

Rating: REDUCE | CMP: Rs609 | TP: Rs570

May 23, 2023

## Q4FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		ACCUMULATE	
Target Price	570		460	
Sales (Rs. m)	1,37,570	1,48,562	1,40,013	1,51,424
% Chng.	(1.7)	(1.9)		
EBITDA (Rs. m)	24,762	27,094	24,485	26,740
% Chng.	1.1	1.3		
EPS (Rs.)	33.4	37.9	33.3	37.8
% Chng.	0.4	0.2		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,23,049	1,29,903	1,37,570	1,48,562
EBITDA (Rs. m)	23,453	22,786	24,762	27,094
Margin (%)	19.1	17.5	18.0	18.2
PAT (Rs. m)	9,417	2,974	9,430	10,693
EPS (Rs.)	42.6	37.7	33.4	37.9
Gr. (%)	29.9	(11.6)	(11.3)	13.4
DPS (Rs.)	3.0	3.0	4.0	4.0
Yield (%)	0.5	0.5	0.7	0.7
RoE (%)	11.7	3.2	9.5	9.9
RoCE (%)	15.2	12.5	12.8	13.3
EV/Sales (x)	1.6	1.5	1.4	1.3
EV/EBITDA (x)	8.3	8.8	7.8	7.0
PE (x)	14.3	16.2	18.2	16.1
P/BV (x)	1.9	1.8	1.7	1.5

### Key Data

GLEN.BO | GNP IN

52-W High / Low	Rs.630 / Rs.349
Sensex / Nifty	61,982 / 18,348
Market Cap	Rs.172bn/ \$ 2,075m
Shares Outstanding	282m
3M Avg. Daily Value	Rs.806.92m

### Shareholding Pattern (%)

Promoter's	46.65
Foreign	22.46
Domestic Institution	9.83
Public & Others	21.06
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	19.0	43.2	50.7
Relative	14.6	42.1	32.0

### Param Desai

paramdesai@plndia.com | 91-22-66322259

### Akshaya Shinde

akshayashinde@plndia.com | 91-22-66322490

## Sharp increase in working capital

### Quick Pointers:

- Guided 19-20% OPM for FY24.
- Expects lower remediation cost in FY24; NWC days to normalize in FY24.

**We downgrade our rating to 'Reduce' from Accumulate with revised TP of Rs570/share (Rs460 earlier) valuing at 15x FY25E EPS, given recent up in stock price and muted outlook on earnings. Glenmark Pharma's (GNP) Q4 EBITDA of Rs6.1bn (down 2.5% QoQ) was largely in-line with our estimates. However, there has been delay in monetization of Ichnos stake sale. Balance sheet has also seen deterioration with net working capital (NWC) days increasing to 157 from 111 days in FY22. Despite stake sale in Glenmark Lifescience and certain brand divestments in domestic formulation, debt continues to remain at elevated levels. Overall FY23 performance was muted, adjusted for milestone income from Ryaltris. We have factored in 9% EBITDA CAGR over FY23-25E. At CMP, stock is trading at 18x FY24E P/E. Any potential stake sale in Ichnos and meaningful debt reduction will be key catalyst for re-rating. Downgrade to 'Reduce'.**

- Strong revenue performance across RoW and EU markets:** Revenue grew 12% YoY to Rs33.7bn, in-line with our estimates. India formulations declined by 6%. US remained steady with growth of 2% QoQ to US\$104mn. LATAM sales declined by 23% YoY, due to continued challenges in Brazil. RoW reported robust growth of 25% YoY, aided by strong traction in Ryaltris. EU continued to report healthy growth of 22% YoY, led by robust traction from respiratory portfolio and benefit of supply disruption in pharma market.
- In-line EBITDA at Rs6.1bn; flat QoQ:** GM declined by 167 bps QoQ and 120bps YoY to 64.7%. R&D cost came in higher at 10% of sales, up 4% YoY and 22% QoQ to Rs3.4bn. Other expenses decreased by 3% YoY and flat QoQ. Resultant OPM came in at 17.9%; flat QoQ. EBITDA increased 31%YoY (down 3% QoQ) to Rs6.1bn; in line with our estimate. There was exceptional loss to tune of Rs8bn, primarily on account of settlement of litigation related to generic Zetia in the US, divestment of brands in India and remediation cost.
- Key concall takeaways: (1) US sales-** Launched 8 new products with first companies to launch generic Teriflunomide (Aubagi) Tablets. GNP intends to file 10-12 ANDAs in FY24. **(2) Ryaltris** – Partner Hikma sees strong growth in Rx and also received positive feedback from senior allergy physicians in the US. The product submitted in 70+ countries while commercialized in 27 markets. GNP's partner in EU, Menarini, initiated commercial launch in Austria, Belgium, France and Spain in Q4FY23 to launch in FY24. GNP's partner in mainland China aims to complete phase-3 study; will likely submit its marketing authorization in H2FY24. **(3) R&D** was at Rs12.4bn in FY23 of which US\$85.2mn was spend on Ichnos **(5) India business:** The impact of the divestiture of a few non-core brands and NLEM price changes impacted Q4 sales. **(6) Net debt** stands at Rs29bn (Rs22.6bn as of Mar'22). GNP focus is on enhancing its free cash generation for debt reduction in the future. Most of the remediation work at the Baddi plant is expected to be done in Q1FY24 **(7) Key FY24 guidance reiterated:** Revenue growth of 10-11%; EBITDA margin to increase at 19-20% with capex of Rs 6-7bn. R&D investment at 8-8.5% of sales

**Exhibit 1: Q4FY23 Result Overview (Rs mn) : Growth across EU and RoW markets; one-time charges impact the profitability**

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr.(%)	FY23	FY22	YoY gr. (%)
<b>Net Sales</b>	<b>33,737</b>	<b>30,191</b>	<b>11.7</b>	<b>34,639</b>	<b>(2.6)</b>	<b>129,901</b>	<b>123,048</b>	<b>5.6</b>
Raw Material	11,921	10,309	15.6	11,661	2.2	45,370	43,853	3.5
<i>% of Net Sales</i>	<i>35.3</i>	<i>34.1</i>		<i>33.7</i>		<i>34.9</i>	<i>35.6</i>	
Employee Costs	6,576	5,777	13.8	7,560	(13.0)	27,810	24,474	13.6
<i>% of Net Sales</i>	<i>19.5</i>	<i>19.1</i>		<i>21.8</i>		<i>21.4</i>	<i>19.9</i>	
Others	9,191	9,472	(3.0)	9,216	(0.3)	33,938	31,349	8.3
<i>% of Net Sales</i>	<i>27.2</i>	<i>31.4</i>		<i>26.6</i>		<i>26.1</i>	<i>25.5</i>	
Total Expenditure	27,687	25,557	8.3	28,436	(2.63)	107,117	99,676	7.5
<b>EBITDA</b>	<b>6,050</b>	<b>4,634</b>	<b>30.5</b>	<b>6,202</b>	<b>(2.5)</b>	<b>22,783</b>	<b>23,372</b>	<b>(2.5)</b>
<i>Margin (%)</i>	<i>17.9</i>	<i>15.3</i>		<i>17.9</i>		<i>17.5</i>	<i>19.0</i>	
Depreciation	1,465	1,315	11.4	1,623	(9.7)	6,113	4,867	25.6
<b>EBIT</b>	<b>4,584</b>	<b>3,319</b>	<b>38.1</b>	<b>4,580</b>	<b>0.1</b>	<b>16,671</b>	<b>18,505</b>	<b>(9.9)</b>
Other Income	(402)	1,072	(137.5)	764	(152.6)	3,168	1,497	111.6
Interest	1,093	869	25.8	973	12.3	3,496	2,981	17.3
<b>PBT</b>	<b>3,090</b>	<b>3,522</b>	<b>(12.3)</b>	<b>4,371</b>	<b>(29.3)</b>	<b>16,343</b>	<b>17,021</b>	<b>(4.0)</b>
Extra-Ord. Inc./Exps.	7,997	825		(339)		7,659	2,610	
Total Taxes	(876)	971	(190.2)	1,802	(148.6)	4,910	4,476	9.7
<i>ETR (%)</i>	<i>(28.4)</i>	<i>27.6</i>		<i>41.2</i>		<i>30.0</i>	<i>26.3</i>	
Minority interest	(252)	(170)		(182)		(802)	(350)	
<b>Reported PAT</b>	<b>(4,283)</b>	<b>1,556</b>	<b>(375.3)</b>	<b>2,726</b>	<b>(257.1)</b>	<b>2,972</b>	<b>9,586</b>	<b>(69.0)</b>

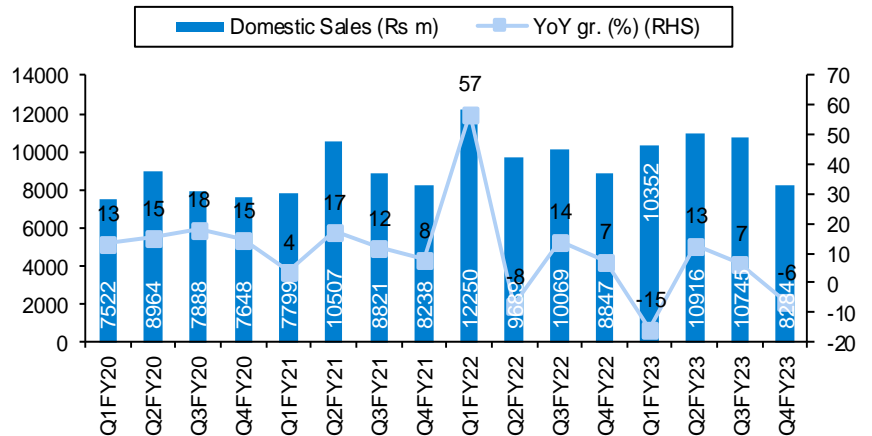
Source: Company, PL

**Exhibit 2: Robust growth in EU and RoW business; India business growth was muted**

Major sources of revenues	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr.(%)	FY23	FY22	YoY gr. (%)
<b>Glenmark generics</b>	<b>12,338</b>	<b>10,661</b>	<b>15.7</b>	<b>12,129</b>	<b>1.7</b>	<b>45,623</b>	<b>43,075</b>	<b>5.9</b>
US generics	8,507	7,378	15.3	8,373	1.6	31,041	30,366	2.2
APIs	3,831	3,283	16.7	3,756	2.0	14,582	12,709	14.7
<b>Glenmark Pharma (Branded generics)</b>	<b>21,216</b>	<b>19,293</b>	<b>10.0</b>	<b>22,218</b>	<b>(4.5)</b>	<b>82,167</b>	<b>77,745</b>	<b>5.7</b>
India Formulations	8,284	8,847	(6.4)	10,745	(22.9)	40,297	40,855	(1.4)
EU branded generics	6,078	4,968	22.3	4,932	23.2	18,095	15,217	18.9
ROW market	6,856	5,479	25.1	6,541	4.8	23,777	21,672	9.7

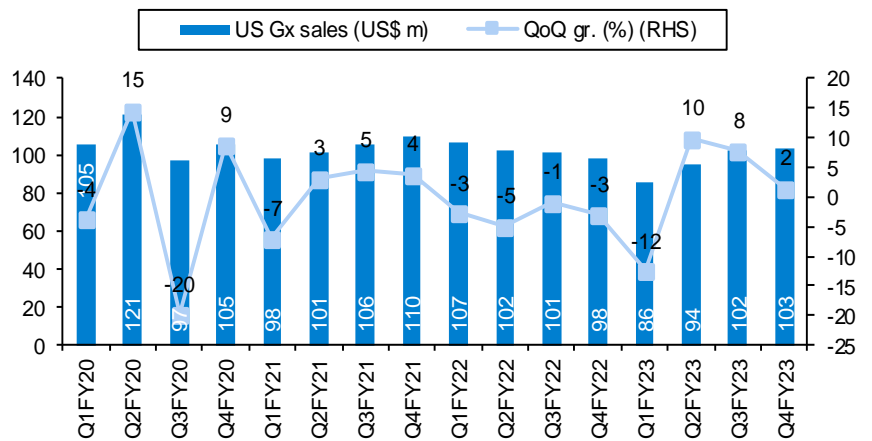
Source: Company, PL

**Exhibit 3: Growth remain muted impacted by divestment and NLEM**



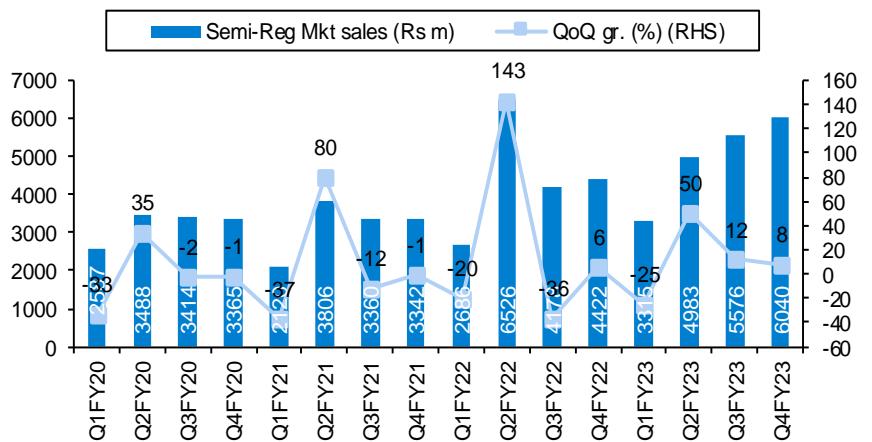
Source: Company, PL

**Exhibit 4: US performance flat QoQ**



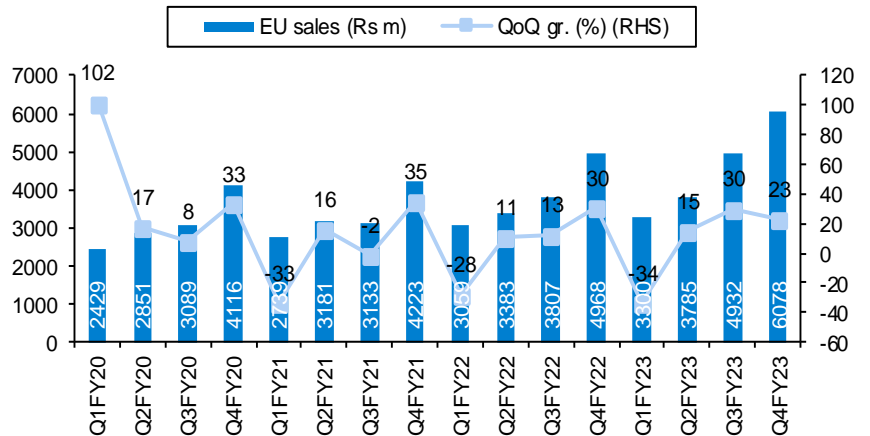
Source: Company, PL

**Exhibit 5: Steady growth momentum continued**



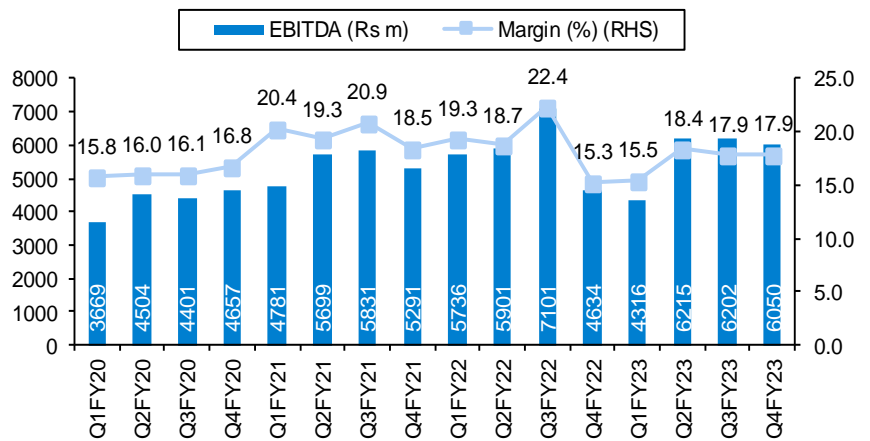
Source: Company, PL

**Exhibit 6: Strong QoQ growth reported by EU market**



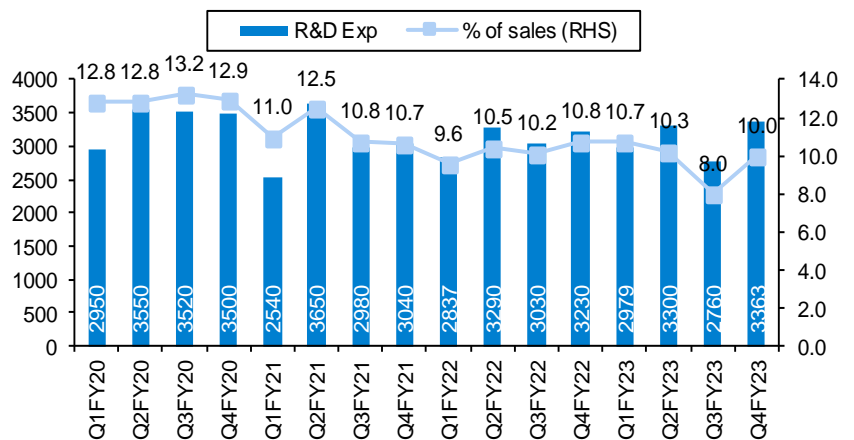
Source: Company, PL

**Exhibit 7: EBITDAM remain flat QoQ**



Source: Company, PL

**Exhibit 8: R&D sales came in higher at 10% of sales**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>1,23,049</b>	<b>1,29,903</b>	<b>1,37,570</b>	<b>1,48,562</b>
YoY gr. (%)	12.4	5.6	5.9	8.0
Cost of Goods Sold	43,853	45,370	47,034	50,736
Gross Profit	79,196	84,534	90,536	97,826
Margin (%)	64.4	65.1	65.8	65.8
Employee Cost	24,474	27,810	30,312	33,192
Other Expenses	31,269	33,938	35,461	37,540
<b>EBITDA</b>	<b>23,453</b>	<b>22,786</b>	<b>24,762</b>	<b>27,094</b>
YoY gr. (%)	8.6	(2.8)	8.7	9.4
Margin (%)	19.1	17.5	18.0	18.2
Depreciation and Amortization	4,867	6,113	6,663	7,262
<b>EBIT</b>	<b>18,586</b>	<b>16,673</b>	<b>18,099</b>	<b>19,832</b>
Margin (%)	15.1	12.8	13.2	13.3
Net Interest	2,981	3,496	3,300	3,000
Other Income	1,417	3,168	750	750
<b>Profit Before Tax</b>	<b>17,021</b>	<b>16,345</b>	<b>15,549</b>	<b>17,582</b>
Margin (%)	13.8	12.6	11.3	11.8
Total Tax	4,476	4,911	5,131	5,802
Effective tax rate (%)	26.3	30.0	33.0	33.0
<b>Profit after tax</b>	<b>12,545</b>	<b>11,435</b>	<b>10,418</b>	<b>11,780</b>
Minority interest	519	802	988	1,087
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>9,417</b>	<b>2,974</b>	<b>9,430</b>	<b>10,693</b>
YoY gr. (%)	(2.9)	(68.4)	217.0	13.4
Margin (%)	7.7	2.3	6.9	7.2
Extra Ord. Income / (Exp)	2,609	7,659	-	-
<b>Reported PAT</b>	<b>12,026</b>	<b>10,633</b>	<b>9,430</b>	<b>10,693</b>
YoY gr. (%)	29.9	(11.6)	(11.3)	13.4
Margin (%)	9.8	8.2	6.9	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,026	10,633	9,430	10,693
<b>Equity Shares O/s (m)</b>	<b>282</b>	<b>282</b>	<b>282</b>	<b>282</b>
<b>EPS (Rs)</b>	<b>42.6</b>	<b>37.7</b>	<b>33.4</b>	<b>37.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,00,317</b>	<b>1,09,445</b>	<b>1,18,445</b>	<b>1,27,445</b>
Tangibles	49,536	54,044	58,488	62,932
Intangibles	50,780	55,401	59,957	64,513
<b>Acc: Dep / Amortization</b>	<b>42,044</b>	<b>48,157</b>	<b>54,820</b>	<b>62,082</b>
Tangibles	16,163	18,513	21,074	23,866
Intangibles	25,881	29,644	33,746	38,216
<b>Net fixed assets</b>	<b>58,272</b>	<b>61,288</b>	<b>63,625</b>	<b>65,362</b>
Tangibles	33,373	35,531	37,414	39,066
Intangibles	24,899	25,757	26,211	26,297
Capital Work In Progress	10,099	12,513	12,513	12,513
Goodwill	600	736	736	736
Non-Current Investments	496	447	447	447
Net Deferred tax assets	16,546	17,630	17,630	17,630
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	24,998	29,778	32,482	35,077
Trade receivables	31,011	40,986	41,460	44,772
Cash & Bank Balance	14,115	14,697	20,868	24,142
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,53,972</b>	<b>1,75,658</b>	<b>1,88,104</b>	<b>1,99,822</b>
<b>Equity</b>				
Equity Share Capital	282	282	282	282
Other Equity	90,584	94,457	1,02,566	1,11,938
<b>Total Networkth</b>	<b>90,866</b>	<b>94,739</b>	<b>1,02,849</b>	<b>1,12,221</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	10,986	4,956	4,956	4,956
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	25,717	38,521	37,521	36,521
Trade payables	22,887	23,919	28,268	30,527
Other current liabilities	16,547	27,499	27,499	27,499
<b>Total Equity &amp; Liabilities</b>	<b>1,53,972</b>	<b>1,75,658</b>	<b>1,88,104</b>	<b>1,99,822</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	21,567	20,169	21,399	22,832
Add. Depreciation	4,867	6,113	6,663	7,262
Add. Interest	(2,981)	(3,496)	(3,300)	(3,000)
Less Financial Other Income	1,417	3,168	750	750
Add. Other	-	(6,520)	-	-
Op. profit before WC changes	23,453	16,266	24,762	27,094
Net Changes-WC	(5,234)	(3,604)	411	(4,448)
Direct tax	(5,584)	(6,405)	(5,131)	(5,802)
<b>Net cash from Op. activities</b>	<b>12,634</b>	<b>6,256</b>	<b>20,042</b>	<b>16,844</b>
Capital expenditures	(7,091)	(6,650)	(9,000)	(9,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(7,091)</b>	<b>(6,650)</b>	<b>(9,000)</b>	<b>(9,000)</b>
Issue of share cap. / premium	10,119	-	-	-
Debt changes	(10,882)	4,772	(1,000)	(1,000)
Dividend paid	(927)	(1,366)	(1,321)	(1,321)
Interest paid	(2,981)	(3,496)	(3,300)	(3,000)
Others	1,852	1,065	750	750
<b>Net cash from Fin. activities</b>	<b>(2,820)</b>	<b>976</b>	<b>(4,871)</b>	<b>(4,571)</b>
<b>Net change in cash</b>	<b>2,724</b>	<b>582</b>	<b>6,171</b>	<b>3,274</b>
Free Cash Flow	5,543	178	11,042	7,844

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>27,773</b>	<b>33,752</b>	<b>34,639</b>	<b>33,737</b>
YoY gr. (%)	(6.3)	7.2	9.2	11.7
Raw Material Expenses	10,120	11,667	11,661	11,921
Gross Profit	17,653	22,085	22,978	21,816
Margin (%)	63.6	65.4	66.3	64.7
<b>EBITDA</b>	<b>4,316</b>	<b>6,215</b>	<b>6,202</b>	<b>6,050</b>
YoY gr. (%)	(24.8)	5.3	(12.7)	30.5
Margin (%)	15.5	18.4	17.9	17.9
Depreciation / Depletion	1,468	1,557	1,623	1,465
<b>EBIT</b>	<b>2,849</b>	<b>4,658</b>	<b>4,580</b>	<b>4,584</b>
Margin (%)	10.3	13.8	13.2	13.6
Net Interest	600	831	973	1,093
Other Income	1,832	974	764	(402)
<b>Profit before Tax</b>	<b>4,080</b>	<b>4,802</b>	<b>4,371</b>	<b>3,090</b>
Margin (%)	14.7	14.2	12.6	9.2
Total Tax	1,969	2,015	1,802	(876)
Effective tax rate (%)	48.3	42.0	41.2	(28.4)
<b>Profit after Tax</b>	<b>2,111</b>	<b>2,786</b>	<b>2,569</b>	<b>3,966</b>
Minority interest	186	182	182	252
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,925</b>	<b>2,604</b>	<b>2,726</b>	<b>(4,283)</b>
YoY gr. (%)	(37.2)	1.1	22.8	(375.3)
Margin (%)	6.9	7.7	7.9	(12.7)
Extra Ord. Income / (Exp)	-	-	(339)	7,997
<b>Reported PAT</b>	<b>1,925</b>	<b>2,604</b>	<b>2,387</b>	<b>3,714</b>
YoY gr. (%)	(37.2)	1.1	(40.4)	56.0
Margin (%)	6.9	7.7	6.9	11.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,925</b>	<b>2,604</b>	<b>2,387</b>	<b>3,714</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>6.8</b>	<b>9.2</b>	<b>8.5</b>	<b>13.2</b>

Source: Company Data, PL Research

## Key Financial Metrics

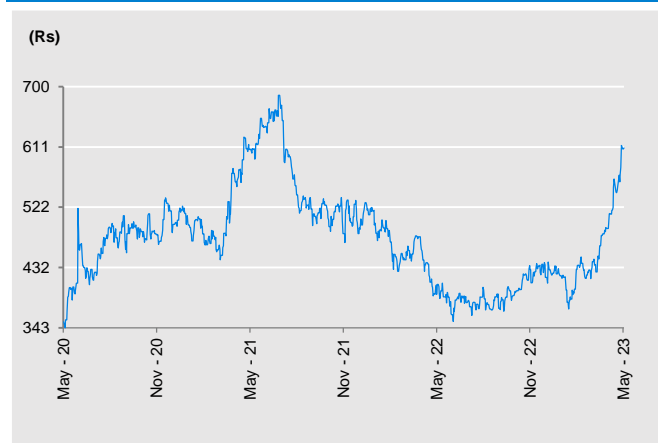
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	42.6	37.7	33.4	37.9
CEPS	50.6	32.2	57.0	63.6
BVPS	322.0	335.8	364.5	397.7
FCF	19.6	0.6	39.1	27.8
DPS	3.0	3.0	4.0	4.0
<b>Return Ratio(%)</b>				
RoCE	15.2	12.5	12.8	13.3
ROIC	13.3	10.4	10.8	11.3
RoE	11.7	3.2	9.5	9.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.3	0.2	0.2
Net Working Capital (Days)	98	132	121	121
<b>Valuation(x)</b>				
PER	14.3	16.2	18.2	16.1
P/B	1.9	1.8	1.7	1.5
P/CEPS	12.0	18.9	10.7	9.6
EV/EBITDA	8.3	8.8	7.8	7.0
EV/Sales	1.6	1.5	1.4	1.3
Dividend Yield (%)	0.5	0.5	0.7	0.7

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Formulations	1,08,111	1,13,211	1,19,762	1,29,784
Domestic Sales	40,855	40,298	43,668	48,035
Semi Regulated	17,810	19,915	20,198	22,079
LatAM	3,862	3,862	4,248	4,673
US business	30,366	31,042	33,145	35,140
Europe	15,218	18,094	18,502	19,858
API	12,709	14,582	15,309	16,278
Outlicensing and other op. inc	2,229	2,110	2,500	2,500

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	Accumulate	460	480
2	14-Feb-23	Accumulate	460	423
3	06-Jan-23	Accumulate	460	434
4	19-Nov-22	Accumulate	460	410
5	06-Oct-22	Accumulate	450	401
6	07-Jul-22	Accumulate	450	390
7	31-May-22	Accumulate	450	409

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	2,890
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Accumulate	460	480
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	965	760
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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