

Company Update

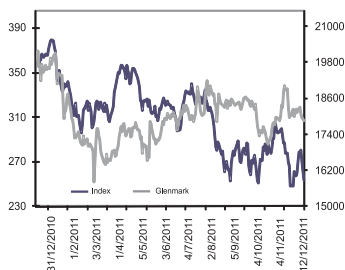
CMP : INR 292
Rating : Buy
Target : INR 385

KEY DATA

Market Cap (INR bn)	79.2
Market Cap (USD mn)	1494.9
52 WK High / Low	372 / 241
Avg Daily Volume (NSE)	575958
Face Value (INR)	1
BSE Sensex	15870
Nifty	4765
BSE Code	532296
NSE Code	GLENMARK
Reuters Code	GLEN.BO
Bloomberg Code	GNP IN

Shareholding %	4Q	1Q	2Q
Promoters	48.0	48.0	48.0
MF/Banks/Indian FIs	7.0	7.0	6.0
FII/ NRIs/ OCBs	31.0	32.0	33.0
Indian Public	14.0	13.0	13.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	YTD	12 M
Absolute	(4.2)	(1.6)	(12.2)	(14.1)
Relative	(0.0)	11.9	6.9	5.7

Financials (INR Mn.)	F11A	F12E	FY13E
Net Sales	28,596	34,483	41,674
EBITDA	5,923	9,423	9,168
EBIT	4,976	8,385	7,912
EPS Core	13.9	17.8	22.2
EV/EBITDA	14.2x	8.9x	9.1x
P/E	18.5x	16.4x	14.0x

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Glenmark Pharmaceuticals Ltd (GNP)

Napo Terminates GNP Pharmaceuticals for Failure to Commercially Develop Crofelemer

About Crofelemer

Crofelemer is in late stage of development and has completed Phase III trials for HIV related diarrhea in US and Phase II for acute adult diarrhea in India. According to the Collaboration Agreement GNP was to develop and commercialize the drug Crofelemer in over 140 countries except the US markets. GNP has collaboration with Salix, where Salix will source API from GNP for Crofelemer. We have accounted product launch by Salix in the second half of FY13 in US and in rest of the world markets (ROW's) by GNP in FY14. Peak sales of Crofelemer in US are expected to be around \$300mn and RoW \$80mn. **We had attributed Rs.14.8 per share risk adjusted value (Rs. 10.30 for Row markets and Rs. 4.49 for US) to Crofelemer in valuing GNP.**

Napo Terminates GNP Pharmaceuticals for Failure to Commercially Develop Crofelemer

According to NAPO's Press Release, effective December 8, 2011, the termination was based on GNP's alleged breaches of the Collaboration Agreement between the two parties. Based in India, GNP has yet to file a single application for regulatory approval with the Drugs Controller General India or any other regulatory agency. GNP has failed to develop, commercialize, file for or gain regulatory approval for Crofelemer for use in people living with HIV/AIDS - for which successful phase 3 clinical trial results were announced in 2010 - or adult acute watery diarrhea, for which there have been several successful clinical trial results. It has also failed to develop the drug for the treatment of pediatric diarrhea. Napo believes GNP has materially breached the Collaboration Agreement by failing to fulfill its basic to develop and commercialize drug. We are not sure on what grounds the collaboration is terminated and further clarity is awaited from the management.

GNP take on the breach of collaboration agreement

GNP vehemently denies that Napo has any basis for terminating the Collaboration Agreement, and GNP is seeking a declaration from an arbitration panel that Napo's claims of breach are unfounded. On December 09, 2011, GNP formally requested that the arbitration panel issue an interim order directing Napo to comply with the Collaboration Agreement during the pendency of the arbitration.

Our Take

Possible impact on Sales and EPS if the agreement is terminated.

Particulars	2013E	2014E	2015E
Expected Sales contribution from Crofelemer Ex-USA Risk Adjusted \$	540	1080	1080
Expected EPS contribution from Crofelemer (Ex-USA) Rs per share	0.00	0.74	1.08
Expected Sales contribution from Crofelemer in USA Risk Adjusted \$	21	70	106
Expected EPS contribution from Crofelemer (USA) Rs per share	0.08	0.25	0.38

Source: FQ Research

The GNP termination follows after the announcement by Napo on November 10, 2011 regarding the termination of collaboration with Salix. It may be noted that GNP has a tie-up with Salix for supply of API for Crofelemer. We believe Napo terminating the agreement with GNP will negatively impact our target price by Rs.10.30 per share while termination of collaboration with Salix will impact GNP by Rs 4.49 with the net impact coming to Rs 14.8 per share. **However we maintain our target price of Rs.385 for GNP with a BUY rating as GNP has denied any basis for terminating the collaboration agreement with Napo and GNP is seeking details from arbitration panel for the same. The steep fall in the share price today makes GNP even more attractive compared to other players in the market as GNP currently trades at a P/E of 13.1x FY13E earnings compared to a sector mean of 16.7x.**

GNP Valuation

Base Business Value (Excluding FTF opportunity)	326
NPV of FTF Opportunities	
Atovaquone+Proguanil Hcl (Malarone)	5.5
Fluticasone Lotion 0.005% (Cutivate)	2.4
Eszopiclone (Lunesta)	8.4
Hydrocortisone Butyrate Cream (Locoid Lipocream)	0.3
Ezetimibe (Zetia)	11.4
Total NPV of FTF pipeline	28.1
Glenmark value (DCF Value)	354
Risk Adjusted NPV of NCE/NBE	
GRC 15300 (Osteoarthritic pain, Neuropathic pain)	11.2
GBR-500 (MS, inflammatory diseases including IBD)	11.7
Crofelemer (HIV associated Diarrhoea, Adult acute infectious diarrhea)	14.7
Total risk adjusted NPV of NCE Pipeline	37.7
(-) Potential liability from Tarka	2.9
GNP Target/Share	388

Source: FQ Research

Equity		Enterprise Value	
Risk Free Rate	8.0%	Gross Debt	20,257
Equity Risk Premium	4.7%	Cash & Equivalents	1,986
Beta	1.05	Net Debt (m)	18,271
Cost of Equity	12.9%	Minorities (m)	267
		Options (m)	0
		Preference Stock (m)	0
Debt		Market Cap (m)	81,822
Risk Free Rate	8.0%	Enterprise Value (m)	100,361
Corporate Debt Premium	2.0%	% Debt	18%
Marginal Tax Rate	18%	% Equity	82%
Post Tax Cost of Debt	8.2%		
Terminal Stage			
Terminal Growth Rate	4.0%	WACC	12.0%

DCF Valuation

Year to March	Stage 1 2012	Stage 1 2013	Stage 1 2014	Stage 1 2015	Stage 1 2016	Stage 2 2017	Stage 2 2018	Stage 2 2019	Stage 2 2020	Stage 2 2021	Terminal 2022
EBIT	7,865	7,854	9,970	11,480	12,507						
Tax rate	18	11	12	12	12						
NOPAT	6,462	7,006	8,807	10,077	10,966						
Non-cash adjustments	13	259	210	(110)	669						
Capital Expenditure	-2,525	-2,568	-2,900	-2,656	-2,891						
Operating FCF	3,950	4,698	6,117	7,312	8,744	10,229	11,702	13,081	14,284	15,227	15,836
Growth		18.9%	30.2%	19.5%	19.6%	17.0%	14.4%	11.8%	9.2%	6.6%	4.0%
Discount factor	0.96	0.86	0.77	0.68	0.61	0.54	0.49	0.43	0.39	0.35	0.31
NPV of Cashflows	3,797	4,031	4,686	5,000	5,336	5,573	5,691	5,680	5,535	5,267	4,890
Sum of NPV of Cashflows	55,486										
Terminal Value	63,414										
Enterprise Value	118,900										
Terminal Value as % of EV	53%										
Net Debt (m)	18,271										
Minorities (m)	267										
Options (m)	0										
Preference Stock (m)	0										
Equity Value	100,362										
Shares Outstanding (m)	270										
Equity Value per share (INR)	354										

Source: FQ Research

Sensitivity Analysis						
WACC (%)						
Terminal Growth (%)	354	9.0%	10.0%	11.0%	12.0%	13.0%
	0.5%	404	347	301	264	232
	1.0%	426	364	314	274	241
	2.0%	480	403	344	297	259
	3.0%	551	454	381	325	281
	4.0%	651	521	429	361	308

Source: FQ Research

Relative Valuation

Company	1 year forward			
	Share Price	P/E	P/S	EV/EBITDA
Ranbaxy	447	12.6	1.8	8.7
Cipla	325	19.4	3.2	14.4
Aurobindo pharma	518	21.0	6.2	17.6
Unichem	737	15.9	4.9	11.9
Lupin	469	17.4	2.6	13.2
Dr Reddy	1545	16.8	2.5	12.2
Cadila	715	15.7	2.4	12.1
Average		17.0	3.4	12.9
Glenmark FY13E				
EPS	22			
Sales	41674			
EBITDA	9168			
Relative Share price		377	521	358
Average Relative Price			Rs 419	
Valuation price arrived by DCF and Relative			386	

Source: FQ Research

Peer comparison

Company	EPS		P/E		P/S		EV/Sales		EV/EBITDA		EBITDA	Annual	Annual
	Rs		(x)		(x)		(x)		(x)		(%)	EPS	Sales
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	(13/12E)	(13/12E)
Glenmark	18	22	16.3x	13.1x	2.3x	2.0x	2.8x	2.5x	13.3x	11.2x	20.9%	25%	13%
Ranbaxy	23.4	33.7	17.1x	11.9x	1.8x	1.5x	2.0x	1.6x	11.3x	7.6x	17.3%	44%	21%
Cipla	14.1	16.8	23.2x	19.5x	3.8x	3.3x	3.8x	3.3x	17.0x	14.4x	22.4%	19%	15%
Sun Pharma	21.1	24.7	24.4x	20.8x	7.2x	6.1x	7.1x	6.0x	20.4x	17.5x	34.7%	17%	18%
Divis Laboratory	37.3	46.5	19.6x	15.7x	6.0x	4.9x	5.6x	4.6x	14.7x	11.7x	38.4%	25%	23%
Lupin	22.2	26.9	19.3x	15.9x	2.8x	2.4x	3.0x	2.5x	14.6x	12.1x	20.3%	22%	18%
Dr Reddy	78.6	91.9	20.3x	17.4x	3.0x	2.6x	3.2x	2.8x	14.4x	12.6x	22.4%	17%	14%
Cadila	37.0	45.7	19.0x	15.3x	2.8x	2.4x	3.1x	2.6x	14.2x	11.8x	21.5%	24%	18%

Source: Company, FQ Research

Glenmark Sales Model

Year to March (INRm)	FY11A	FY12E	FY13E	FY14E	FY11A	YoY Growth (%)			CAGR 11-14E
						FY12E	FY13E	FY14E	
Specialty Business									
India	8,447	10,010	11,811	13,583	12	19	18	15	17
Europe	1,528	1,650	1,864	2,051	12	8	13	10	10
Latin America	1,919	2,686	3,627	4,533	41	40	35	25	33
Rest of the World (ROW)	4,070	5,087	5,748	6,323	5	25	13	10	16
Finished Dosage Formulations	15,963	19,433	23,051	26,490	13	22	19	15	18
Out-Licensing Revenue	895	2,542	-	-	285	184	(100)	nm	(100)
Total Specialty Business	16,858	21,975	23,051	26,490	17	30	5	15	16
Generics Business									
US	8,352	10,439	13,258	16,573	16	25	27	25	26
Latin America	401	180	189	199	17	(55)	5	5	(21)
Europe	544	761	1,027	1,284	82	40	35	25	33
Finished Dosage Formulations	9,296	11,381	14,475	18,056	18	22	27	25	25
API	2,738	2,957	3,401	3,911	4	8	15	15	13
Total Generics Business	12,034	14,338	17,876	21,967	15	19	25	23	22
Total Sales	29,491	37,024	41,674	49,241	19	26	13	18	19
Branded formulations	15,963	19,433	23,051	26,490	13	22	19	15	18
% total sales	55.3	53.5	56.3	54.7					
Generics	12,034	14,338	17,876	21,967	15	19	25	23	22
% total sales	41.7	39.5	43.7	45.3					
Out-Licensing Revenue	895	2,542	-	-	285	184	(100)	nm	(100)
% total sales	3.1	7.0	0.0	0.0					

Glenmark Profit & Loss Model

Sales	28,596	34,483	41,674	49,241	16	21	21	18	20
Out-Licensing Revenue	895	2,542	-	-	285	184	(100)	nm	(100)
Total Income	29,491	37,024	41,674	49,241	19	26	13	18	19
COGS	(9,918)	(11,828)	(14,586)	(17,235)	23	19	23	18	20
% sales	34.7	34.3	35.0	35.0					
Gross Profit	19,572	25,197	27,088	32,007	17	29	8	18	18
Gross Profit Margin %	66.4	68.1	65.0	65.0					
SG&A	(12,250)	(12,931)	(15,836)	(18,712)	25	6	22	18	15
% sales	42.8	37.5	38.0	38.0					
R&D expenditure	(1,400)	(1,993)	(2,084)	(2,216)	83	42	5	6	17
% sales	4.9	5.8	5.0	4.5					
EBITDA	5,923	9,423	9,168	11,079	(4)	59	(3)	21	23
EBITDA margin %	20.1	25.5	22.0	22.5					
Depreciation, amortization & impairment	(947)	(1,038)	(1,257)	(1,388)	(22)	10	21	10	14
% sales	3.3	3.0	3.0	2.8					
EBIT (Operating profit)	4,976	8,385	7,912	9,691	(0)	69	(6)	22	25
EBIT Margin %	16.9	22.6	19.0	19.7					
Net financials & Other income	(160)	(1,130)	(963)	(812)	(86)	604	(15)	(16)	72
Other income/Expense	1,405	150	150	150	187	(89)	0	0	(53)
Net Interest expense	(1,566)	(1,280)	(1,113)	(962)	(5)	(18)	(13)	(14)	(15)
Profit before tax	4,816	5,938	6,949	8,880	25	23	17	28	23
Tax	(237)	(772)	(903)	(1,154)	(55)	225	17	28	69
Tax rate (%)	4.9	13.0	13.0	13.0					
Profit after tax	4,578	5,166	6,045	7,725	38	13	17	28	19
Net Income	4,578	5,166	6,045	7,725	38	13	17	28	19
Non-controlling interest	46	46	46	46	(30)	0	0	0	0
Net Income attributable to Eq. shareholder	4,532	5,120	5,999	7,679	40	13	17	28	19
Net Margin %	15.4	13.8	14.4	15.6					
EPS									
EPS Core	13.93	17.75	22.22	28.44	19	27	25	28	27
Basic	16.78	18.96	22.22	28.44	35	13	17	28	19
Diluted	16.76	18.96	22.22	28.44	35	13	17	28	19

Source: FQ Research, Company

Balance Sheet

Year to 31 March (INR mn)	Mar-11	Mar-12	Mar-13	Mar-14
Assets:				
Net Tangible assets	11,794	13,250	14,612	15,914
Goodwill	606	606	606	606
Net Intangible assets	9,723	9,727	9,692	9,956
Investments	309	309	309	309
Deferred Tax Asset	2,558	2,558	2,558	2,558
Total long-term assets	24,990	26,449	27,776	29,343
Total current assets	25,988	29,982	35,281	43,343
Cash and bank balances	1,949	3,071	6,870	11,909
Restricted cash	10	10	10	10
Sundry debtors	11,308	11,985	13,739	15,477
Inventories	8,070	9,296	9,245	9,546
Other current assets	4,651	5,621	5,418	6,401
Total assets	50,978	56,432	63,057	72,686
Equity and Liabilities:				
Total Equity	20,639	25,805	31,851	39,576
Equity shares	270	270	270	270
Reserves and surplus	20,102	25,222	31,221	38,900
Non-controlling interest	267	313	360	406
Long-term liability	6,202	17,502	17,502	17,502
Employee obligations	141	141	141	141
Deferred Tax Liability	1,476	1,476	1,476	1,476
Total long-term liabilities	7,820	19,120	19,120	19,120
Total current liabilities	22,519	11,507	12,087	13,990
Accounts payable	6,574	7,611	7,924	9,546
Short-term borrowings	14,914	2,614	2,614	2,614
Other Liabilities	920	1,109	1,341	1,584
Provisions	111	172	208	246
Total liabilities	30,338	30,626	31,207	33,110
Total equity and liabilities	50,978	56,432	63,057	72,686
Gross debt	21,257	20,257	20,257	20,257
Cash and securities	1,986	3,108	6,907	11,947
Net debt	19,271	17,149	13,350	8,311
Gearing (net debt/equity)	93%	66%	42%	21%

Ratios

Particulars	FY11A	FY12E	FY13E	FY14E
Valuation Ratios				
P/E	18.5x	16.4x	14.0x	10.9x
EV/EBITDA	14.2x	8.9x	9.1x	7.6x
P/BV	4.1x	3.2x	2.6x	2.1x
Per Share Data (INR)				
EPS Core (Adjusted)	14	18	22	28
EPS Basic	17	19	22	28
Cash flow per share	5	4	14	19
Free Cash per share	20	12	18	22
Returns				
ROIC	14.0%	20.5%	18.7%	21.3%
ROCE	14.3%	13.0%	15.5%	16.5%
Net Sales	28,596	34,483	41,674	49,241
EBITDA	5,923	9,423	9,168	11,079
EBIT	4,976	8,385	7,912	9,691
EPS Core	13.9	17.8	22.2	28.4
EV/EBITDA	14.2x	8.9x	9.1x	7.6x
P/E	18.5x	16.4x	14.0x	10.9x
Credit & Capitalisation Ratios				
Total debt / EBITDA	3.4x	2.2x	2.2x	1.8x
Total debt / (EBITDA - capex)	10.5x	3.0x	3.1x	2.5x
Net debt / EBITDA	3.6x	2.5x	2.8x	2.7x
Total debt / EBIT	4.0x	2.5x	2.6x	2.1x
Total debt / (EBIT - capex)	20.7x	3.5x	3.8x	3.0x
Net debt / EBIT	4.3x	2.8x	3.2x	3.1x
EBITDA / total interest expense	3.7x	6.8x	7.0x	8.4x
EBITDA / net interest expense	3.8x	7.4x	8.2x	11.5x
EBIT / total interest expense	3.1x	6.0x	6.0x	7.4x
EBIT / net interest expense	3.2x	6.6x	7.1x	10.1x

Cash Flow Statement

Particulars (INR mn)	Mar-11	Mar-12	Mar-13	Mar-14
Profit Before Tax	4,816	5,938	6,949	8,880
Adjustments for:				
Depreciation/Amortisation	947	1,038	1,257	1,388
Interest expense	1,605	1,130	963	812
OP before working capital changes	6,712	8,106	9,168	11,079
Movement in working capital				
(Increase)/Decrease in sundry debtors	3,012	(677)	(1,755)	(1,737)
(Increase)/Decrease in Other assets	(1,924)	(2,196)	255	(1,285)
Increase/(Decrease) in AP and other	2,443	1,288	580	1,903
Net changes in OA and liabilities	10,240	6,522	8,249	9,960
Income taxes paid	(938)	(772)	(903)	(1,154)
Operating cash flow	9,303	5,750	7,345	8,806
Capex				
Investing cash flow	(3,670)	(2,498)	(2,584)	(2,954)
Repayments of long-term borrowings	(8,889)	(1,000)	-	-
Interest paid	(1,459)	(1,130)	(963)	(812)
Financing cash flow	(4,356)	(2,130)	(963)	(812)
Change in cash and equivalents	913	1,122	3,799	5,040
Beginning cash and equivalents	1,036	1,949	3,071	6,870
Ending cash and equivalents	1,949	3,071	6,870	11,909
Operating Cash Flow	9,303	5,750	7,345	8,806
Investing Cash Flow	(3,670)	(2,498)	(2,584)	(2,954)
Financing Cash Flow	(4,356)	(2,130)	(963)	(812)
Net Change in Cash	1,277	1,122	3,799	5,040
Free Cash Flow	5,291	3,252	4,761	5,851
CFPS	4.73	4.16	14.07	18.66
Free CFPS	19.59	12.04	17.63	21.67
Working Capital Schedule				
Inventories	8,070	9,296	9,245	9,546
As % COGS	89.8	85.5	70.0	60.0
Accounts receivable (Debtors)	11,308	11,985	13,739	15,477
As % Sales	42.5	38.0	36.1	34.0
Other current assets	4,651	5,621	5,418	6,401
As % Sales	16.3	16.3	13.0	13.0
Accounts payable	6,574	7,611	7,924	9,546
As % Sales	73.1	70.0	60.0	60.0
Other Current liabilities	920	1,109	1,341	1,584
As % Sales	3.2	3.2	3.2	3.2
Provisions	111	172	208	246
As % Sales	0.4	0.5	0.5	0.5
Working capital assets	24,029	26,902	28,402	31,424
Working capital liabilities	7,605	8,893	9,473	11,376
Working Capital	16,425	18,009	18,929	20,048
Change in working capital	1,529	-1,584	-920	-1,119

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