabilities	13,289	14,685	15,604	15,953	16,953
BVPS (Rs.)	199	215	250	286	328

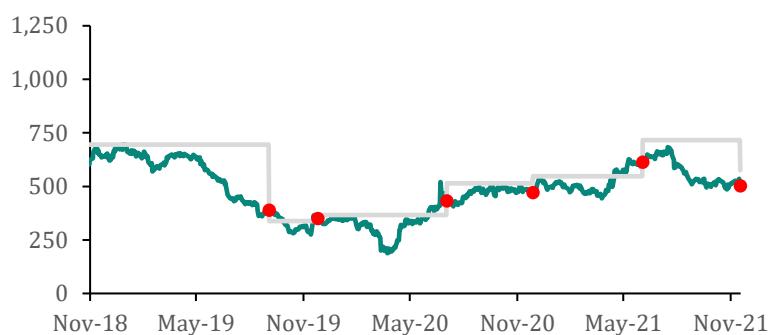
CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	1,251	1,193	1,414	1,564	1,747
Non-cash adj.	8	242	(191)	660	167
Changes in W.C	65	(43)	(91)	95	(245)
C.F. Operation	1,324	1,392	1,131	2,319	1,669
Capital exp.	(1,232)	(775)	(675)	(693)	(748)
Change in inv.	(15)	5	-	-	-
Other invest.CF	548	(13)	0	(1)	-
C.F - Investment	(699)	(784)	(675)	(694)	(748)
Issue of equity	-	-	-	-	-
Issue/repay debt	(369)	(75)	(78)	(1,234)	(460)
Dividends paid	(68)	(69)	(70)	(71)	(71)
Other finance.CF	(302)	(301)	(294)	(277)	(193)
C.F - Finance	(739)	(445)	(442)	(1,581)	(723)
Chg. in cash	(114)	164	14	44	199
Closing cash	938	1,111	1,139	1,183	1,382

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	16.1	16.0	19.0	19.2	19.3
EBIT margin (%)	12.8	12.0	15.0	15.2	15.5
Net profit mgn.(%)	9.4	7.3	8.9	8.9	9.5
ROE (%)	16.5	12.8	13.7	13.4	13.5
ROCE (%)	13.3	12.1	13.6	15.5	16.0
W.C & Liquidity					
Receivables (days)	81.2	82.6	85.8	80.7	82.6
Inventory (days)	244.5	210.8	224.7	211.7	209.9
Payables (days)	241.1	209.8	220.8	226.3	226.3
Current ratio (x)	1.7	1.6	1.8	1.5	1.6
Quick ratio (x)	0.8	0.9	0.9	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	3.7	3.3	2.8	2.6	2.5
Total asset T.O (x)	0.8	0.8	0.7	0.8	0.8
Int. coverage ratio (x)	3.8	3.4	4.6	6.7	10.5
Adj. debt/equity (x)	0.7	0.7	0.7	0.5	0.4
Valuation					
EV/Sales (x)	2.2	0.9	1.5	1.4	1.2
EV/EBITDA (x)	13.4	5.4	8.1	7.2	6.4
P/E (x)	24.2	7.8	14.2	13.1	11.4
P/BV (x)	3.3	1.0	1.9	1.8	1.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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