

Glenmark Pharma

Estimate change 

TP change 

Rating change 

CMP: INR605

TP: INR580 (-4%)

Neutral

Superior execution in EU/ROW drives earnings

Higher working capital drives financial leverage

Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USDb)	170.8 / 2.1
52-Week Range (INR)	630 / 349
1, 6, 12 Rel. Per (%)	14/43/36
12M Avg Val (INR M)	500

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	129.0	141.0	154.9
EBITDA	22.3	26.9	30.1
Adj. PAT	8.0	10.8	13.3
EBIT Margin (%)	12.5	14.4	15.1
Adj EPS (INR)	28.5	38.2	47.0
EPS Gr. (%)	-17.5	34.0	23.1
BV/Sh. (INR)	322.0	356.6	400.0

Ratios

Net D-E	0.3	0.3	0.1
RoE (%)	8.8	11.3	12.4
RoCE (%)	6.1	11.0	11.9
Payout (%)	27.0	9.5	7.7

Valuations

P/E (x)	21.2	15.8	12.9
EV/EBITDA (x)	9.0	7.3	6.1
Div. Yield (%)	0.5	0.5	0.5
FCF Yield (%)	0.5	5.3	9.5
EV/Sales (x)	1.5	1.4	1.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	46.7	46.7	46.7
DII	10.5	10.7	11.0
FII	22.5	23.2	24.1
Others	20.5	19.4	18.3

FII Includes depository receipts

- Glenmark Pharma (GNP) delivered in-line 4QFY23 operational performance. GNP witnessed robust traction in Europe/RoW/API segment, driving 20% YoY growth in EBITDA for the quarter. The increased working capital requirement for EU/ROW markets has resulted in higher net debt on a QoQ basis.
- We raise our EPS estimate for FY24/FY25 by 3%/5% to factor in a) increase in Ryaltris sales across multiple markets and expansion into newer markets, b) reduced innovative R&D expenses, and c) superior execution in the UK, Spain, and ROW markets. We value GNP at 12x 12M forward earnings to arrive at a price target of INR580.
- GNP is making efforts toward a) enhancing domestic formulation (DF) segment prospects through new launches, b) gaining market share as well as adding newer markets in the RoW/EU segment and c) resolving regulatory issues at Monroe/Goa/Baddi. However, we reiterate our Neutral stance as the current valuation adequately factors the upside in the earnings.

Better operating leverage drive EBITDA margin on a YoY basis

- GNP's revenues grew 12% YoY to INR34b (our estimate of INR33.5b).
- RoW sales grew 25% YoY to INR7b (20% of sales). NA revenues grew 15% YoY to INR8.5b (USD102m; 25% of sales). Europe generics revenue grew 22% YoY to INR6b (18% of sales). API sales were up 17% YoY to INR3.8b (11% of sales). DF sales dipped 6% YoY to INR8.2b (25% of sales).
- Gross Margins (GM) contracted 120bp YoY to 64.7%.
- However, EBITDA margin expanded 130bp YoY to 17.9% (our est.: 18.2%) due to lower other/R&D expenses (down 210bp/down 70 YoY as a percentage of sales), slightly offset by higher employee expense (up 30bp YoY as a percentage of sales)
- EBITDA increased 21% YoY to INR6b (our estimate: INR6.1b).
- Exceptional item includes a) payment of INR8b for settlement of the g-Zetia-related litigation in the US and b) net gain of INR13m on account of the sale of brands net of trade expenses, receivables, inventory write-off, and c) remediation cost related to Monroe/India facility.
- Adj. PAT declined 7%YoY to INR1.8b (our estimate: INR2.8b).
- For FY23, Revenue/EBITDA grew 6%/2% YoY to INR129b/INR22b, while adj. PAT declined 23% YoY to INR7.5b.

Highlights from the management commentary

- GNP guided for YoY sales growth/EBITDA margin of 10-11%/19-20% for FY24.
- GNP guided for 8-9% YoY growth in DF sales for FY24.
- The remediation cost related to Monroe is complete. The remediation cost related to Goa/Baddi might continue in 1QFY24.
- The overall Ryaltris sales were USD20-25m for FY23.

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance

Y/E March	FY22				FY23				FY22	FY23	Estimate	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	% Var
Net Revenues (Core)	29,649	31,474	30,024	30,191	27,773	32,810	34,639	33,737	121,339	128,959	33,535	0.6
YoY Change (%)	26.4	6.6	7.7	5.6	-6.3	4.2	15.4	11.7	10.9	6.3	11.1	
EBITDA	5,736	5,902	5,222	5,022	4,726	5,273	6,202	6,050	21,881	22,251	6,106	-0.9
YoY Change (%)	20.0	3.6	-10.4	-4.1	-17.6	-10.7	18.8	20.5	1.6	1.7	21.6	
Margins (%)	19.3	18.8	17.4	16.6	17.0	16.1	17.9	17.9	18.0	17.3	18.2	
Depreciation	1,131	1,232	1,189	1,315	1,468	1,557	1,623	1,465	4,867	6,113	1,465	
EBIT	4,605	4,670	4,032	3,707	3,258	3,716	4,580	4,584	17,014	16,139	4,641	
YoY Change (%)	26.2	0.2	-13.8	-10.1	-29.2	-20.4	13.6	23.7	-0.6	-5.1	25.2	
Margins (%)	15.5	14.8	13.4	12.3	11.7	11.3	13.2	13.6	14.0	12.5	13.8	
Interest	756	689	667	869	600	831	973	1,093	2,981	3,496	761	
Other Income	197	128	139	152	172	164	294	378	617	228	320	
PBT before EO Expense	4,047	4,109	3,504	2,990	2,830	3,050	3,901	3,870	14,650	12,871	4,200	-7.9
One-off loss/(gain)	-389	259	74	293	-1,250	-1,753	-809	8,777	237	4,186	0	
PBT after EO Expense	4,436	3,850	3,430	2,697	4,080	4,802	4,710	-4,908	14,412	8,685	4,201	NA
Tax	1,370	1,102	1,033	971	1,969	2,015	1,802	-876	4,476	4,911	1,241	
Rate (%)	30.9	28.6	30.1	36.0	48.3	42.0	38.3	17.9	31.1	56.5	29.6	
Reported PAT	3,065	2,748	2,398	1,726	2,111	2,787	2,908	-4,031	9,936	3,774	2,959	NA
Minority Interest	0	171	178	170	186	182	182	252	519	802	110	
Reported PAT after Minority Interest	3,065	2,577	2,219	1,556	1,925	2,604	2,726	-4,283	9,417	2,972	2,849	
Adj PAT	2,796	2,761	2,271	1,923	1,682	1,830	2,227	2,302	9,752	8,041	2,849	-19.2
YoY Change (%)	35.9	1.9	-17.9	-17.8	-39.8	-33.7	-1.9	19.7	-1.2	-17.5	48.1	
Margins (%)	9.4	8.8	7.6	6.4	6.1	5.6	6.4	6.8	8.0	6.2	8.5	

Source: MOFSL

Exhibit 1: Key performance Indicators

Y/E March	FY22				FY23				FY22	FY23	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
India formulations	12,250	9,689	10,069	8,847	10,352	10,916	10,745	8,284	40,855	40,297	9,973
YoY Change (%)	57.1	-7.8	14.1	7.4	-15.5	12.7	6.7	-6.4	15.5	-1.4	12.7
US	7,878	7,543	7,567	7,378	6,628	7,533	8,373	8,507	30,366	31,041	8,537
YoY Change (%)	6.1	0.3	-3.0	-7.9	-15.9	-0.1	10.7	15.3	-1.3	2.2	15.7
ROW+LatAm	3,361	7,486	5,348	5,479	4,226	6,154	6,541	6,856	21,672	23,777	6,453
YoY Change (%)	21.0	56.3	15.1	18.1	25.7	-17.8	22.3	25.1	28.6	9.7	17.8
Europe	3,059	3,383	3,807	4,968	3,300	3,785	4,932	6,078	15,218	18,095	4,875
YoY Change (%)	11.7	6.3	21.5	17.6	7.9	11.9	29.6	22.3	14.6	18.9	-1.9
API	3,040	3,354	3,032	3,283	3,251	3,744	3,756	3,831	12,709	14,582	3,737
YoY Change (%)	29.5	4.4	-5.3	-0.9	6.9	11.6	23.9	16.7	5.3	14.7	13.8
Cost Break-up											
RM Cost (% of Sales)	38.4	36.3	35.7	34.1	36.4	35.6	33.7	35.3	36.1	35.2	33.4
Staff Cost (% of Sales)	20.1	21.8	19.5	19.1	22.9	22.3	21.8	19.5	20.2	21.6	21.9
R&D Expenses(% of Sales)	9.6	10.5	10.1	10.7	10.7	10.1	8.0	10.0	10.2	9.6	8.4
Other Cost (% of Sales)	12.6	12.6	17.3	19.4	12.9	16.0	18.6	17.3	15.4	16.4	18.1
Gross Margins (%)	61.6	63.7	64.3	65.9	63.6	64.4	66.3	64.7	63.9	64.8	66.6
EBITDA Margins (%)	19.3	18.8	17.4	16.6	17.0	16.1	17.9	17.9	18.0	17.3	18.2
EBIT Margins(%)	15.5	14.8	13.4	12.3	11.7	11.3	13.2	13.6	14.0	12.5	13.8

Source: MOFSL

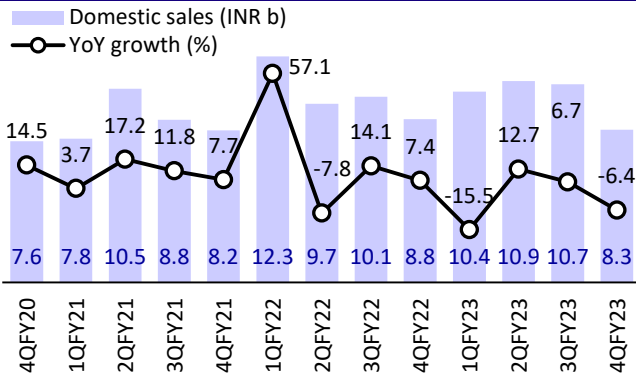


Highlights from the management commentary

- GNP expects commercial batches from the Monroe facility 2HFY24 onwards.
- GNP witnessed an increase in working capital due to change in geography mix and currency headwinds. It intends to reduce debtor days by 10-15 over medium term.
- GNP expects to almost double Ryaltris sales over the next 12-15M, led by expansion into newer geographies, patient additions as well as repeat prescriptions.
- The remediation cost in 4QFY23/FY23 was INR910m/INR2.2b.
- The DF segment grew 5.1% YoY in 4QFY23, adjusting for divestment of non-core brands, impact of NLEM price revision, and return of COVID-related products.
- The Ichnos R&D spent stood at USD24m/USD85m for 4QFY23/FY23. GNP intends to reduce the quarterly spent to USD15-17m going forward.
- Net debt stands at INR29b v/s INR26b in 3QFY23.

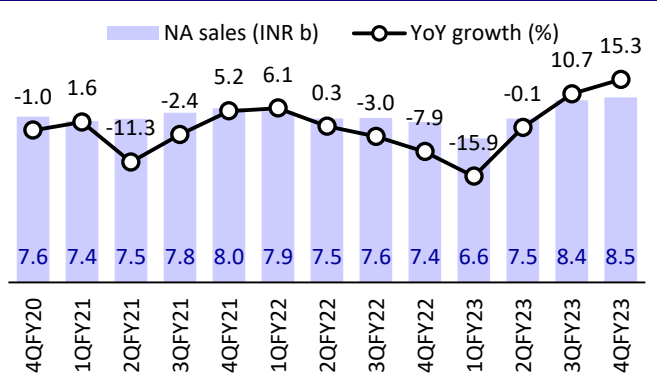
Key Exhibits

Exhibit 2: DF sales decreased 6.4% YoY in 4QFY23



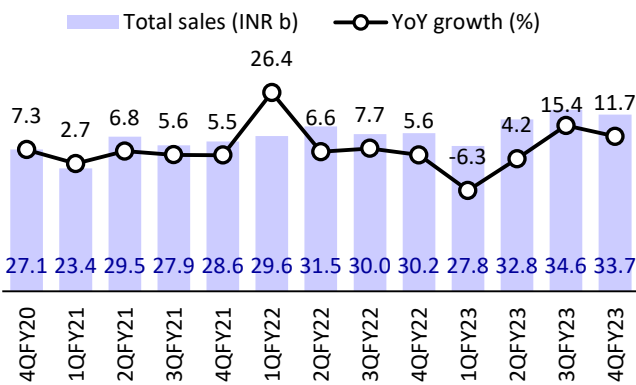
Source: MOFSL, Company

Exhibit 3: NA sales increased 15.3% YoY in 4QFY23



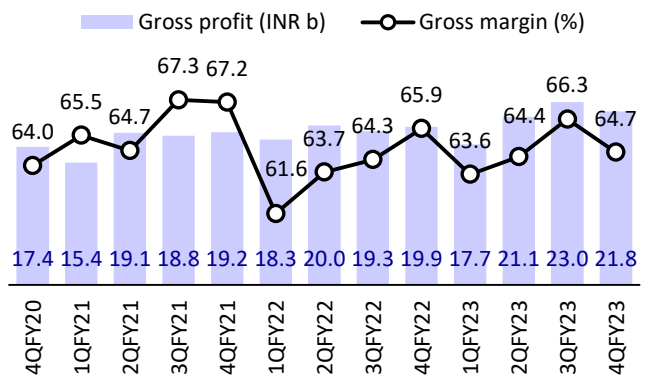
Source: MOFSL, Company

Exhibit 4: Total revenue grew 12% YoY in 4QFY23



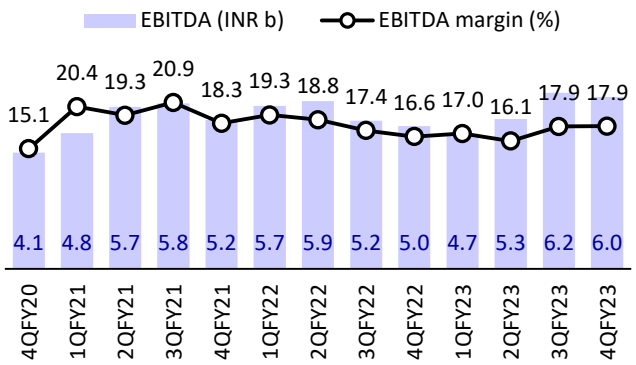
Source: Company, MOFSL

Exhibit 5: Gross margin contracted 120bp in 4QFY23



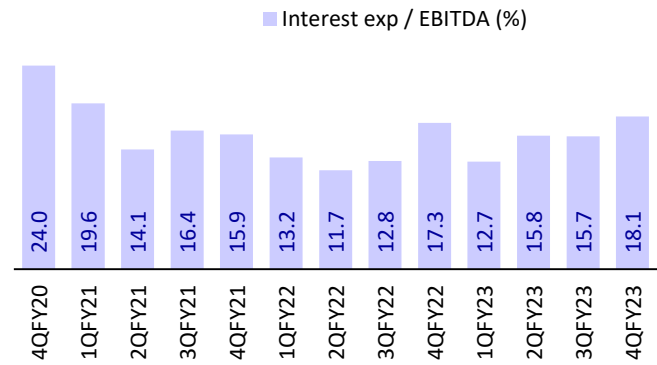
Source: Company, MOFSL

Exhibit 6: EBITDA margin expanded 130bp YoY in 4QFY23



Source: Company, MOFSL

Exhibit 7: Interest expense as a percentage of EBITDA was up 80bp YoY



Source: Company, MOFSL

Valuation and view

DF – Increased traction in respiratory/derma/cardiac to aid better prospects

- In FY23, GNP's DF sales declined 1% YoY at INR40b. GNPs' DF sales growth for FY23 was adversely impacted due to the divestment of certain non-core brands, NLEM price revisions, and returns of COVID-related products.
- GNP's respiratory/cardiac/derma segments grew 15%/20%/8% YoY.
- GCC revenue grew 30% in FY23 to INR2.3b, driven largely by core brands such as Candid Powder (up 17% YoY), La Shield (up 73% YoY), and Scalpe (up 13% YoY).
- We expect new launches/market share gains and inflation-linked upward revision in prices of products under NLEM to drive growth in the DF segment. Accordingly, we project DF sales to exhibit 11% CAGR to INR50b over FY23-25.

NA – New filings to augment sales

- GNP's US sales grew 2% YoY to INR31b in FY23 (CC: down 10% to USD387m) due to continued price erosion in the base portfolio. GNP filed 10 ANDAs in FY23 and would be filing 10-12 ANDAs in FY24.
- The capacity utilization is expected to increase post completion of remediation measures at Monroe/Baddi/Goa. Considering this, we anticipate US sales to clock a CAGR of 5% to USD425m over FY23-25.

EU – On track for robust growth momentum

- In FY23, GNP's EU sales increased 19% YoY to INR18b with robust performance in Western, Central (CE) & Eastern Europe. Czech, key market in CE, witnessed double-digit secondary sales growth in addition to Western European markets such as Netherlands, Spain, and the Nordic countries.
- Among the key launches, key brands such as Ryaltris and Salmex/Asthmex continue to sustain their market share, both in terms of volume as well as value, across the CEE markets. Moreover, GNP has entered the Italian market and will be expanding across the country in FY24.
- Additionally, GNP has filed four additional respiratory products in the EU markets in FY23, which would be launched over the next two-three years.
- Consequently, we expect 17% sales CAGR to INR25b over FY23-25.

RoW - Growth to be led by new launches/market share gain

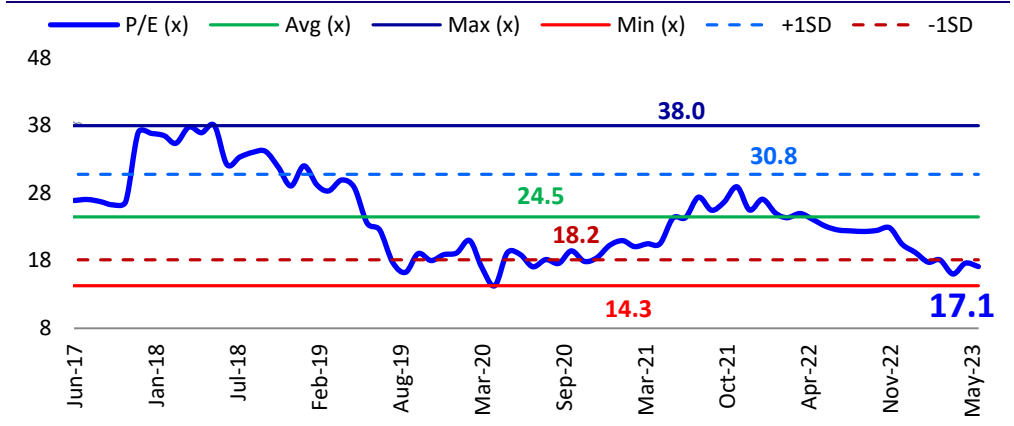
- In FY23, RoW sales grew 10% to INR24b, led by growth across Russia, Middle-East and LATAM with Ryaltris, among other products, performing well in these markets.
- Considering new launches and market share gains in the respiratory segment across these regions, we expect a 6.5% sales CAGR to INR22b over FY23-25

Reiterate Neutral

- We raise our EPS estimate for FY24/FY25 by 3%/5% to factor in a) the increase in Ryaltris sales across multiple markets and expansion into newer markets, b) reduced innovative R&D expenses, and c) superior execution in the UK, Spain, and RoW markets. We value GNP at 12x 12M forward earnings to arrive at a price target of INR580.

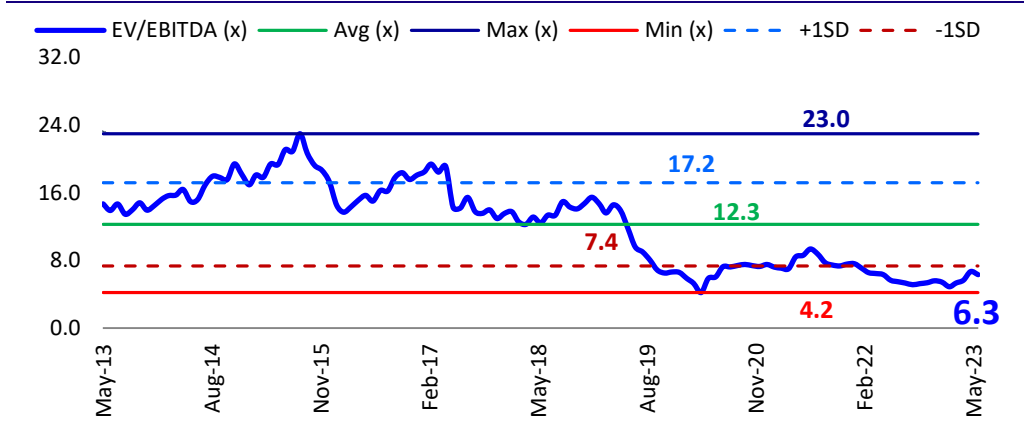
■ GNP is making efforts toward a) enhancing DF segment prospects through new launches, b) gaining market share as well as expanding into newer markets in RoW/EU segment and c) resolving regulatory issues at Monroe/Goa/Baddi. However, we reiterate our Neutral stance as current valuation adequately factors the upside in the earnings.

Exhibit 8: P/E chart



Source: MOFSL, Company, Bloomberg

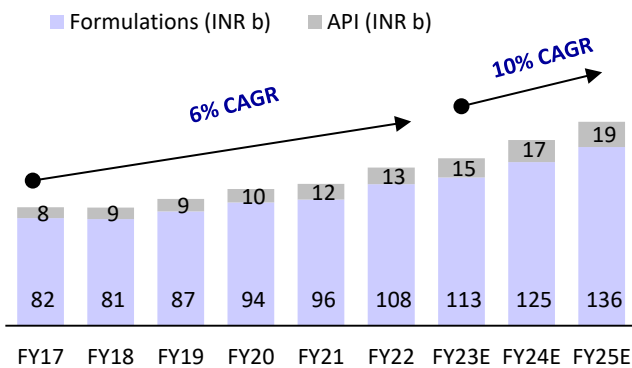
Exhibit 9: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

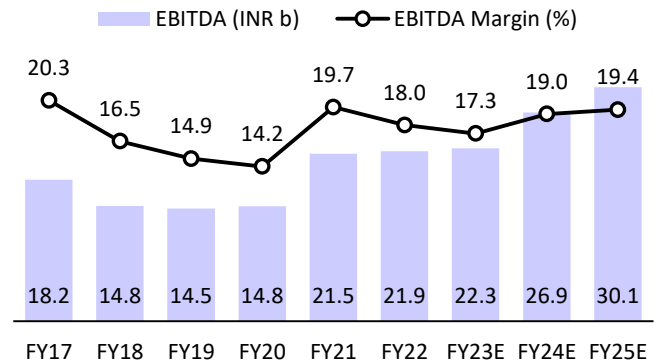
Story in charts

Exhibit 10: Expect sales CAGR of 10% over FY23–25



Source: Company, MOFSL

Exhibit 11: EBITDA margin to expand 210bp over FY23–25



Source: Company, MOFSL

Exhibit 12: R&D spend as a percentage of sales to decline over FY23-25

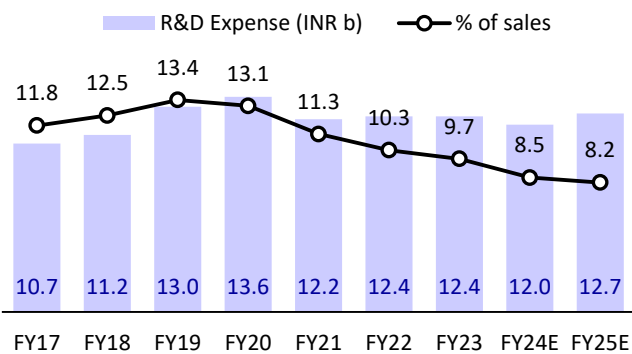
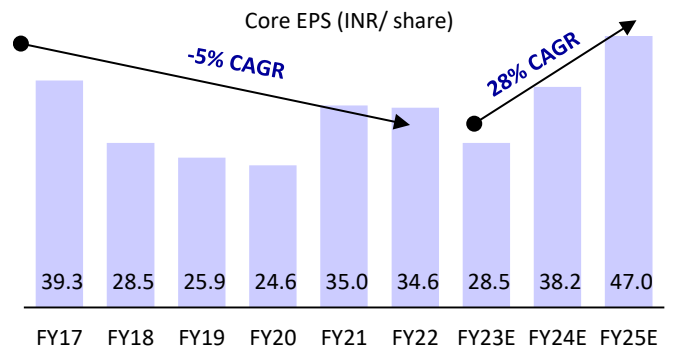
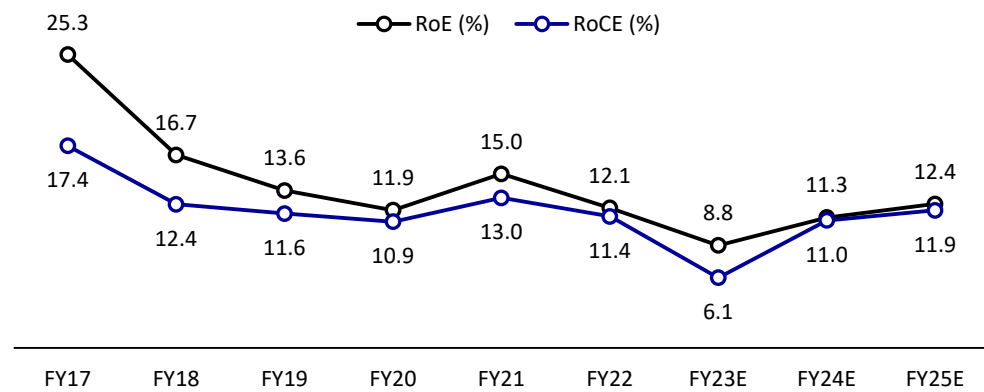


Exhibit 13: Expect 28% EPS CAGR over FY23–25



Source: Company, MOFSL

Exhibit 14: Return ratios on the improvement mode



Source: Company, MOFSL

Financials and valuations

Income Statement								(INRm)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	89,722	97,051	103,972	109,439	121,339	128,959	140,993	154,926
Change (%)	0.0	8.2	7.1	5.3	10.9	6.3	9.3	9.9
EBITDA	14,845	14,504	14,793	21,544	21,881	22,251	26,855	30,122
Change (%)	-18.5	-2.3	2.0	45.6	1.6	1.7	20.7	12.2
Margin (%)	16.5	14.9	14.2	19.7	18.0	17.3	19.0	19.4
Depreciation	3,019	3,259	4,172	4,436	4,867	6,113	6,617	6,765
EBIT	11,827	11,245	10,622	17,108	17,014	16,139	20,238	23,357
Interest	2,856	3,346	3,773	3,531	2,981	3,496	4,536	4,109
OI & forex gains/losses	2,222	2,105	2,623	501	617	228	875	850
PBT before EO Expense	11,193	10,004	9,472	14,078	14,650	12,871	16,577	20,098
Change (%)	-28.8	-10.6	-5.3	48.6	4.1	-12.1	28.8	21.2
Extra Ordinary Expense	0	-3,002	-1,489	255	237	4,186	0	0
PBT after EO Exp.	11,193	13,006	10,961	13,824	14,412	8,685	16,577	20,098
Tax	3,155	3,756	3,201	4,124	4,476	4,911	5,802	6,833
Tax Rate (%)	28.2	28.9	29.2	29.8	31.1	56.5	35.0	34.0
Reported PAT	8,039	9,250	7,760	9,700	9,417	3,774	10,775	13,265
Adj PAT**	8,039	7,312	6,938	9,870	9,752	8,041	10,775	13,265
Change (%)	-27.5	-9.0	-5.1	42.3	-1.2	-17.5	34.0	23.1
Margin (%)	9.0	7.5	6.7	9.0	8.0	6.2	7.6	8.6

Balance Sheet								(INRm)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	282	282	282	282	282	282	282	282
Reserves	51,353	55,770	60,423	70,364	90,584	90,584	100,340	112,585
Net Worth	51,635	56,052	60,705	70,646	90,866	90,866	100,622	112,867
Minority Interest	-4	-4	-4	-4	3,515	3,653	3,653	3,653
Loans	44,368	38,768	44,856	44,018	36,703	43,477	42,322	41,201
Deferred liabilities	-13,203	-13,830	-14,393	-15,059	-16,546	-17,630	-17,629	-17,628
Capital Employed	82,797	80,986	91,164	99,602	114,538	120,367	128,968	140,093
Gross Block	49,054	59,080	76,501	82,266	93,966	103,703	109,753	115,753
Less: Accum. Deprn.	17,473	20,732	24,903	29,339	34,206	40,319	46,936	53,701
Net Fixed Assets	31,581	38,348	51,598	52,927	59,760	63,385	62,817	62,052
Capital WIP	9,933	12,344	10,906	12,178	9,211	11,152	11,152	11,152
Investments	147	297	246	246	496	446	446	446
Intangibles (net)	12,623	17,370	21,821	23,349	22,854	24,343	24,343	24,343
Curr. Assets	71,090	68,070	69,541	75,338	84,504	100,675	98,600	114,537
Inventory	20,306	22,521	21,356	22,768	24,998	29,778	29,357	30,985
Account Receivables	23,318	21,946	24,090	25,721	31,011	40,986	35,538	38,201
Cash and Bank Balance	12,347	9,378	11,112	11,392	14,115	14,697	16,997	26,991
Others	15,120	14,226	12,982	15,457	14,379	15,214	16,708	18,360
Curr. Liability & Prov.	29,954	38,072	41,127	41,087	39,433	55,290	44,048	48,094
Account Payables	25,914	33,689	35,975	35,944	34,519	50,215	40,946	44,992
Provisions	4,040	4,384	5,152	5,143	4,914	5,075	3,102	3,102
Net Current Assets	41,136	29,998	28,414	34,250	45,071	45,385	54,552	66,443
Appl. of Funds	82,797	80,986	91,164	99,602	114,538	120,367	128,968	140,093

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS (Fully diluted)*	28.5	25.9	24.6	35.0	34.6	28.5	38.2	47.0
Cash EPS	39.2	37.5	39.4	50.7	51.8	50.2	61.6	71.0
BV/Share	183.0	198.6	215.1	250.4	322.0	322.0	356.6	400.0
DPS	3.0	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	27.0	9.5	7.7
Valuation (x)								
P/E (Fully diluted)	21.2	23.3	24.6	17.3	17.5	21.2	15.8	12.9
Cash P/E	15.4	16.1	15.4	11.9	11.7	12.1	9.8	8.5
P/BV	3.3	3.0	2.8	2.4	1.9	1.9	1.7	1.5
EV/Sales	2.3	2.1	2.0	1.9	1.6	1.5	1.4	1.2
EV/EBITDA	13.7	13.8	13.8	9.4	8.8	9.0	7.3	6.1
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Return Ratios (%)								
RoE	16.7	13.6	11.9	15.0	12.1	8.8	11.3	12.4
RoCE	12.4	11.6	10.9	13.0	11.4	6.1	11.0	11.9
RoIC	16.4	17.3	15.3	17.8	15.3	7.4	12.0	13.4
Working Capital Ratios								
Fixed Asset Turnover (x)	3.0	2.8	2.3	2.1	2.2	2.1	2.2	2.5
Debtor (Days)	95	83	85	86	93	116	92	90
Inventory (Days)	83	85	75	76	75	84	76	73
Working Capital (Days)	117	78	61	76	93	87	97	93
Leverage Ratio (x)								
Current Ratio	2.4	1.8	1.7	1.8	2.1	1.8	2.2	2.4
Net Debt/Equity	0.6	0.5	0.6	0.5	0.2	0.3	0.3	0.1

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INRm)								
Op. Profit/(Loss) before Tax	14,845	14,504	14,793	21,544	21,881	22,251	26,855	30,122
Interest/Dividends Recd.	2,222	2,105	2,623	501	617	228	875	850
Direct Taxes Paid	-3,501	-4,383	-3,764	-4,791	-5,963	-5,994	-5,801	-6,832
(Inc)/Dec in WC	5,889	8,169	3,318	-5,557	-8,097	268	-6,868	-1,896
CF from Operations	19,455	20,395	16,971	11,697	8,438	16,753	15,061	22,244
EO Expense	0	-3,002	-1,489	255	237	4,186	0	0
CF frm Op.incl EO Exp.	16,481	13,242	13,242	13,242	8,201	12,567	15,061	22,244
(Inc)/Dec in FA	-9,901	-12,437	-15,984	-7,036	-8,733	-11,678	-6,050	-6,000
Free Cash Flow	6,580	805	-2,742	6,205	-533	889	9,011	16,244
(Pur)/Sale of Investments	10	-150	51	0	-250	50	0	0
CF from Investments	-10,133	-6,990	-6,990	-6,990	-8,983	-11,628	-6,050	-6,000
Change in Networth	-512	-3,814	-2,409	952	11,822	-2,755	-1	-1
Inc/(Dec) in Debt	-3,598	-5,601	6,088	-837	-3,797	6,912	-1,156	-1,121
Interest Paid	-2,856	-3,346	-3,773	-3,531	-2,981	-3,496	-4,536	-4,109
Dividend Paid	-817	-1,019	-698	-710	-1,019	-1,019	-1,019	-1,019
CF from Fin. Activity	-4,685	-7,387	-7,387	-7,387	3,516	-357	-6,711	-6,249
Inc/Dec of Cash	1,662	-1,136	-1,136	-1,136	2,733	582	2,300	9,994
Add: Beginning Balance	10,565	12,347	9,378	11,112	11,392	14,115	14,697	16,997
Effect of exchange rate	120	-1,833	-1,833	-1,833	0	0	0	0
Closing Balance	12,347	9,378	6,409	8,144	14,115	14,697	16,997	26,991

E: MOFSL Estimates

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NOTES

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BUY	>=15%
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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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