

Glenmark Pharma Ltd.



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Pricing pressure in the US and inflation are concerns

CMP INR 389	Target INR 433	Potential Upside 11.3%	Market Cap (INR Mn) INR 1,09,700	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q1FY23:

- Glenmark Pharmaceuticals reported a revenue decline of 6.3% YoY (-8.0% QoQ) to INR 27,773 mn, mainly due to a fall in India revenue (37.3% of operating revenue) by 15.5% YoY (+17.0% QoQ) to INR 10,352 mn and a 15.9% YoY (-10.2% QoQ) decline in the US revenue (23.9%) to INR 6,628 mn. The decline in revenue has been on account of a high base effect due to the lack of higher sales of COVID 19 products in Q1FY23. Excluding COVID 19 sales, the revenue growth would be 10.4% YoY in Q1FY23.
- The company has gained market in its core therapies such as Cardiac (5.2% market share) and anti-diabetic (1.8%) and continues to be the market leader with a 2nd rank in Dermatology, 4th in respiratory, and 5th in Cardiovascular therapies, in India, as of Q1FY23 (vs. 2nd in derma, 4th in respiratory, and 6th in Cardiac segments in India, as of FY22)

MARKET DATA

Shares outs (Mn)	313
Equity Cap (INR Mn)	94,381
Mkt Cap (INR Mn)	1,09,700
52 Wk H/L (INR)	586/349
Volume Avg (3m K)	929
Face Value (INR)	1
Bloomberg Code	GNP IS Equity

KEY FINANCIALS

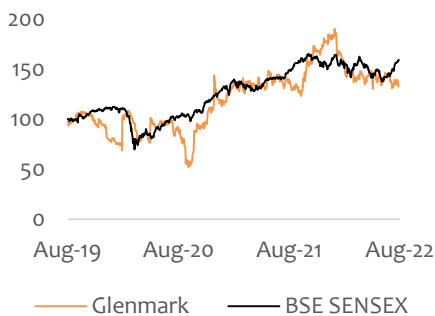
INR Millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,06,410	1,09,439	1,23,049	1,27,447	1,36,609
EBITDA	16,981	20,844	23,203	23,208	25,956
Adj PAT	7,431	9,255	12,026	11,142	12,851
Adj. EPS (INR)	26.3	32.8	42.6	39.5	45.5
EBITDA Margin (%)	16.0%	19.0%	18.9%	18.2%	19.0%
NPM (%)	7.3%	8.9%	7.7%	8.7%	9.4%

Source: Company, KRChoksey Research

Revenue declined in Q1FY23, driven by a fall in revenue from India and the US: Glenmark Pharmaceuticals reported a revenue decline of 6.3% YoY (-8.0% QoQ) to INR 27,773 mn, mainly due to a fall in India revenue (37.3% of operating revenue) by 15.5% YoY (+17.0% QoQ) to INR 10,352 mn and a 15.9% YoY (-10.2% QoQ) decline in the US revenue (23.9%) to INR 6,628 mn. The decline in revenue has been on account of a high base effect due to the lack of higher sales of COVID 19 products in Q1FY23. This was partially offset by continued healthy growth in the Rest of the World (RoW) (15.2%) at 25.8% YoY (-22.9% QoQ), slower but steady growth in the EU (11.9%), which increased at 7.9% YoY (-33.6% QoQ), and a 7.5% YoY (-0.5% QoQ) rise in API revenue (11.8%) in Q1FY23. Excluding COVID 19 sales, the revenue growth would be 10.4% YoY in Q1FY23. Recently, the company has lost its market share, marginally, in India Pharma Market (IPM) from 2.5% in March 22 to 2.2% in June 22 (Source: IQVIA MAT June 22 report). However, the company has gained market in its core therapies such as Cardiac (5.2% market share) and anti-diabetic (1.8%) and continues to be the market leader with a 2nd rank in Dermatology, 4th in respiratory, and 5th in Cardiovascular therapies in India as of Q1FY23 (vs. 2nd in derma, 4th in respiratory, and 6th in Cardiac segments in India as of FY22) The company has recently launched a novel drug, Indamet, for the treatment of uncontrolled asthma, and in total around 7 new products, in India, in Q1FY23. The Consumer Care business also grew to INR 647.0 mn in Q1FY23, with primary sales growing at 94.0% YoY in Q1FY23.

The margins and profitability declined YoY, but rose QoQ, except for net income: The company's gross profits declined 3.3% YoY (-11.2% QoQ) to INR 17,652 mn in Q1FY23. This was due to a decline in sales, both YoY and QoQ. However, as the cost of raw materials also declined at a high rate of 11.1% YoY but at a slower pace of 1.8% QoQ, the Gross Profits Margins (GPM) increased by 198 bps YoY (-230.0 bps QoQ) to 63.6% in Q1FY23. EBITDA declined 24.8% YoY (-6.9% QoQ) to INR 4,316 mn while EBITDA margin declined 381 bps YoY (+19 bps QoQ) due to an increase in employee costs, both YoY and QoQ, and increase in other expenses, YoY, but a steep decline in it, QoQ, in Q1FY23. Consequently, despite including a favorable 212.3% YoY (+70.9% QoQ) rise in other income and a 20.7% YoY (-30.9% QoQ) decline in interest expenses, the adjusted net profits declined 31.1% YoY (-17.2% QoQ) to INR 2,111 mn in Q1FY23. The reported PAT declined 31.1% YoY (+22.3% QoQ) to INR 2,111 ,mn in Q1FY23 due to a 43.7% YoY (+102.7% QoQ) rise in Tax expenses in Q1FY23.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,463
NIFTY	17,698

SHARE HOLDING PATTERN (%)

Particulars	June-22 (%)	Mar-22 (%)	Dec-21 (%)
Promoters	46.7	46.7	46.6
FIIIs	34.7	24.1	24.2
DIIIs	24.2	11.0	10.9
Others	5.6	18.2	18.3
Total	100.0	100.0	100.0

5.4%

Revenue CAGR between FY22 and FY24E

3.4%

Adj. PAT CAGR between FY22 and FY24E

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Key Concall Highlights: (i) The company's Consumer Care segment has 9 brands in the IPM top 300 brands as of Q1FY23 vs. 6 brands as of FY22 (ii) The company has a good set of differentiated products for the Indian market, which it plans to launch in India, going forward (iii) The company launched Abiraterone Acetate tablets and Ezetimibe tablets in the US and bagged approvals for Calcipotriene and Betamethasone Dipropionate foam in Q1FY23. (iv) The company plans to enhance its OTC portfolio, which can complement the acquired OTC ANDAs from Wockhardt in the US. (v) The company plans to launch 12-15 products in the US in FY23 (vi) The company has 48 pending ANDA applications in the US including 20 Para IV filings as of Q1FY23 (vii) The company intends to continue to ride the growth in Europe higher with geographical and portfolio expansion by leveraging its respiratory and dermatology therapy products (viii) The collective strengths of Dimetindene gel (dermatology), Ryaltris (respiratory, approved for another indication in the region) and such products are expected to help it strengthen its position in RoW market. (ix) The company plans to launch Ryaltris in Asia including, in the Philippines and Malaysia, in FY23. The company hopes to witness continued momentum in RoW for the rest of the year (x) In Q1FY23, the company has bagged marketing approval for its novel product, Ryaltris in Singapore and Bahrain. The company plans to launch it in several key and emerging markets, besides preparing for its launch in the US along with its partner Hikma Specialty (xi) The company expects to file ANDA for Flovent pMetered Dose Inhaler (MDI) and one more respiratory pMDI in CY23 and build the products pipeline for beyond FY24 (xii) Innovative R&D pipeline includes GRC 17536 (pain management asset), GRC 54276 (oncology asset, likely be filed as an IND filing in FY23), GBR 310 (likely be out-licensed), and GRC 39815 (respiratory asset). (xiii) The company continues to guide for 6-8% revenue growth and EBITDA margins in line with that of FY22 and Capex of INR 8,000 mn in FY23E.

Valuation and view: Glenmark has been showing steady growth in revenue across India (excluding Covid 19), RoW, and the EU over the last 6 quarters. These segments together form 64.4% of the operating revenue. This makes it diversified away from the US market volatility, somewhat. In the US, the pending ANDA applications are complex in characteristics. Its novel Ryaltris (nasal spray, mometasone furoate, and olopatadine hydrochloride, approved in the US, in Jan 22) is also likely to be launched in the US, soon, in FY23. However, due to continued price volatility in the US and concerns around inflationary conditions, we reduce the revenue and net income growth estimates to 5.4% and 3.4% CAGR (vs. earlier estimate of 7.7%/4.1% CAGR over FY22-FY24E), respectively. Since our last update in May 22, Glenmark stock has declined by 5.0% and is currently trading at an attractive valuation of 9.8x/8.5x PE on FY23E/FY24E earnings, respectively. We apply a slightly reduced multiple of 9.5x (earlier 10.0x) on FY24E EPS of INR 45.5 (earlier INR 46.2) and reduce our TP to INR 433/ share (earlier INR 462/share) As the TP indicates an upside potential of 11.3% from its CMP, we maintain our ACCUMULATE recommendation on the shares.

Segments Result (INR Mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Operating Revenue	30,324	31,475	31,734	30,191	27,773
India	12,250	9,689	10,069	8,847	10,352
US	7,878	7,543	7,567	7,378	6,628
ROW	3,360	6,526	5,348	5,479	4,226
EU	3,059	3,383	3,807	4,968	3,300
API	3,040	3,354	3,032	3,283	3,267
Total Sales	30,262	31,455	29,823	29,955	27,773
Other Revenue	62	20	1,911	236	0

Segment Performance (% YoY)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Total Revenue	29.3%	6.6%	13.9%	5.6%	-8.4%
India	57.1%	-7.8%	14.1%	7.4%	-15.5%
US	6.1%	0.3%	-3.0%	-7.9%	-15.9%
ROW	58.5%	71.5%	59.1%	18.1%	25.8%
EU	11.7%	6.3%	21.5%	17.6%	7.9%
API	29.5%	4.4%	-5.3%	-0.8%	7.5%
Total Sales	31.1%	7.7%	8.0%	5.4%	-8.2%
Other Revenue	-82.6%	-93.6%	627.8%	35.6%	-

Sales Mix (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Total Operating Revenue	100%	100%	100%	100%	100%
India	40.4%	30.8%	31.7%	29.3%	37.3%
US	26.0%	24.0%	23.8%	24.4%	23.9%
ROW	11.1%	20.7%	16.9%	18.1%	15.2%
EU	10.1%	10.7%	12.0%	16.5%	11.9%
API	10.0%	10.7%	9.6%	10.9%	11.8%
Total Sales	99.8%	99.9%	94.0%	99.2%	100.0%
Other Revenue	0.2%	0.1%	6.0%	0.8%	0.0%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 20	FY 21	FY 22	FY 23E	FY 24E
Revenues	1,06,410	1,09,439	1,23,049	1,27,447	1,36,609
COGS	36,986	36,988	43,853	45,642	49,042
Gross profit	69,423	72,451	79,196	81,805	87,566
Employee cost	22,548	23,437	24,474	26,640	27,322
Other expenses	29,895	28,170	31,519	31,957	34,289
EBITDA	16,981	20,844	23,203	23,208	25,956
EBITDA Margin	16.0%	19.0%	18.9%	18.2%	19.0%
Depreciation & amortization	4,172	4,436	4,867	4,813	4,781
EBIT	12,809	16,408	18,336	18,395	21,174
Interest expense	3,773	3,531	2,981	2,491	2,666
Other income	1,596	502	1,667	3,042	2,219
Exceptional items	-329	-445	2,609	0	0
PBT	10,961	13,825	14,412	18,946	20,727
Tax	3,201	4,124	4,476	7,618	7,876
Minority interest	0	0	519	186	0
PAT	7,760	9,701	9,417	11,142	12,851
Adj. PAT	7,431	9,255	12,026	11,142	12,851
EPS (INR)	27.5	34.4	33.4	39.5	45.5
Adj. EPS	26.3	32.8	42.6	39.5	45.5

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	15,791	12,434	12,161	11,035	16,988
Net Cash Flow from/(used in) Investing Activities	(16,074)	(12,352)	(8,969)	(1,445)	(2,237)
Net Cash Flow from Financing Activities	(1,394)	(808)	(3,051)	(5,251)	(7,630)
Effect of Exchange Rate on C&CE	98	0	(1)	0	0
Net Inc/Dec in cash equivalents	(1,677)	(726)	139	4,338	7,121
Opening Balance	9,363	11,103	11,381	14,105	15,859
Adjustments	3,417	1,004	2,585	(2,585)	0
Closing Balance Cash and Cash Equivalents	11,103	11,381	14,105	15,859	22,980

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	16.0%	19.0%	18.9%	18.2%	19.0%
Tax rate (%)	29.2%	29.8%	31.1%	40.2%	38.0%
Net Profit Margin (%)	7.3%	8.9%	7.7%	8.7%	9.4%
RoE (%)	12.8%	13.7%	10.0%	10.6%	11.0%
RoCE (%)	13.6%	14.7%	15.2%	15.5%	16.0%
EPS (INR)	27.5	34.4	33.4	39.5	45.5

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Non-current assets					
Property, plant and equipment	29,777	29,578	36,906	35,122	33,209
Capital work-in-progress	10,906	12,178	9,211	9,211	9,211
Goodwill (Net)	529	580	600	600	600
Other intangible assets	19,979	21,131	21,366	19,454	17,405
Intangible assets under development	1,313	1,639	888	888	888
Financial assets					
Investments	246	246	496	514	551
Other financial assets	656	642	392	406	435
Deferred tax assets (Net)	14,557	15,347	16,861	17,464	18,719
Other non-current assets	849	1,100	1,289	1,335	1,431
Total non-current assets	77,660	82,440	88,009	84,994	82,450
Current assets					
Inventories	21,356	22,768	24,998	25,892	27,753
Financial assets					
Trade receivables	24,090	25,721	31,011	32,120	34,429
Cash and cash equivalents	11,103	11,381	14,105	15,859	22,980
Bank balances other than (iii) above	10	11	10	10	10
Other financial assets	1,249	1,440	1,132	5,399	5,787
Other current assets	10,288	12,276	11,566	14,084	15,096
Total current assets	69,188	73,596	82,823	93,354	1,06,045
TOTAL ASSETS	1,46,849	1,56,036	1,70,833	1,78,348	1,88,495
EQUITY AND LIABILITIES					
Equity					
Equity share capital	282	282	282	282	282
Other equity	60,423	70,364	90,584	1,00,891	1,12,778
Equity attributable to the equity shareholders	60,705	70,646	90,866	1,01,173	1,13,060
Non-controlling interests	-4	-4	3,515	3,533	3,533
Total equity	60,701	70,643	94,381	1,04,706	1,16,593
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	40,430	38,888	25,717	21,717	17,717
Other financial liabilities	4,288	4,200	3,516	3,516	3,516
Other non-current liabilities	5	7	9	9	9
Total non-current liabilities	44,887	43,383	29,557	25,557	21,557
Current liabilities					
Financial liabilities					
Borrowings	4,426	5,130	11,903	11,903	11,903
Trade payables	21,258	22,378	22,887	23,820	25,595
Other financial liabilities	8,584	7,330	4,798	4,994	5,366
Other current liabilities	1,433	1,537	1,461	1,521	1,634
Provisions	5,152	5,134	4,914	4,914	4,914
Current tax liabilities (Net)	407	501	931	931	931
Total current liabilities	41,260	42,010	46,894	48,083	50,344
Total liabilities	86,147	85,393	76,452	73,641	71,901
TOTAL EQUITY AND LIABILITIES	1,46,848	1,56,036	1,70,833	1,78,347	1,88,494

Source: Company, KRChoksey Research

Glenmark Pharma Ltd.

Glenmark Pharma Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Aug-22	388	433	ACCUMULATE	Buy	More than 15%
30-May-22	409	462	ACCUMULATE		
14-Feb-22	478	547	ACCUMULATE	Accumulate	5% – 15%
16-Nov-21	517	547	ACCUMULATE	Hold	0 – 5%
16-Aug-21	569	696	BUY	Reduce	-5% – 0
01-Jun-21	593	696	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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