

Glenmark Pharma

Estimate change



TP change



Rating change



CMP: INR431

TP: INR420 (-2%)

Neutral

India business drives while the US drags earnings

On track to augment reach/penetration for 'Ryaltris'

- Adjusted for the milestone-related receipt of income for Ryaltris and COVID- led inventory provision, Glenmark Pharma (GNP) delivered lower-than-expected earnings in 2QFY23. The domestic formulation (DF) segment performed better-than-industry, while the US/ROW businesses marred profitability.
- We cut our FY23/FY24 earnings estimates by 13%/5% factoring in: a) lack of filings for the US market, b) intensified price erosion in the US base portfolio, and c) increased opex and interest outgo. We value GNP at 10x 12M forward earnings to arrive at our TP of INR420.
- The superior execution in DF was outweighed by moderation in the US business. This coupled with higher operational cost towards marketing/logistics would affect profitability over the medium term. Considering its subdued 9% earnings CAGR over FY22-24E and valuation adequately factoring the same, we maintain our **Neutral** rating on the stock.

Superior product mix benefit offset by lower operating leverage YoY

- GNP's revenue grew 4% YoY to INR33b (est: INR31b) in 2QFY23.
- DF revenue rose 13% YoY to INR11b (34% of sales). Europe generics revenue grew 12% YoY to INR3.8b (12% of sales). API sales increased 12% YoY to INR3.7b (12% of sales) during the quarter.
- The US revenue was flat YoY at INR7.5b (USD95m; 23% of sales). RoW (RoW+LatAm) sales declined 18% YoY to INR6b (19% of sales) in 2QFY23.
- Gross margin (GM) expanded 80bp YoY to 64.4% on superior product mix.
- However, EBITDA margin contracted ~270bp YoY to 16.1% (est: 18.3%) as GM expansion was offset by higher other expenses (+340bp YoY as a % of sales).
- R&D expenditure was at INR3.3b and formed 10% of sales for the quarter.
- EBITDA decreased 11% YoY to INR5.2b (est: INR5.6b).
- Adj. PAT declined 34% YoY to INR1.8b (est: INR2.7b) led by higher depreciation/tax rate.
- For 1HFY23, GNP's revenue/EBITDA/PAT declined 1%/14%/37% YoY to INR60.5b/INR10b/INR3.5b, respectively.

Highlights from the management commentary

- GNP expects to have overall revenue growth of 6-8% YoY in FY23.
- GNP expects USD20-30m sales from Ryaltris as a product for FY23.
- GNP expects 15-16% revenue growth in DF (ex-COVID product sales), which is sustainable over FY23E as well as early FY24E, backed by new launches (particularly in diabetes segment) and market share gains in existing products
- GNP plans to file 10-12 ANDAs in FY23 (one filed in 1HFY23).
- GNP invested USD22m (USD43m in 1HFY23) in Ichnos Sciences.
- GNP has filed 6-8 ANDAs from Monroe facility.

Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USDb)	121.5 / 1.5
52-Week Range (INR)	552 / 349
1, 6, 12 Rel. Per (%)	4/-7/-19
12M Avg Val (INR M)	487

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	121.3	125.3	135.4
EBITDA	21.9	21.3	24.8
Adj. PAT	9.8	9.3	11.6
EBIT Margin (%)	14.0	12.4	13.9
Adj EPS (INR)	34.6	33.1	41.0
EPS Gr. (%)	-1.2	-4.1	23.7
BV/Sh. (INR)	322.0	355.2	392.5

Ratios

Net D-E	0.2	0.2	0.1
RoE (%)	12.1	9.8	11.0
RoCE (%)	11.4	9.0	10.3
Payout (%)	10.8	9.2	8.8

Valuations

P/E (x)	12.5	13.0	10.5
EV/EBITDA (x)	6.6	6.6	5.2
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	-0.4	6.9	11.4
EV/Sales (x)	1.2	1.1	1.0

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	46.7	46.7	46.7
DII	10.9	10.5	9.0
FII	23.1	24.2	25.9
Others	19.3	18.6	18.4

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	Estimate 2QE	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Revenues (Core)	29,649	31,474	30,024	30,191	27,773	32,810	33,665	31,083	121,339	125,331	30,946	6.0
YoY Change (%)	26.4	6.6	7.7	5.6	-6.3	4.2	12.1	3.0	10.9	3.3	-1.7	
EBITDA	5,736	5,902	5,222	5,022	4,726	5,273	5,858	5,481	21,881	21,338	5,663	-6.9
YoY Change (%)	20.0	3.6	-10.4	-4.1	-17.6	-10.7	12.2	9.1	1.6	-2.5	-4.0	
Margins (%)	19.3	18.8	17.4	16.6	17.0	16.1	17.4	17.6	18.0	17.0	18.3	
Depreciation	1,131	1,232	1,189	1,315	1,468	1,557	1,450	1,346	4,867	5,821	1,430	
EBIT	4,605	4,670	4,032	3,707	3,258	3,716	4,408	4,135	17,014	15,517	4,233	
YoY Change (%)	26.2	0.2	-13.8	-10.1	-29.2	-20.4	9.3	11.5	-0.6	-8.8	-9.4	
Margins (%)	15.5	14.8	13.4	12.3	11.7	11.3	13.1	13.3	14.0	12.4	13.7	
Interest	756	689	667	869	600	831	620	414	2,981	2,464	610	
Other Income	197	128	139	152	172	164	180	134	617	650	170	
PBT before EO Expense	4,047	4,109	3,504	2,990	2,830	3,050	3,968	3,855	14,650	13,703	3,793	-19.6
One-off loss/(gain)	-389	259	74	293	-1,250	-1,753	0	0	237	-3,003	0	
PBT after EO Expense	4,436	3,850	3,430	2,697	4,080	4,802	3,968	3,855	14,412	16,705	3,793	26.6
Tax	1,370	1,102	1,033	971	1,969	2,015	873	822	4,476	5,680	1,138	
Rate (%)	30.9	28.6	30.1	36.0	48.3	42.0	22.0	21.3	31.1	34.0	30.0	
Reported PAT	3,065	2,748	2,398	1,726	2,111	2,787	3,095	3,033	9,936	11,025	2,655	5.0
Minority Interest	0	171	178	170	186	182	150	142	519	660	0	
Adj PAT	2,796	2,761	2,271	1,923	1,682	1,830	2,945	2,891	9,752	9,348	2,655	-31.1
YoY Change (%)	35.9	1.9	-17.9	-17.8	-39.8	-33.7	29.7	50.3	-1.2	-4.1	-3.8	
Margins (%)	9.4	8.8	7.6	6.4	6.1	5.6	8.7	9.3	8.0	7.5	8.6	

E: MOFSL Estimates

Key performance Indicators

Y/E March	FY22				FY23E				FY22	FY23E	FY23E 2QE
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
India formulations	12,250	9,689	10,069	8,847	10,352	10,916	10,975	9,968	40,855	42,211	10,561
YoY Change (%)	57.1	-7.8	14.1	7.4	-15.5	12.7	9.0	12.7	15.5	13.0	9.0
US	7,878	7,543	7,567	7,378	6,628	7,533	8,400	7,092	30,366	29,653	7,854
YoY Change (%)	6.1	0.3	-3.0	-7.9	-15.9	-0.1	11.0	-3.9	-1.3	-2.3	4.1
ROW+LatAm	3,361	7,486	5,348	5,479	4,226	6,154	6,040	5,026	21,672	21,446	4,972
YoY Change (%)	21.0	56.3	15.1	18.1	25.7	-17.8	12.9	-8.3	28.6	-1.0	-33.6
Europe	3,059	3,383	3,807	4,968	3,300	3,785	4,302	5,201	15,218	16,588	3,789
YoY Change (%)	11.7	6.3	21.5	17.6	7.9	11.9	13.0	4.7	14.6	9.0	12.0
API	3,040	3,354	3,032	3,283	3,251	3,744	3,699	3,794	12,709	14,488	3,522
YoY Change (%)	29.5	4.4	-5.3	-0.9	6.9	11.6	22.0	15.6	5.3	14.0	5.0
Cost Break-up											
RM Cost (% of Sales)	38.4	36.3	35.7	34.1	36.4	35.6	35.7	35.5	36.1	35.8	36.2
Staff Cost (% of Sales)	20.1	21.8	19.5	19.1	22.9	22.3	21.5	22.2	20.2	22.2	22.0
R&D Expenses(% of Sales)	9.6	10.5	10.1	10.7	10.7	10.1	10.6	10.7	10.2	10.5	10.5
Other Cost (% of Sales)	12.6	12.6	17.3	19.4	12.9	16.0	14.8	14.0	15.4	14.5	13.0
Gross Margin (%)	61.6	63.7	64.3	65.9	63.6	64.4	64.3	64.5	63.9	64.2	63.8
EBITDA Margin (%)	19.3	18.8	17.4	16.6	17.0	16.1	17.4	17.6	18.0	17.0	18.3
EBIT Margin (%)	15.5	14.8	13.4	12.3	11.7	11.3	13.1	13.3	14.0	12.4	13.7

E: MOFSL Estimates

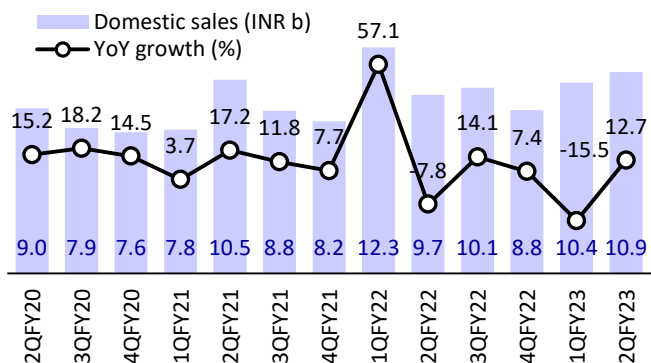


Highlights from the management commentary

- GNP expects to sustain EBITDA margin performance at similar levels of FY22 (18-19%)
- Covered market growth remains encouraging across both Western Europe and Central Eastern Europe, boosting growth prospects for GNP
- GNP continues to work on remediation measures at Monroe and Baddi. It hopes to get re-inspected at Monroe in 4QFY23.
- GNP has net debt of INR27b, up INR4.5b over past six months. This is largely due to adverse currency movements.
- GNP guided capex of INR7-8b in FY23
- GNP expects gross margin to be 64-65% for FY23

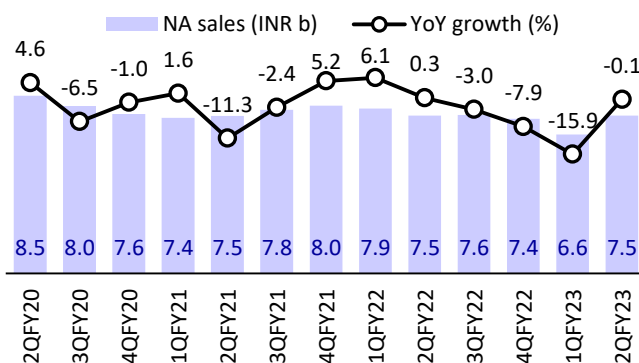
Key exhibits

Exhibit 1: DF sales increased 13% YoY in 2QFY23



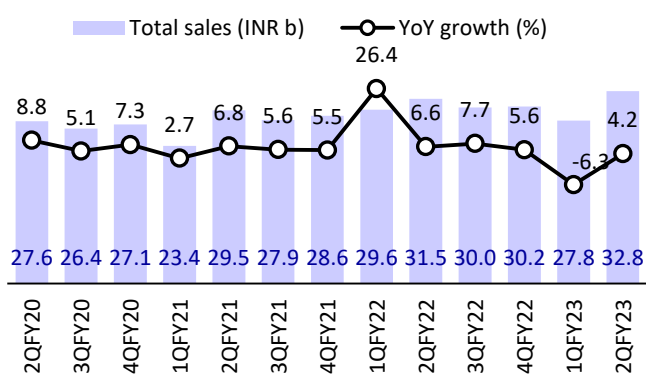
Source: MOFSL, Company

Exhibit 2: NA sales was flat YoY in 2QFY23



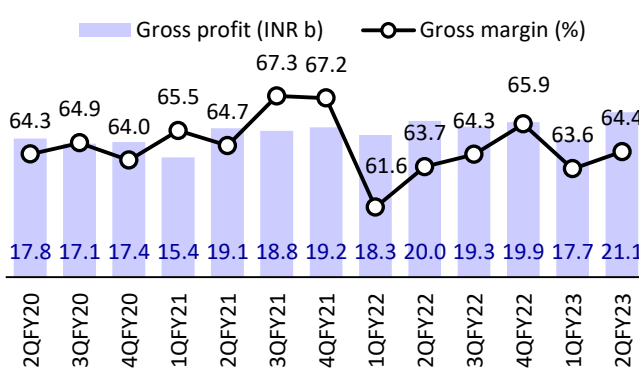
Source: MOFSL, Company

Exhibit 3: Total revenue grew 4% YoY in 2QFY23



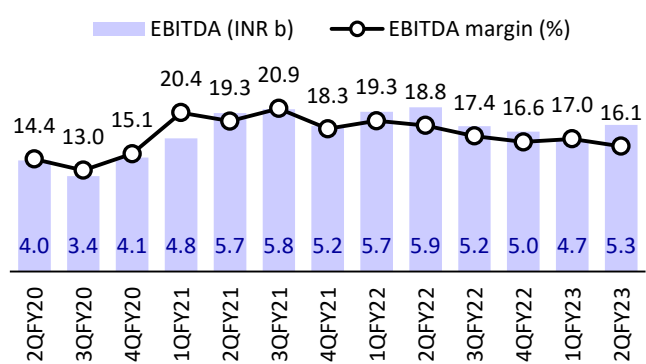
Source: Company, MOFSL

Exhibit 4: Gross margin expanded 80bp in 2QFY23



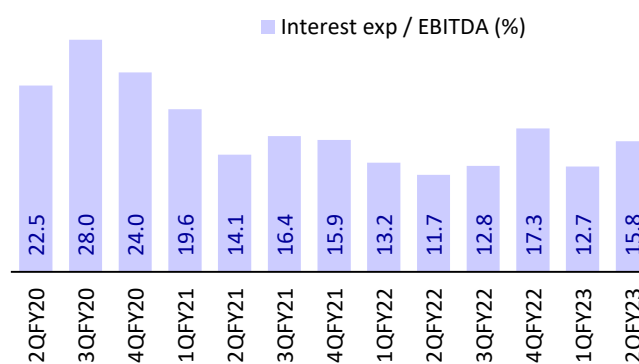
Source: Company, MOFSL

Exhibit 5: EBITDA margin contracts 270bp YoY in 2QFY23



Source: Company, MOFSL

Exhibit 6: Interest expense as % of EBITDA up 410bp YoY



Source: Company, MOFSL

Valuation and view

DF – New launches to drive superior growth

- In 1HFY23, GNP's DF sales declined 3% to INR21b. As per IQVIA, in 2QFY23, GNP's market share in Anti-Diabetic therapy grew to 1.82% v/s 1.79% YoY. GNP's Cardiac segment market share increased to 5.3% v/s 4.73% last year. The dermatology segment market share also increased from 8.12% to 8.16% and the respiratory segment market share changed from 5.30% to 5.27%.
- Glenmark Consumer Care (GCC) secondary sale grew 11% in 2QFY23 to INR647m driven largely by core brands such as Candid Powder, La Shield, and Scalpe. In 1HFY23, Candid Powder/La Shield/ Scalpe+ delivered strong revenue growth of 44%/113%/28% growth YoY.
- In 1HFY23, GNP launched 16 new products and has gained market share in cardiac and anti-diabetic segments.
- We expect new launches/market share gains are likely to drive growth in DF segment. Accordingly, we project DF sales to exhibit 6% CAGR to INR46b over FY22-24.

NA – Price pressure/Supply chain disruption weakens the outlook

- GNP's US sales decreased 8% YoY in 1HFY23. US market is likely to continue to witness price erosion. GNP filed one ANDA in 1HFY23 and is planning to file 10-12 ANDAs in FY23.
- Considering slower pace of filing and increased price erosion in base portfolio, we anticipate US sales CAGR of 2% to INR32b over FY22-24.

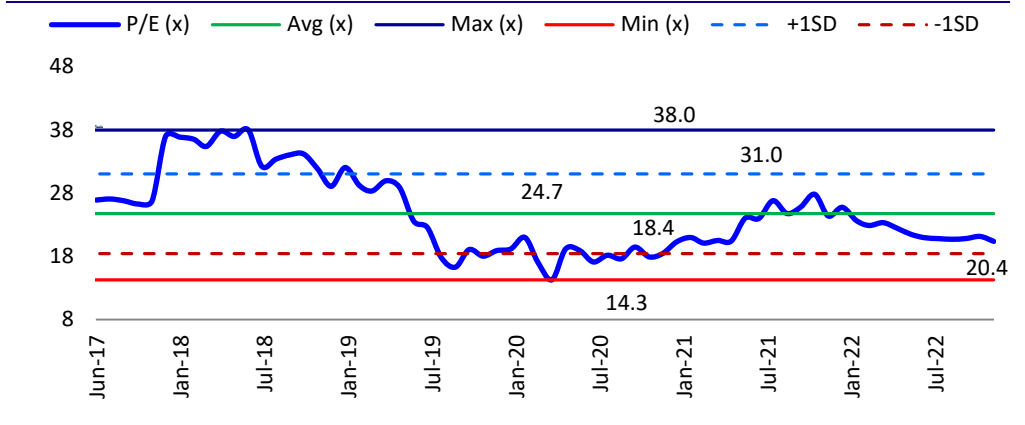
EU – new launches/expanding markets to drive growth

- In 1HFY23, GNP's EU sales increased 10% YoY to INR7b with steady business in Western, Central & Eastern Europe. Growth in Western Europe remained robust, led by double digit growth in key markets like the Netherlands, Spain and the Nordic countries. Amongst the key launches, the company launched 8 products in the CEE market, 4 in the UK, 2 in the Netherlands, 4 in Germany, 2 in Spain and 4 in the Nordics.
- GNP has a comprehensive plan to grow its European business by geographical expansion and launches in key therapeutic segments (respiratory/dermatology). Considering those factors, we expect 11% sales CAGR to INR19b over FY22-24.

Earnings on gradual growth path; valuation provides limited upside

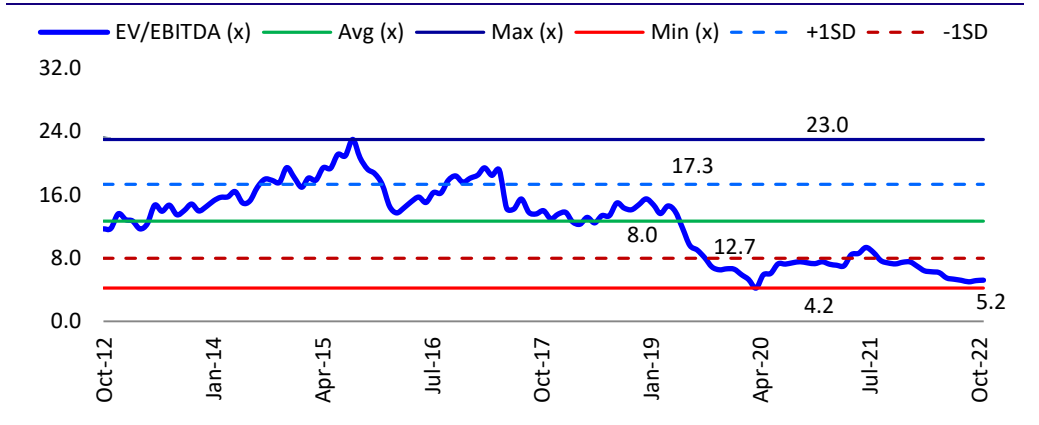
- We cut our earnings estimate for FY23/FY24 by 13%/5% factoring, a) lack of filings for US market, b) intensified price erosion in US base portfolio, and c) increased opex and interest outgo. We value GNP at 10x 12M forward earnings to arrive at price target of INR420.
- The superior execution in DF is outweighed by moderation in US business. This coupled with higher operational cost towards marketing/logistics would affect profitability over medium term. Considering subdued 9% earnings CAGR over FY22-24 and valuation adequately factoring the same, we maintain our Neutral rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

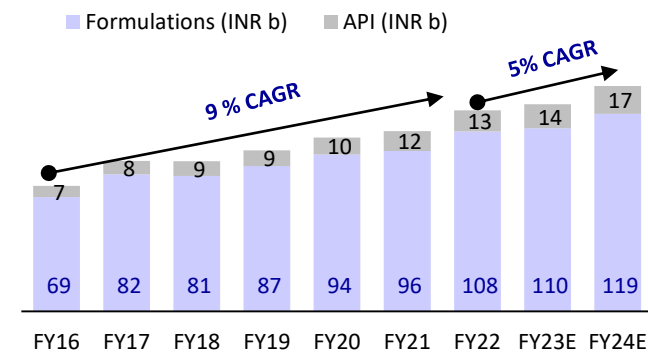
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

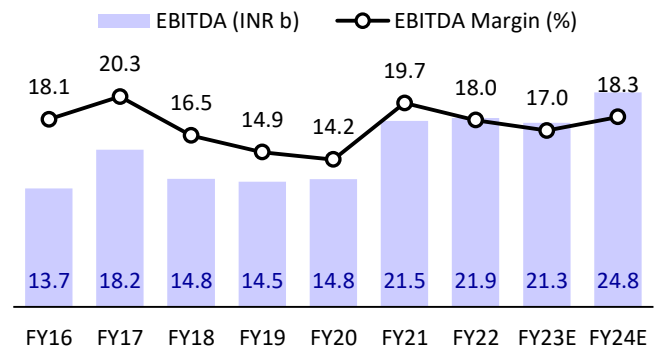
Story in charts

Exhibit 9: Expect sales CAGR of 5% over FY22–24



Source: Company, MOFSL

Exhibit 10: EBITDA margin to be slightly up over FY22–24



Source: Company, MOFSL

Exhibit 11: R&D spend % sales to be steady over FY22-24

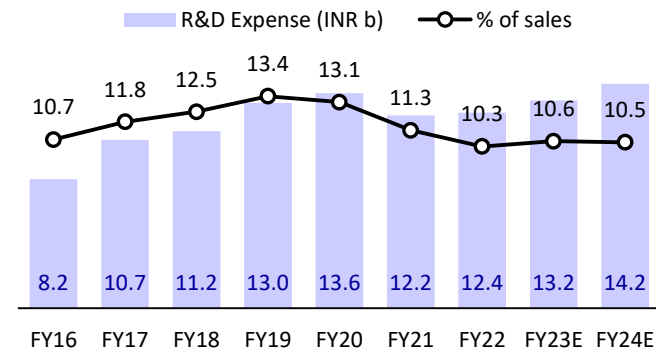
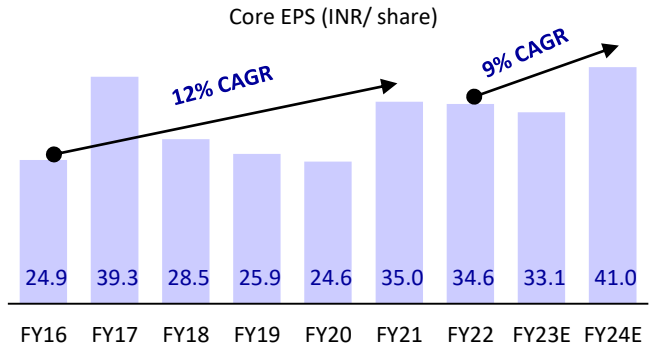
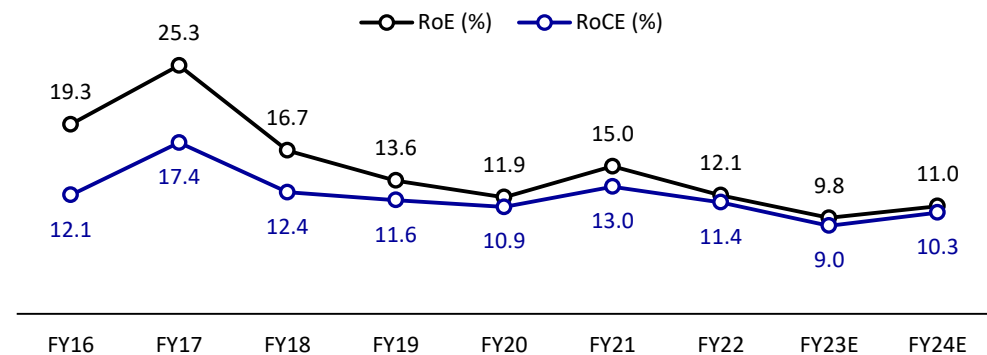


Exhibit 12: Expect 9% EPS CAGR over FY22–24



Source: Company, MOFSL

Exhibit 13: Return ratios yet to show recovery



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Net Sales	89,722	97,051	103,972	109,439	121,339	125,331	135,415	
Change (%)	0.0	8.2	7.1	5.3	10.9	3.3	8.0	
EBITDA	14,845	14,504	14,793	21,544	21,881	21,338	24,844	
Change (%)	-18.5	-2.3	2.0	45.6	1.6	-2.5	16.4	
Margin (%)	16.5	14.9	14.2	19.7	18.0	17.0	18.3	
Depreciation	3,019	3,259	4,172	4,436	4,867	5,821	6,082	
EBIT	11,827	11,245	10,622	17,108	17,014	15,517	18,762	
Interest	2,856	3,346	3,773	3,531	2,981	2,464	2,427	
OI & forex gains/losses	2,222	2,105	2,623	501	617	650	670	
PBT before EO Expense	11,193	10,004	9,472	14,078	14,650	13,703	17,005	
Change (%)	-28.8	-10.6	-5.3	48.6	4.1	-6.5	24.1	
Extra Ordinary Expense	0	-3,002	-1,489	255	237	-3,003	0	
PBT after EO Exp.	11,193	13,006	10,961	13,824	14,412	16,705	17,005	
Tax	3,155	3,756	3,201	4,124	4,476	5,680	5,441	
Tax Rate (%)	28.2	28.9	29.2	29.8	31.1	34.0	32.0	
Reported PAT	8,039	9,250	7,760	9,700	9,417	11,025	11,563	
Adj PAT**	8,039	7,312	6,938	9,870	9,752	9,348	11,563	
Change (%)	-27.5	-9.0	-5.1	42.3	-1.2	-4.1	23.7	
Margin (%)	9.0	7.5	6.7	9.0	8.0	7.5	8.5	

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Equity Share Capital	282	282	282	282	282	282	282	
Reserves	51,353	55,770	60,423	70,364	90,584	99,931	110,474	
Net Worth	51,635	56,052	60,705	70,646	90,866	100,213	110,756	
Minority Interest	-4	-4	-4	-4	3,515	3,515	3,515	
Loans	44,368	38,768	44,856	44,018	36,703	35,932	35,184	
Deferred liabilities	-13,203	-13,830	-14,393	-15,059	-16,546	-16,546	-16,545	
Capital Employed	82,797	80,986	91,164	99,602	114,538	123,113	132,909	
Gross Block	49,054	59,080	76,501	82,266	93,966	100,066	106,116	
Less: Accum. Deprn.	17,473	20,732	24,903	29,339	34,206	40,027	46,109	
Net Fixed Assets	31,581	38,348	51,598	52,927	59,760	60,039	60,007	
Capital WIP	9,933	12,344	10,906	12,178	9,211	9,211	9,211	
Investments	147	297	246	246	496	496	496	
Intangibles (net)	12,623	17,370	21,821	23,349	22,854	22,854	22,854	
Curr. Assets	71,090	68,070	69,541	75,338	84,504	92,522	105,623	
Inventory	20,306	22,521	21,356	22,768	24,998	27,470	28,196	
Account Receivables	23,318	21,946	24,090	25,721	31,011	32,620	34,132	
Cash and Bank Balance	12,347	9,378	11,112	11,392	14,115	17,579	27,248	
Others	15,120	14,226	12,982	15,457	14,379	14,852	16,048	
Curr. Liability & Prov.	29,954	38,072	41,127	41,087	39,433	39,155	42,428	
Account Payables	25,914	33,689	35,975	35,944	34,519	36,054	39,326	
Provisions	4,040	4,384	5,152	5,143	4,914	3,101	3,102	
Net Current Assets	41,136	29,998	28,414	34,250	45,071	53,367	63,195	
Appl. of Funds	82,797	80,986	91,164	99,602	114,538	123,113	132,909	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS (Fully diluted)*	28.5	25.9	24.6	35.0	34.6	33.1	41.0
Cash EPS	39.2	37.5	39.4	50.7	51.8	53.8	62.5
BV/Share	183.0	198.6	215.1	250.4	322.0	355.2	392.5
DPS	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Payout (%)	10.2	11.0	9.0	7.3	10.8	9.2	8.8
Valuation (x)							
P/E (Fully diluted)	15.1	16.6	17.5	12.3	12.5	13.0	10.5
Cash P/E	11.0	11.5	10.9	8.5	8.3	8.0	6.9
P/BV	2.4	2.2	2.0	1.7	1.3	1.2	1.1
EV/Sales	1.7	1.6	1.5	1.4	1.2	1.1	1.0
EV/EBITDA	10.4	10.4	10.5	7.2	6.6	6.6	5.2
Dividend Yield (%)	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Return Ratios (%)							
RoE	16.7	13.6	11.9	15.0	12.1	9.8	11.0
RoCE	12.4	11.6	10.9	13.0	11.4	9.0	10.3
RoIC	16.4	17.3	15.3	17.8	15.3	11.4	13.7
Working Capital Ratios							
Fixed Asset Turnover (x)	3.0	2.8	2.3	2.1	2.2	2.1	2.3
Debtor (Days)	95	83	85	86	93	95	92
Inventory (Days)	83	85	75	76	75	80	76
Working Capital (Days)	117	78	61	76	93	104	97
Leverage Ratio (x)							
Current Ratio	2.4	1.8	1.7	1.8	2.1	2.4	2.5
Net Debt/Equity	0.6	0.5	0.6	0.5	0.2	0.2	0.1

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Op. Profit/(Loss) before Tax	14,845	14,504	14,793	21,544	21,881	21,338	24,844
Interest/Dividends Recd.	2,222	2,105	2,623	501	617	650	670
Direct Taxes Paid	-3,501	-4,383	-3,764	-4,791	-5,963	-5,680	-5,440
(Inc)/Dec in WC	5,889	8,169	3,318	-5,557	-8,097	-4,832	-160
CF from Operations	19,455	20,395	16,971	11,697	8,438	11,477	19,914
Others	-2,975	-10,155	-5,219	1,799			
EO Expense	0	-3,002	-1,489	255	237	-3,003	0
CF frm Op.incl EO Exp.	16,481	13,242	13,242	13,242	8,201	14,479	19,914
(Inc)/Dec in FA	-9,901	-12,437	-15,984	-7,036	-8,733	-6,100	-6,050
Free Cash Flow	6,580	805	-2,742	6,205	-533	8,379	13,864
(Pur)/Sale of Investments	10	-150	51	0	-250	0	0
Others	-243	5,597	8,944	47			
CF from Investments	-10,133	-6,990	-6,990	-6,990	-8,983	-6,100	-6,050
Change in Networth	-512	-3,814	-2,409	952	11,822	-660	-1
Inc/(Dec) in Debt	-3,598	-5,601	6,088	-837	-3,797	-772	-748
Interest Paid	-2,856	-3,346	-3,773	-3,531	-2,981	-2,464	-2,427
Dividend Paid	-817	-1,019	-698	-710	-1,019	-1,019	-1,019
CF from Fin. Activity	-4,685	-7,387	-7,387	-7,387	3,516	-4,915	-4,195
Inc/Dec of Cash	1,662	-1,136	-1,136	-1,136	2,733	3,464	9,668
Add: Beginning Balance	10,565	12,347	9,378	11,112	11,392	14,115	17,579
Effect of exchange rate	120	-1,833	-1,833	-1,833	0	0	0
Closing Balance	12,347	9,378	6,409	8,144	14,115	17,579	27,248

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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