

BSE Code: 532296

NSE Code: GLENMARK

Reuters Code: GLEN:NS

Bloomberg Code: GNP:IN

**Complex product launches and Specialty businesses to drive growth**

Glenmark is an India-based pharmaceutical company with commercial presence in more than 60 countries across the globe. It manufactures and markets generic formulation products & active pharmaceutical ingredients (API). The company has been focusing on key areas including inflammation (asthma/COPD, rheumatoid arthritis etc.) and pain (neuropathic pain and inflammatory pain). Further, several molecules of the company are in various stages of clinical development.

**Investment Rationale**

**Potential launches to drive the US growth over next two years**

The current product portfolio of the company's US business (32% of the total revenues) consists of 176 products (113 approved products and 63 ANDAs (Abbreviated New Drug Application) pending for approval with the USFDA). Importantly, 26 ANDAs are Para IV ANDAs (first applicant to submit a completed ANDA will get marketing exclusivity for 180 days) with an addressable market size of USD19bn. Further, Glenmark plans to launch several high value products in US in FY18E with an addressable market size of USD11bn. Additionally, the company expects 10-12 approvals in FY18E with higher share of approvals for specialty drugs. We expect US sales to report a robust CAGR of 27.9% over FY16-19E on strong sales of Zetia coupled with healthy pipeline of launches in specialty & complex products (24 Para IV pending applications with the FDA).

**Indian business to sustain the current momentum**

During FY16, Glenmark witnessed increase in market share across various therapeutic segments in the domestic business. While market share in Cardiac segment increased from 3.72% in FY15 to 3.97% in FY16, Respiratory segment witnessed improvement from 3.8% to 4.12%. Similarly, the market share in Anti-diabetic & Derma segment rose from 2.03% to 2.19% & 7.92% to 8.59% respectively. Importantly in FY16, it successfully launched Teneeligliptin (for the treatment of type 2 diabetes) for the first time in India and has already garnered sales of more than Rs100cr. While the domestic business has grown at a healthy pace of ~20% over FY11-16, we expect it to witness a modest growth of 9.5% CAGR over FY16-19E on the backdrop of FDC ban and price regulations imposed on certain medicines.

**gSeretide launch to drive Europe revenues**

Glenmark has entered into a strategic development & licensing agreement (for 10 years) with Celon Pharma to develop and market generic version of Seretide (market size of ~USD800mn in Europe) across 15 European nations. It has already filed this product in 7 countries and will file in the remaining ones during FY18E. We expect Europe business to grow at a CAGR of 10% over FY16-19E led by gSeretide launch.

**Valuation:** We expect revenue and PAT to grow at a CAGR of 15.1% and 21.4% respectively over FY16-19E. Further, we expect EBITDA margin to expand by 160bps to 22.4% over FY16-19E on account of on account of a) exclusivity (up to 180 days) on certain product launches including Zetia b) shifting of portfolio mix towards high-margin niche products Hence, we recommend Glenmark with 'BUY' rating with a TP of Rs1039 based on 19.5x FY19E PE.

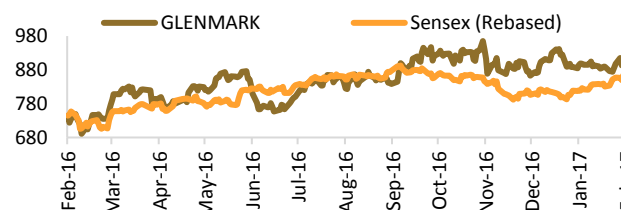
**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	947
<b>Target (Rs.)</b>	1,039
<b>Potential Upside</b>	10%
<b>Duration</b>	Long Term
Face Value (Rs.)	1.0
52 week H/L (Rs.)	993/714
Adj. all time High (Rs.)	993
Decline from 52WH (%)	4.6
Rise from 52WL (%)	32.6
Beta	0.7
Mkt. Cap (Rs.Cr)	26,718

**Fiscal Year Ended**

Y/E	FY16	FY17E	FY18E	FY19E
Net sales (Rs.Cr)	7,650	9,420	10,517	11,669
Adj. profit (Rs.Cr)	861	1,336	1,485	1,543
EPS (Rs.)	30.5	58.0	67.0	80.5
P/E (x)	30.8	25.7	22.2	18.5
P/BV (x)	6.1	5.1	4.2	3.5
ROE (%)	21.9	21.6	20.8	20.8

**One year Price Chart**

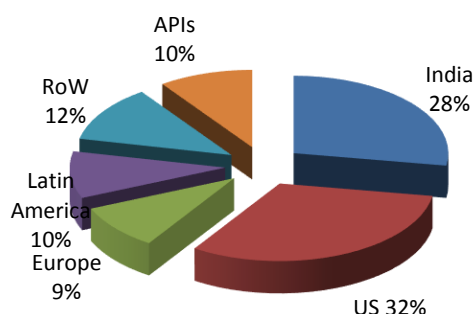


Shareholding Pattern	Dec-16	Sep-16	Chg.
Promoters (%)	46.5	46.5	0
Public (%)	53.5	53.5	0

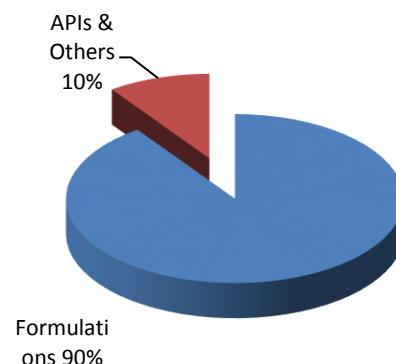
### Company Overview

Glenmark is an India-based pharmaceutical company with commercial presence in more than 60 countries across the globe. It manufactures and markets generic formulation products & active pharmaceutical ingredients (API). The company derives more than 60% of its revenues from international operations. It is a leading player in the discovery of new molecules for both NCEs and NBEs category. The company has fully recovered the amount (USD200mn) spent on innovative R&D in the last nine years. The company has been focusing on areas such as inflammation (asthma/COPD, rheumatoid arthritis etc.) and pain (neuropathic pain and inflammatory pain).

#### Geography wise revenue breakup (FY16)



#### Business break-up (FY16)



Source: Company, In-house research

### US: Improving product approvals rate to drive the growth

US is the most important market for the company as it contributes 32% to total revenues. In the US, the company has achieved meaningful scale by launching products in niche therapies like Hormones, Controlled substances and Dermatology (Glenmark spends 11% of its total sales on R&D). Thus, the US business has grown at a CAGR of 24% over FY11-16. On the generics front, Glenmark is continuously filing products in the area of dermatology and injectables. Likewise, on the discovery front, the company has six molecules in various stages of clinical development with focus on Oncology, Respiratory and Dermatology.

#### Healthy pipeline of drugs

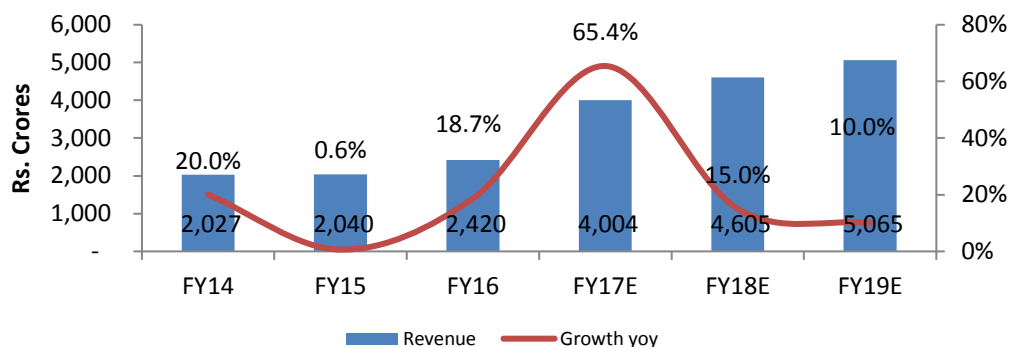
The current portfolio consists of 112 products and 63 ANDAs pending for approval (market size of ~USD36bn). Importantly 26 ANDAs are Para IV filings (first applicant to submit a completed ANDA will get marketing exclusivity for 180 days) with market potential of USD19bn and are focused Oral solids and Dermatology. Further, some of these products have the potential to generate sales in excess of USD10mn on a sustained basis.

During FY16, USFDA approvals for Glenmark have picked up on account of GDUFA guidelines (Generic Drug User Fee Amendment of 2012 to review and act on 90% of the ANDA backlogs by September 2017). While, Glenmark filed for 12 ANDAs, it received 24 approvals in FY16 (5 approvals in FY15). Of late, the company has received 4 approvals (market size USD840mn) including Frovatriptan Succinate (limited competition product with market size of USD88mn).

The company expects to file 20 ANDAs and launch 10-20 products annually going forward including 2 additional new inhalers with potential launch in CY18 and CY19. Further, it has signed 15 deals to in-license complex generics with market size of USD ~12bn.

We expect US sales to report a robust CAGR of 27.9% over FY16-19E on robust sales of Zetia coupled with strong pipeline of launches such as Crestor, Renvela, Welchol with market size of USD8.5bn.

#### US revenue to grow at 27.9% CAGR over FY16-19E



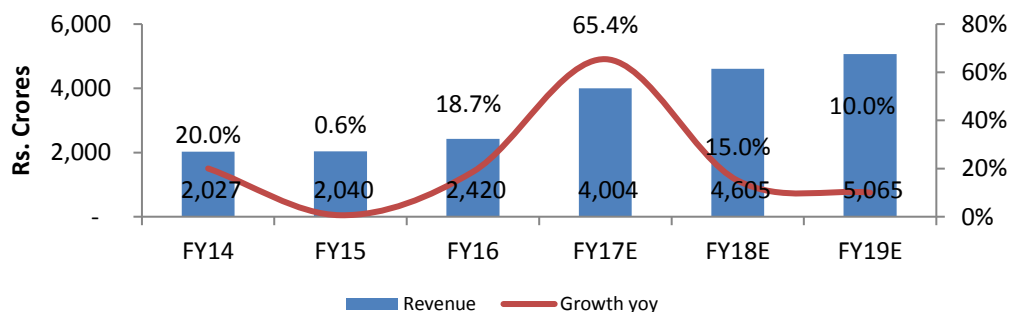
Source: Company, In-house research

#### Domestic business: On strong footing

The Indian formulations business contributed 28% to total revenues in FY16 and grew at a CAGR of 20% over FY11-16. In FY16, domestic business reported 21% growth vs. Indian pharmaceutical market (IPM) growth of 14%. Glenmark presently has 9 products which feature among the top 300 products in IPM. Sartans, Gliptins, cough & cold preparations and derma constitute two-thirds of the domestic sales. During FY16, the domestic business gained market share across various therapeutic segments. While market share in Cardiac segment increased from 3.72% in FY15 to 3.97% in FY16, Respiratory segment witnessed improvement from 3.8% to 4.12%. Similarly, the market share in Anti-diabetic & Derma segment rose from 2.03% to 2.19% & 7.92% to 8.59% respectively.

In FY16, the company launched Tenueligiptin (for the treatment of type 2 diabetes) for the first time in India under the brand names Ziten and Zita Plus and garnered sales of more than Rs100cr. This is one of the most successful launches in India over the last few years. We believe domestic business will continue to gain traction as company focuses on chronic therapy segments such as cardiac, dermatology & respiratory, which are growing at a faster pace than industry. However, we expect domestic revenues to grow at a modest CAGR of 9.5% over FY16-19E on account of two factors: 1) ban on FDC products and 2) impact of NLEM (National List of Essential Medicines).

#### Domestic business to grow at of 9.5% CAGR over FY16-19E

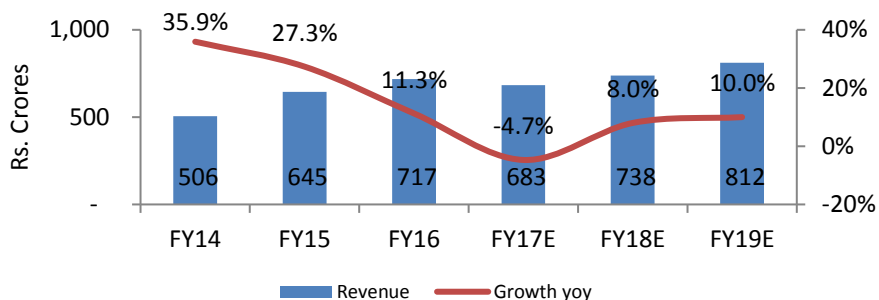


Source: Company, In-house research

### Europe: gSeretide to drive the growth

Europe contributed 9% to total revenues in FY16 and grew at a CAGR of 28% over FY11-16. The formulation business of Western Europe continues to expand through product sales and licensing income. Besides, it has enhanced its presence through distribution partners in the European countries. Glenmark entered into a strategic development & licensing agreement with Celon Pharma S.A. (Celon) to develop and market a generic version of GlaxoSmithKline's Seretide (dry powder Inhaler used to prevent asthma). This is a limited competition product with market size of ~USD800mn in Europe. Being a complex product, it enjoys higher margin. As per the terms of the agreement, Glenmark has obtained semi-exclusive marketing & distribution rights of the product across 15 European countries including Great Britain, Germany, Belgium, Netherlands, Italy, Sweden, Norway and Romania among others. We expect Europe business to grow at a CAGR of 10% over FY16-19E on account of gSeretide launch.

Europe's sales to grow at 10% CAGR over FY16-19E

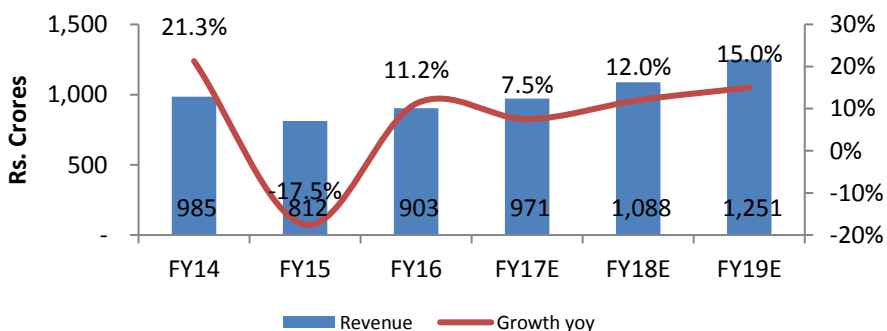


Source: Company, In-house research

### ROW markets: Asian markets to aid growth

RoW (Rest of the World) accounts for 12% of total revenue. In the RoW markets, Asian business is expected to do well on account of secondary sales growth and new launches in Malaysia, Sri Lanka, Philippines & Cambodia. Glenmark is continuously investing in product pipeline in Asia, primarily in the areas of dermatology, respiratory and oncology. Thus, we expect RoW growth to pick-up in next two years & hence estimate CAGR of 11.5% over FY16-19E.

RoW markets to grow at 11.5% CAGR over FY16-19E

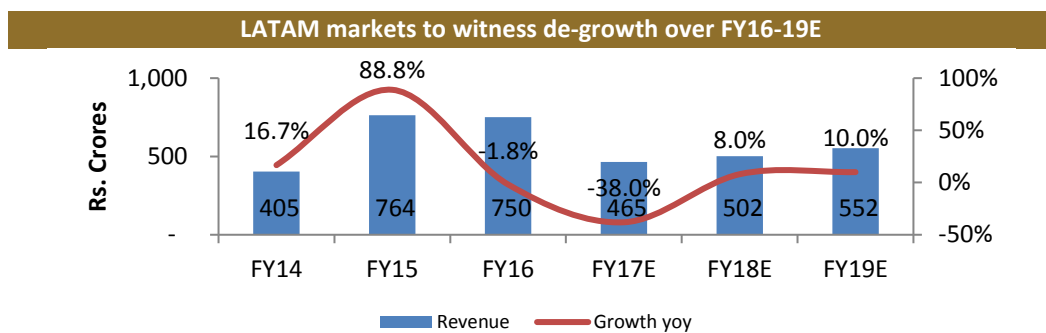


Source: Company, In-house research

### LATAM markets to witness de-growth

LATAM business contributed to 10% of the revenue in FY16. While Venezuela accounts for nearly one third of LATAM revenues, Brazil & Mexico account for the rest. Since November, 2015, Glenmark has discontinued supplies to Venezuela (selling out of inventory) owing to the weak economic position of the country and uncertainty surrounding repatriation of sale proceeds (USD45mn). However, the company expects repatriation of USD40mn from Venezuela in Q4FY17. In FY16, Venezuela business reported revenue of Rs320cr EBITDA of Rs127cr and PAT of Rs27cr.

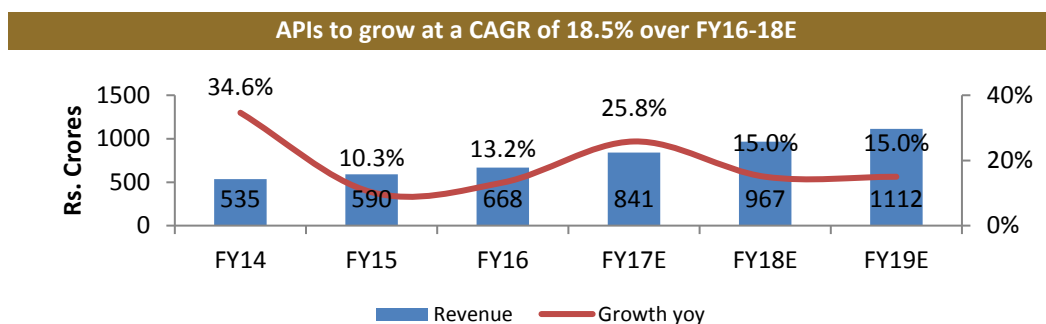
We estimate LATAM business to de-grow at a CAGR of -9.7% over FY16-19E on account of exit from Venezuela and macro-economic uncertainties.



Source: Company, In-house research

### APIs to sustain the growth momentum

APIs accounted for 9% of overall revenues and reported a growth of 13.2% in FY16. The two API plants in Gujarat, India i.e. Ankleshwar and Dahej completed successful inspections from USFDA in FY15. The company recently filed three new products in US and one each in Japan & Europe. The sales of APIs have been driven by leadership position in Lercanidipine, Amiodarone and Perindopril.



Source: Company, In-house research

### Key Risks:

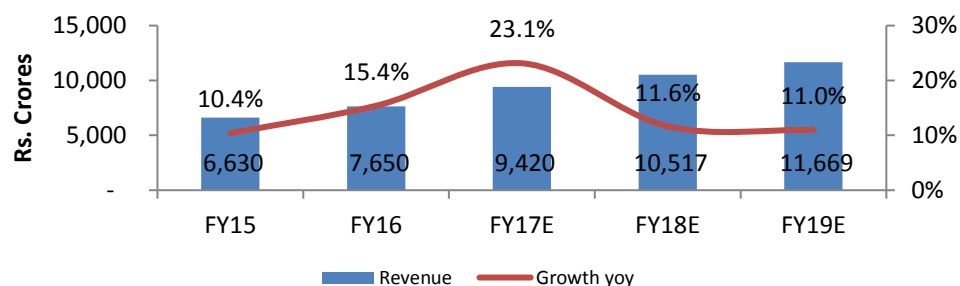
- US FDA scrutiny against company's manufacturing plants regarding CGMP (Current Good Manufacturing Practices) and delay in product approvals.
- Price erosion in the US business due to channel consolidation and new entrants.
- Adverse currency volatility in related markets.

## Financials

### Revenue to grow at CAGR of 15.1% with EBITDA margin expansion of 160bps

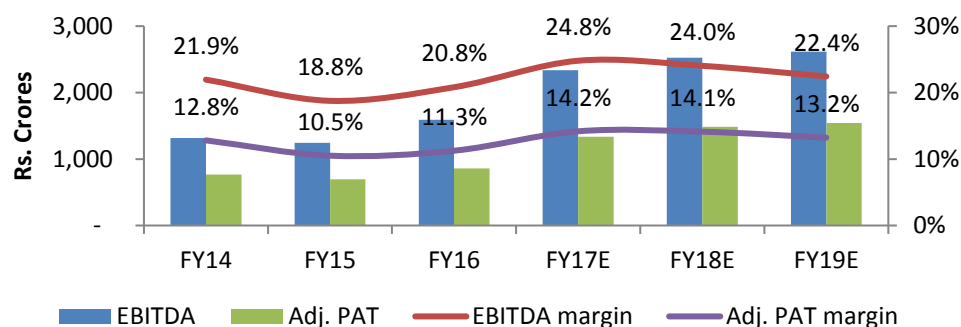
We expect revenue and PAT to grow at a CAGR of 15.1% and 21.4% respectively over FY16-19E. Going ahead, we expect EBITDA margin to expand by 160bps to 22.7% over FY16-18E on account of a) exclusivity (up to 180 days) on certain product launches b) shifting of portfolio mix towards high-margin niche products. Hence, we recommend Glenmark with a BUY rating with a TP of Rs1,039 at 19x FY19E EPS.

#### Revenue to grow at a CAGR of 16.7% over FY16-19E



Source: Company, In-house research

#### EBITDA & PAT margin to improve by 60 bps and 100 bps respectively

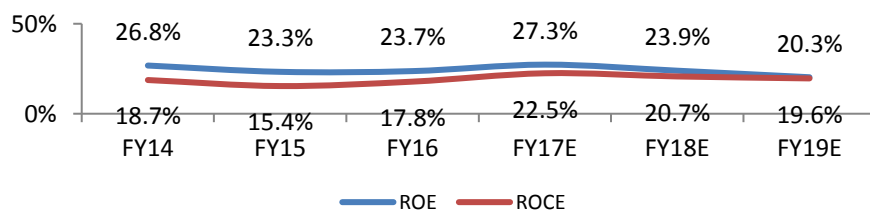


Source: Company, In-house research

### Deleveraging balance sheet

The company is expected to deleverage its balance sheet on account of free cash flow generation to the tune of Rs2,212cr over FY16-19E. This will reduce the D/E ratio from 0.9x in FY17 to 0.5x in FY19E. While ROCE is projected to improve by 180bps to 19.6% during FY16-19E on account of margin improvement, ROE is expected to ease on account of lower leverage.

#### Return ratios trend



**Profit & Loss Account (Consolidated)**

Y/E (Rs. Cr)	FY16	FY17E	FY18E	FY19E
<b>Total operating Income</b>	<b>7,650</b>	<b>9,420</b>	<b>10,517</b>	<b>11,669</b>
Raw Material cost	2,361	2,619	3,050	3,594
Employee cost	1,378	1,648	1,840	2,042
Other operating expenses	2,318	2,817	3,099	3,416
<b>EBITDA</b>	<b>1,592</b>	<b>2,336</b>	<b>2,527</b>	<b>2,617</b>
Depreciation	269	314	351	389
<b>EBIT</b>	<b>1,323</b>	<b>2,022</b>	<b>2,176</b>	<b>2,228</b>
Interest cost	179	229	206	184
Other Income	20	89	93	98
<b>Profit before tax</b>	<b>1,164</b>	<b>1,881</b>	<b>2,062</b>	<b>2,142</b>
Tax	303	546	577	600
<b>Profit after tax</b>	<b>861</b>	<b>1,336</b>	<b>1,485</b>	<b>1,543</b>
Minority Interests	(0)	-	-	-
P/L from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>861</b>	<b>1,336</b>	<b>1,485</b>	<b>1,543</b>
E/o income / (Expense)	(159)	-	-	-
<b>Reported PAT</b>	<b>702</b>	<b>1,336</b>	<b>1,485</b>	<b>1,543</b>

**Balance Sheet (Consolidated)**

Y/E (Rs. Cr)	FY16	FY17E	FY18E	FY19E
Paid up capital	28	28	28	28
Reserves and Surplus	4,242	5,493	6,865	8,295
<b>Net worth</b>	<b>4,270</b>	<b>5,521</b>	<b>6,893</b>	<b>8,323</b>
Minority interest	(0)	(0)	(0)	(0)
Total Debt	3,988	4,995	4,495	3,995
Other non-current liabilities	77	77	77	77
<b>Total Liabilities</b>	<b>8,335</b>	<b>10,593</b>	<b>11,465</b>	<b>12,395</b>
Total fixed assets	3,908	4,294	4,642	4,953
Capital WIP	-	-	-	-
Goodwill	57	57	57	57
Investments	17	17	17	17
Net Current assets	3,409	5,280	5,804	6,423
Other non-current assets	944	944	944	944
<b>Total Assets</b>	<b>8,335</b>	<b>10,593</b>	<b>11,465</b>	<b>12,395</b>

**Cash Flow Statement (Consolidated)**

Y/E (Rs. Cr)	FY16	FY17E	FY18E	FY19E
<b>Pretax profit</b>	<b>1,164</b>	<b>1,881</b>	<b>2,062</b>	<b>2,142</b>
Depreciation	269	314	351	389
Chg. in Working Capital	-728	(633)	(400)	(412)
Others	159	141	113	86
Tax paid	-303	(546)	-577	-600
<b>Cash flow from operating activities</b>	<b>561</b>	<b>1,157</b>	<b>1,550</b>	<b>1,605</b>
Capital expenditure	-906	-700	-700	-700
Chg. in investments	20	89	93	98
<b>Cash flow from investing activities</b>	<b>-886</b>	<b>-611</b>	<b>-607</b>	<b>-602</b>
Equity raised/(repaid)	945	-	-	-
Debt raised/(repaid)	188	1,007	-500	-500
Dividend paid	(56)	(85)	(113)	(113)
Other financing activities	(179)	(229)	(206)	(184)
<b>Cash flow from financing activities</b>	<b>898</b>	<b>693</b>	<b>-819</b>	<b>-796</b>
Net chg in cash	573	1,238	123	207

**Key Ratios (Consolidated)**

Y/E	FY16	FY17E	FY18E	FY19E
<b>Valuation(x)</b>				
P/E	31.0	25.7	22.2	18.5
EV/EBITDA	18.8	16.7	14.1	11.4
EV/Net Sales	3.9	4.3	3.7	3.2
P/B	6.3	4.8	3.9	3.2
<b>Per share data</b>				
EPS	30.5	47.3	52.6	54.7
DPS	2.0	3.0	4.0	4.0
BVPS	151.3	195.7	244.3	295.0
<b>Growth (%)</b>				
Net Sales	15.4	23.1	11.6	11.0
EBITDA	28.0	46.7	8.2	3.6
Net profit	23.6	55.1	11.2	3.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	20.8	24.8	24.0	22.4
PAT Margin (%)	11.3	14.2	14.1	13.2
<b>Return Ratios (%)</b>				
RoE	23.7	27.3	23.9	20.3
RoCE	17.8	22.5	20.7	19.6
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	1.6	1.7	1.7	1.7

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Glenmark is a large-cap company

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