

Glenmark Pharma

BSE SENSEX 61,751 S&P CNX 18,344



Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USDb)	121.2 / 1.5
52-Week Range (INR)	552 / 349
1, 6, 12 Rel. Per (%)	3/-7/-17
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

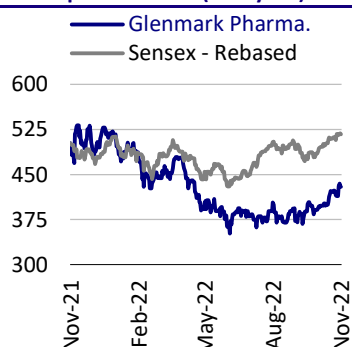
P/E (x)	12.5	12.9	10.5
EV/EBITDA (x)	6.6	6.5	5.2
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	-0.4	6.9	11.4
EV/Sales (x)	1.2	1.1	1.0

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

Stock's performance (one-year)



CMP: INR429

TP: INR420 (-2%)

Neutral

Working on many fronts to better outlook and return ratios

We attended GNP's investor day to understand the management's strategies across major business segments over the next four-to-five years.

- GNP aims to boost RoCE (EBIT/capital employed) to 22% by FY27 (from 17% in FY22), with an increased share of the branded generics business, controlled R&D spends towards the NCE portfolio, and sustained improvement in operating leverage.
- It also aims to have zero net debt by FY26.
- We value GNP at 10x 12M forward earnings to arrive at our TP of INR420. We remain Neutral on the stock, given its 5% earnings CAGR over FY18-22. We expect earnings CAGR to be moderate over FY22-24 (9%). The benefit from complex product filings is expected from FY25, subject to timely approval. Asset utilization at Monroe for the US market is also subject to successful resolution of regulatory issues.

Key takeaways from the management interaction

Launches, focus on key therapies, and switch towards OTC to sustain growth in India

- The management intends to enhance its exiting brand franchise by focusing on core therapies like Dermatology, Respiratory, Cardiac, and Anti-Diabetes.
- Growth will also be supported by launches. In Domestic Formulation, 4-5% of growth will be led by launches. Some of its successful launches have been Remo-V, Nindanib, Ryaltriz-AZ, Fabiflu, and Vilor-F.
- GNP is also working on switching from prescription (Rx) to over-the-counter (OTC) to further monetize these brands. It has garnered INR1.8b sales in FY22 (~3x over FY19-22 levels).
- In the Domestic Formulation segment, it has delivered 13% sales CAGR to INR40b over FY18-22. Considering the COVID-led high base of FY22, we expect 6% sales CAGR over FY22-24.

WIP on niche filings and resolving regulatory issues at its Monroe and Baddi facilities for the US business

- The top five/10 products contributed 21%/32% to GNP's FY22 sales, implying a well-diversified portfolio for the US market.
- In addition to the 46 ANDAs awaiting approval, it is working on eight-to-10 injectables, two-to-three drug device combinations, and three-to-four generics in the Respiratory portfolio.
- It expects to file g-Flovent and one g-Metered dose inhaler (g-MDI) in CY23.
- GNP needs to resolve the OAI classification issued to its Monroe site and import alert issued to its Baddi facility by the USFDA. Injectable commercialization is hinged on successful compliance at Monroe. It has invested ~USD200m at Monroe till date.

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Monetizing 'Ryaltris' through partnership and market expansion

- GNP intends to scale-up revenue from Ryaltris to USD100-150m by FY27 (from USD30m in FY22). It has launched Ryaltris in 21 countries and plans to launch the same in 13 countries.
- It has leading market share in certain geographies like Australia, South Africa, and the Czech Republic.

A focused portfolio approach to drive growth in the Europe business

- GNP garners ~73% of its FY22 Europe sales from branded generics.
- It covers around four out of six major Europe markets directly, and has an established marketing network in these markets.
- Through an in-house pipeline as well as strategic in-licensing, it has a portfolio approach to maximize its business prospects in the European market.
- It has delivered 14% sales CAGR in Europe over FY18-22. We expect 11% sales CAGR to INR18.7b over FY22-24. However, adverse currency movement is affecting its growth prospects in the near term.

Improving the scope of monetization in Ichnos via a capital raise and partnership

- GNP has a near-term target of completing the proof of concept study for ISB1342 and ISB1442 before Mar'23. The successful clinical trials will enable it to launch in CY26 and CY27, respectively.
- It also intends to close one Oncology partnership before the end of FY23.
- It plans to file an Investigational new drug (IND) for ISB2001 before Mar'23.
- GNP has optimized its R&D spent at Ichnos to USD85m over the last four years from ~USD125m annually. It aims to reduce the same to USD60m in FY24.

Extending benefits from core therapies in RoW market as well

- GNP has delivered 10% sales CAGR to INR21.7b over FY18-22 in RoW markets, with a focus on Russia, Asia, LatAm, and MEA countries.
- It has outperformed the industry in respective market and has a leadership in core therapies.
- With an established brand franchise, it intends to expand its portfolio through in- and out-licensing of key products and gain market share in existing products.

To consistently improve profitability and reduce net debt to zero by FY26

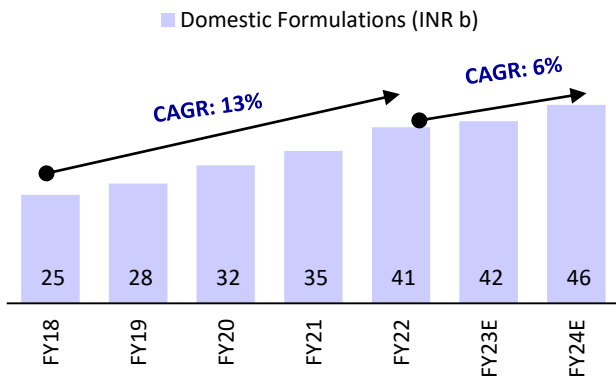
- It aims to achieve overall sales CAGR of 10-12% over the next four years.
- The management is targeting an EBITDA margin of 23% by FY27, and R&D spends of 8.5-9% of sales from FY24 (v/s 10.4% in 1HFY23).
- It also aims to reduce its net debt to zero by FY26.

Valuation and view

- We expect a 9% earnings CAGR over FY22-24, led by: a) superior execution in the Branded Generics market of India, Europe, and RoW; and b) controlled R&D spends. The increased price erosion in the US and higher OPEX, related to marketing and logistics, is expected to keep EBITDA margin under check.
- We value GNP at 10x 12M forward earnings to arrive at our TP of INR420. Considering the moderate earnings growth over the next two years, regulatory hurdles at Monroe and Baddi, and commercial opportunities from niche products to be more back-ended (FY25 onwards), we maintain our Neutral stance on the stock.

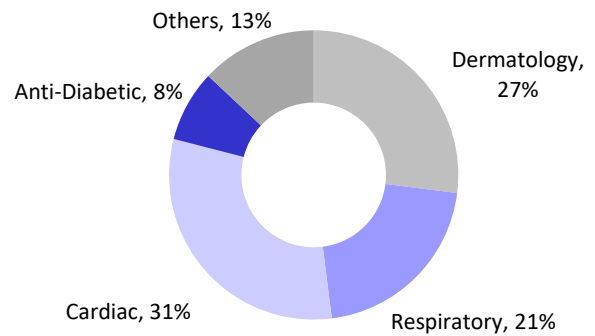
Key exhibits

Exhibit 1: Expect 6% CAGR in DF sales over FY22-24



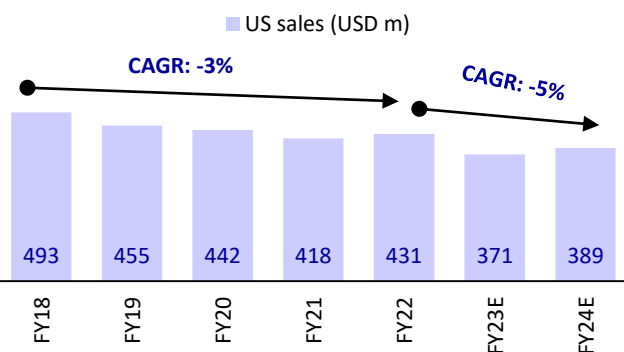
Source: MOFSL, Company

Exhibit 2: Domestic therapy mix (FY22)



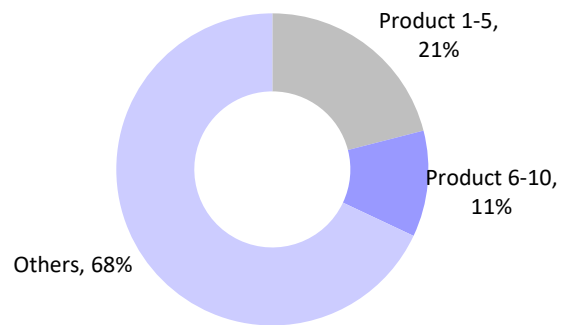
Source: MOFSL, Company

Exhibit 3: Expect a 5% CAGR dip in US sales over FY22-24



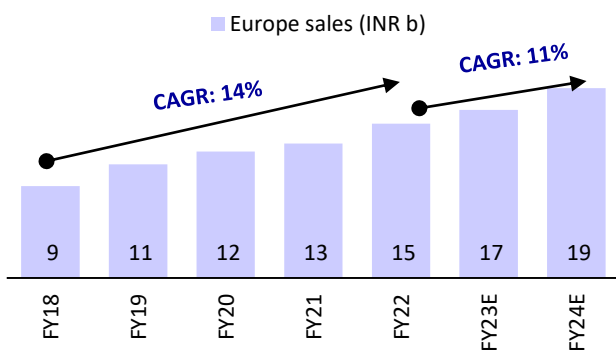
Source: Company, MOFSL

Exhibit 4: US product mix (FY22)



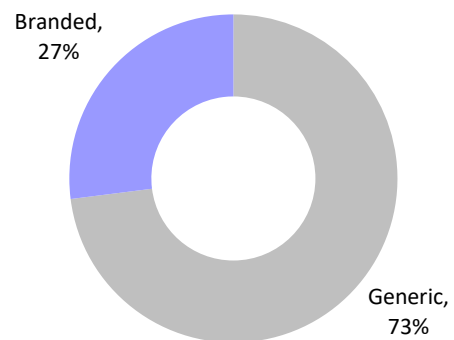
Source: Company, MOFSL

Exhibit 5: Expect EU sales to clock 11% CAGR over FY22-24



Source: Company, MOFSL

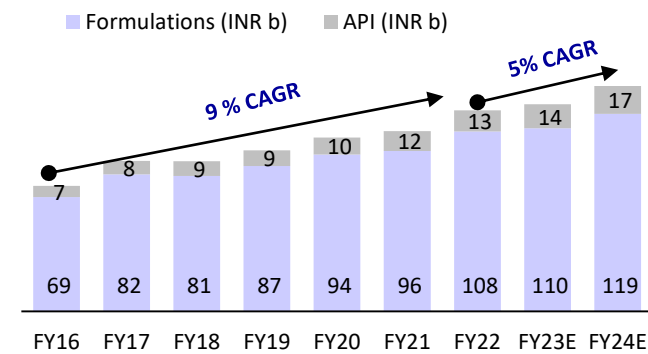
Exhibit 6: EU product mix (FY22)



Source: Company, MOFSL

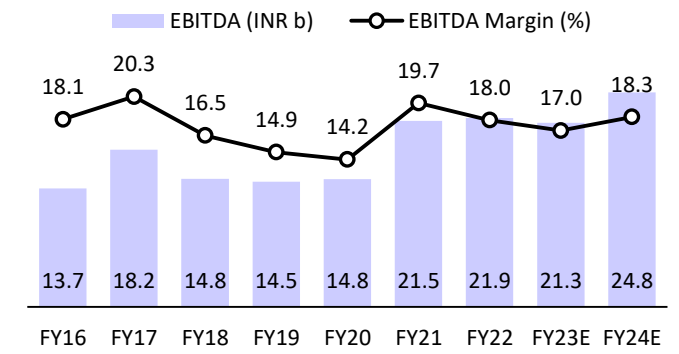
Story in charts

Exhibit 7: Expect 5% sales CAGR over FY22-24



Source: Company, MOFSL

Exhibit 8: EBITDA margin to be slightly higher over FY22-24



Source: Company, MOFSL

Exhibit 9: R&D spend as a percentage of sales to be steady over FY22-24

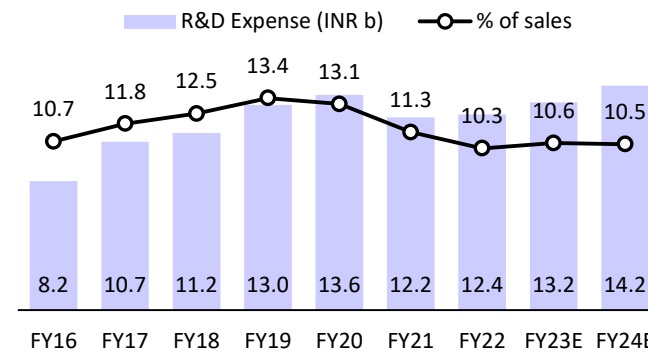
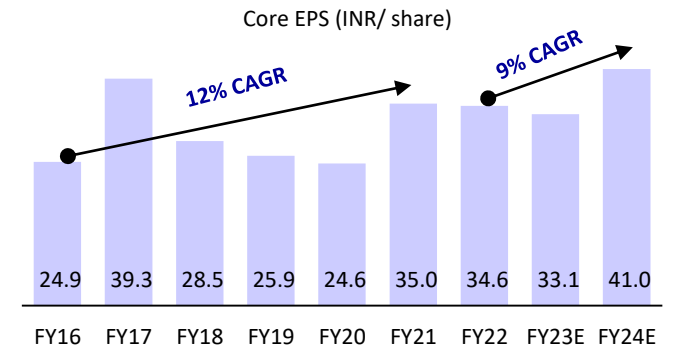
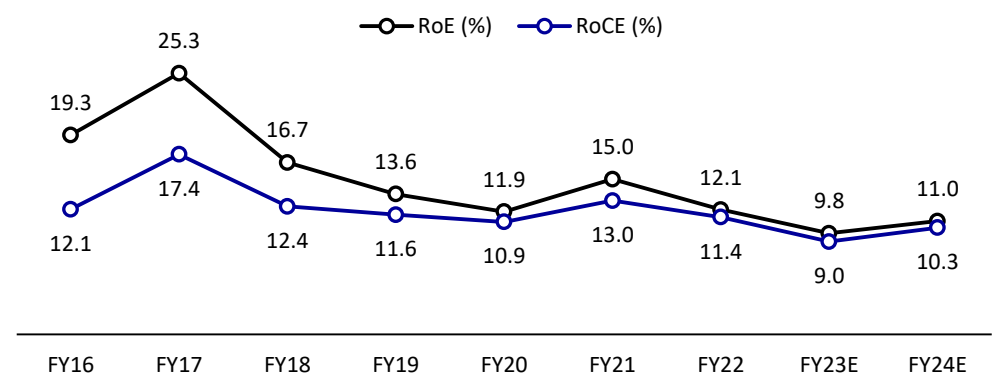


Exhibit 10: Expect 9% EPS CAGR over FY22-24



Source: Company, MOFSL

Exhibit 11: Return ratios yet to show a 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 and 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	-13203	-13830	-14393	-15059	-16546	-16546	-16545	
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 and 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) ratio	15.1	16.6	17.5	12.3	12.5	12.9	10.5
Cash P/E ratio	11.0	11.5	10.9	8.5	8.3	8.0	6.9
P/BV ratio	2.4	2.2	2.0	1.7	1.3	1.2	1.1
EV/Sales ratio	1.7	1.6	1.5	1.4	1.2	1.1	1.0
EV/EBITDA ratio	10.4	10.4	10.5	7.2	6.6	6.5	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 ratio	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 from 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 net worth	-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. in 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: MOSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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