

Q3FY20 result review
and earnings revision

Pharmaceuticals

Target price Rs422

Earnings revision

(%)	FY20E	FY21E	FY22E
Sales	0.3	0.2	0.1
EPS	(4.9)	(2.9)	(2.9)

Target price revision

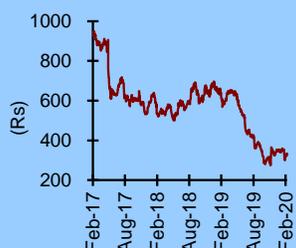
Rs422 from Rs434

Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	46.6	46.6	46.6
Institutional investors	38.7	38.8	37.2
MFs and others	5.1	4.3	4.1
FIs/Banks	2.6	3.0	3.0
FIIIs	31.0	31.5	30.2
Others	14.7	14.6	16.2

Source: BSE India

Price chart



Glenmark Pharma

BUY
Maintained

India outperforms, valuations remain attractive

Rs310

Glenmark Pharma's (Glenmark) Q3FY20 performance was above our estimates due to higher domestic sales growth. Revenues grew 7.1% YoY, EBITDA margin stood at 16.1%, in line with our estimate and PAT dropped 11.0% to Rs1.9bn (I-Sec: Rs1.7bn). India business grew 18.2% outperforming the industry and our estimates with strong traction in new products especially *Remogliflozin*. US business declined due to loss of sales of Ranitidine and high price erosion in derma portfolio. We expect US revenues to remain stable in FY20E-FY21E and improvement in India growth should help lift margins. ICHNOS Sciences, its innovative wing has started its funding process to make itself a self-sufficient business. Maintain BUY on attractive valuations with a revised target price of Rs422/share (earlier: Rs434).

- ▶ **India outperforms, US disappoints:** India business grew 18.2% YoY. Company has been gaining strong traction on an innovative anti-diabetic product, *Remogliflozin etabonate*. Company is also launching it with a combination of *Metformin*. We expect a strong growth CAGR of 12.8% over FY19-FY22E. US revenues declined 6.6% QoQ to US\$113mn due to price erosion in key derma products and loss of sale of *Ranitidine*. New product launches have supported growth to some extent. We expect a moderate 3.6% CAGR over FY19-FY22E in US revenues driven by new launches despite continued erosion in the base business. RoW remained flat while EU declined 4.0% YoY. Latam grew 54.1% with new launches.
- ▶ **Margins remain stable:** EBITDA margin declined 90bps YoY to 16.1%, but remained stable QoQ. Gross margin improved 60bps QoQ to 64.9% (-80bps YoY). We expect EBITDA margin to gradually improve to 16.8% with India growth exceeding industry growth, decline in R&D spend as a percentage of sales, and cost optimisation exercises undertaken by the company.
- ▶ **Outlook:** Management has guided for drop in personnel and R&D expenses as a percentage of sales in FY21 with its cost control initiatives. We estimate 8.4%/11.4% revenue/PAT CAGRs over FY19-FY22E with margin expansion of 50bps. ICHNOS Sciences has started its fund raising process to become self-sufficient while the company tries to monetise non-core assets to pare down debt.
- ▶ **Valuations and risks:** We largely maintain our revenue expectations, but cut EPS estimates by 2-5% due to higher S,G&A expenses. At current market price valuations remain attractive, we maintain **BUY** with a revised target price of Rs422/share based on 14xSep'21E earnings (earlier: Rs434/share). Key downside risks are: higher pricing pressure in the US, and regulatory hurdles.

Market Cap	Rs88bn/US\$1.2bn
Reuters/Bloomberg	GLEN.BO/GNP IN
Shares Outstanding (mn)	282.2
52-week Range (Rs)	654/275
Free Float (%)	53.4
FII (%)	30.2
Daily Volume (USD/'000)	12,525
Absolute Return 3m (%)	3.1
Absolute Return 12m (%)	(45.2)
Sensex Return 3m (%)	1.8
Sensex Return 12m (%)	15.9

Year to Mar	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)	98,655	106,003	114,799	125,538
Net Income (Rs mn)	8,917	7,165	7,815	9,180
EPS (Rs)	23.5	24.0	27.7	32.5
% Chg YoY	(9.2)	2.1	15.5	17.5
P/E (x)	13.2	12.9	11.2	9.5
CEPS (Rs)	36.6	38.0	42.7	49.0
EV/E (x)	7.6	7.3	6.6	5.8
Dividend Yield (%)	0.4	0.3	0.4	0.4
RoCE (%)	9.4	9.5	9.8	10.4
RoE (%)	12.3	11.4	11.8	12.4

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Highlights of Q3FY20 result and earnings call

- **Net sales** grew 7.1% YoY to Rs27.4bn during the quarter due to strong performance in India.
 - **US sales** declined 6.6% QoQ to US\$113mn from US\$121mn. The decline was due to loss of sales in *Ranitidine* post the NDMA issue and high price and volume erosion in key derma products (*Mupirocin* and *Calcipotriene*). Company expects additional erosion in these products in Q4FY20.

New products are gaining traction and the company expects to launch 15 products every year to support growth. Currently, Glenmark has 169 ANDAs approved and 43 pending for approval. During 9MFY20, it received thirteen approvals and launched 10-11 products. Company expects to file five ANDAs in the coming quarter.

Company will commercialise its Monroe facility in Q1FY21. Large part of the pending ANDAs are filed from this plant.
 - **Ichnos Sciences** is Glenmark's innovative wing. *Ryaltris* is under process with USFDA and expects an approval in H2CY20. In the meanwhile, company is confident of onboarding a partner to commercialise the product.
 - **India sales** grew 18.2% YoY to Rs7.9bn during the quarter. Anti-diabetic segments witnessed growth with continuous traction in Remogliflozin. Company also launched the combination of Remogliflozin and Metformin. Company has 3,800 MRs and doesn't need to expand the base significantly. The consumer business grew at 14.0% YoY. Leading brands are *Candid*, *Vwash* franchise and *Scalpe*.
 - **Europe sales** declined 4.0% YoY but grew 8.4% QoQ to Rs3.1bn. Company has settled with GSK to launch *Salmex* in few countries (including UK & Germany). It would boost growth in the near term.
 - **RoW sales** remained flat YoY (-2.1% QoQ) at Rs3.4bn. The company has entered in China using the partnership model. Company will continue to file products in China.
 - **Latin America** sales grew 54.1% YoY (+28.9% QoQ) to Rs1.6bn. Launch of Novartis products have boosted growth in the region. Company has received approvals for few more products in Brazil which would support growth.
 - **API sales** grew 9.6% YoY to Rs2.6bn. Company has enough raw material to last Q4FY20 and some part of Q1FY21 shielding it from any supply constraints due to the epidemic in China.
- **Gross margin** declined 80bps YoY to 64.9% (+60bps QoQ). **EBITDA margin** declined 90bps YoY (+10bps QoQ) to 16.1%. R&D expenditure at ~12-13% is expected to reduce in FY21 along with staff expenses. This would help lift margins.
- **Adjusted PAT** declined 11.0% YoY to Rs1.9bn. Net debt stood at Rs36.5bn in Q3FY20 after a reduction of Rs150mn QoQ.

Table 1: Q3FY20 performance*(Rs mn, year ending March 31)*

	Q3FY20	Q3FY19	YoY % Chg	Q2FY20	QoQ % Chg
Net Sales	27,356	25,550	7.1	28,150	(2.8)
EBITDA	4,401	4,347	1.2	4,504	(2.3)
Other income	330	210	57.1	8	3,895.5
PBIDT	4,730	4,557	3.8	4,512	4.8
Depreciation	1,060	831	27.6	942	12.6
Interest	961	885	8.5	898	7.0
PBT	2,710	2,840	(4.6)	2,673	1.4
Tax	801	377	112.6	918	(12.7)
Adjusted PAT	1,908	2,145	(11.0)	1,967	(3.0)
Extra ordinary income/ (exp.)	-	(1,300)		800	
Reported PAT	1,908	1,163	64.0	2,555	(25.3)
EBITDA margins (%)	16.1	17.0	(90)bps	16.0	10bps

Source: Company data, I-Sec research

Table 2: Sales mix*(Rs mn, year ending March 31)*

	Q3FY20	Q3FY19	YoY % Chg	Q2FY20	QoQ % Chg
India	7,888	6,675	18.2	8,964	(12.0)
US	7,998	8,557	(6.5)	8,478	(5.7)
RoW	3,414	3,401	0.4	3,488	(2.1)
EU	3,089	3,217	(4.0)	2,851	8.4
Latam	1,563	1,014	54.1	1,212	28.9
Total Formulations	23,953	22,865	4.8	24,993	(4.2)
APIs	2,622	2,392	9.6	2,698	(2.8)
Out-Licensing/other operating income	781	293	166.6	459	70.0
Total Revenue	27,356	25,550	7.1	28,150	(2.8)

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY19-FY22E, we forecast net sales and earnings to increase at CAGRs of 8.4% and 11.4% respectively. We largely maintain our revenue expectations, but cut EPS estimates by 2-5% due to higher S,G&A expenses.

Table 3: Earnings revision

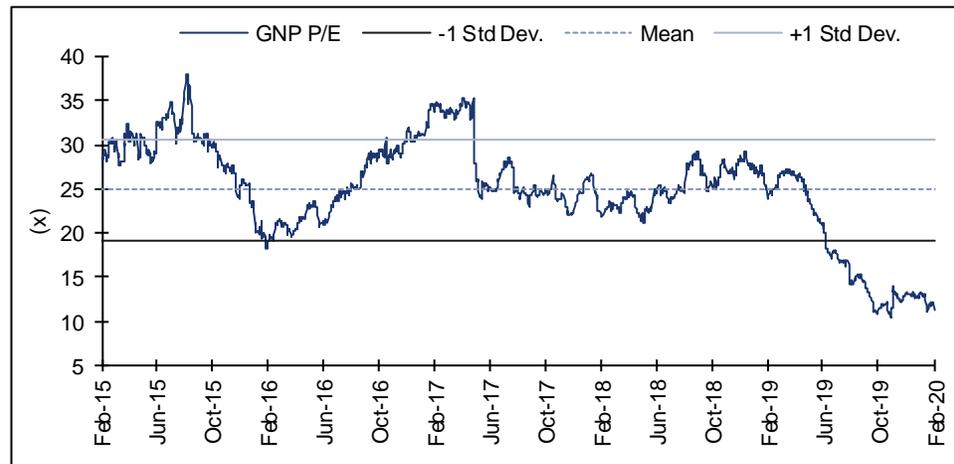
	FY20E	FY21E	FY22E
Total sales (Rs mn)			
Sales – new	106,003	114,799	125,538
Sales – old	105,714	114,570	125,373
Change (%)	0.3	0.2	0.1
EPS (Rs)			
EPS – new	24.0	27.7	32.5
EPS – old	25.2	28.5	33.5
Change (%)	(4.9)	(2.9)	(2.9)

Source: I-Sec research

Valuations

The stock currently trades at valuations of 11.2x FY21E and 9.5x FY22E earnings and EV/EBITDA multiple of 6.6x FY21E and 5.8x FY22E. We believe US revenues would gradually scale up with new launches. This would aid margin expansion in tandem with cost control measures that have been implemented. Company would also be able to strengthen its balance sheet by reducing debt with cash infusion from the strategic partner in Ichnos Sciences (innovative wing) and sale of non-core assets. At current market price valuations remain attractive. Hence, we maintain **BUY** with a revised target price of Rs422/share based on 14x Sep'21E earnings (earlier: Rs434/share). The stock has traded at an average P/E of 24.9x over the past five years.

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
India	27,770	31,875	35,749	39,814
US	31,393	31,438	32,515	34,952
ROW	12,759	13,780	15,434	17,286
EU	11,207	11,767	12,944	14,239
Latam	4,180	5,015	5,517	6,069
Total formulations	87,308	93,875	102,159	112,359
APIs	9,493	10,253	10,765	11,303
Out-Lic./ other op inc.	1,853	1,875	1,875	1,875
Total Revenue	98,655	106,003	114,799	125,538
YoY Growth%	8.4	7.4	8.3	9.4
Total Op. Exp.	82,547	89,029	95,985	104,495
EBITDA	16,108	16,974	18,814	21,043
Margins %	16.3	16.0	16.4	16.8
YoY Growth%	(0.3)	5.4	10.8	11.8
Depreciation	3,685	3,952	4,220	4,660
EBIT	12,423	13,022	14,594	16,383
Other Income	281	50	50	50
Interest	3,346	3,670	3,479	3,319
EO Items	3,222	550	0	0
PBT	12,580	9,952	11,165	13,114
Tax	3,663	2,787	3,349	3,934
Tax Rate (%)	29.1	28.0	30.0	30.0
Minority Interest	-	-	-	-
Reported PAT	8,917	7,165	7,815	9,180
Adj. PAT	6,633	6,769	7,815	9,180
Net Margins (%)	9.0	6.8	6.8	7.3

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Paid-up Capital	282	282	282	282
Reserves & Surplus	55,770	62,328	69,482	77,885
Total Equity	56,052	62,611	69,765	78,167
Minority Interest	(4)	(4)	(4)	(4)
Total Debt	44,487	44,487	42,487	40,487
Deferred Liabilities	(13,830)	(13,830)	(13,830)	(13,830)
Capital Employed	86,705	93,264	98,418	104,821
Current Liabilities	32,353	35,570	39,033	43,259
Total Liabilities	119,059	128,834	137,451	148,080
Net Fixed Assets	50,692	54,740	58,520	61,860
Investments	297	297	297	297
Inventory	22,521	24,289	26,187	28,509
Debtors	21,946	27,118	30,836	35,407
Other Current Assets	14,226	14,994	15,915	17,038
Cash and Equivalents	9,378	7,396	5,696	4,970
Total Cur. Assets	68,070	73,798	78,634	85,923
Total Assets	119,058	128,834	137,451	148,080

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
PBT (Adj. for Extraordinary)	12,580	9,952	11,165	13,114
Depreciation	3,685	3,952	4,220	4,660
Net Chg in WC	2,667	(4,905)	(3,568)	(4,392)
Taxes	(4,765)	(2,787)	(3,349)	(3,934)
Others	1,809	413	494	603
CFO	15,975	6,625	8,961	10,051
Capex	(12,863)	(8,000)	(8,000)	(8,000)
Net Investments made	(150)	-	-	-
CFI	(13,013)	(8,000)	(8,000)	(8,000)
Change in Share capital	-	-	-	-
Change in Debts	(1,907)	-	(2,000)	(2,000)
Div. & Div Tax	(682)	(607)	(662)	(777)
Others	(3,342)	-	-	-
CFF	(5,931)	(607)	(2,662)	(2,777)
Total Cash Generated	(2,969)	(1,982)	(1,700)	(726)
Cash Opening Balance	12,347	9,378	7,396	5,696
Cash Closing Balance	9,378	7,396	5,696	4,970

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Adj EPS	23.5	24.0	27.7	32.5
YoY Growth%	(9.2)	2.1	15.5	17.5
Cash EPS	36.6	38.0	42.7	49.0
EBITDA - Core (%)	16.3	16.0	16.4	16.8
NPM (%)	9.0	6.8	6.8	7.3
Net Debt to Equity (x)	0.6	0.6	0.5	0.5
P/E (x)	13.2	12.9	11.2	9.5
EV/EBITDA Core (x)	7.6	7.3	6.6	5.8
P/BV (x)	1.6	1.4	1.3	1.1
EV/Sales (x)	1.2	1.2	1.1	1.0
RoCE (%)	9.4	9.5	9.8	10.4
RoE (%)	12.3	11.4	11.8	12.4
RoIC (%)	10.5	10.3	10.3	10.8
Book Value (Rs)	198.6	221.9	247.2	277.0
DPS (Rs)	2.0	1.8	1.9	2.3
Dividend Payout (%)	6.3	7.0	7.0	7.0
Div Yield (%)	0.4	0.3	0.4	0.4
Asset Turnover Ratio	0.9	0.9	0.9	0.9
Avg Collection days	95	96	96	96
Avg Inventory days	90	95	96	96

Source: Company data, I-Sec research

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