

Stock Update

Limited visibility with cautious outlook; maintain Hold

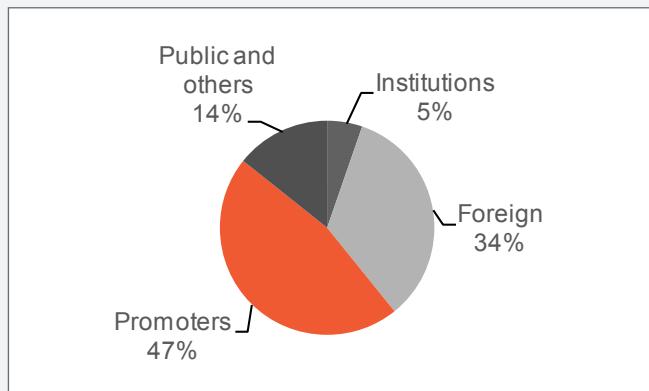
Glenmark Pharmaceuticals

Reco: Hold | CMP: Rs627

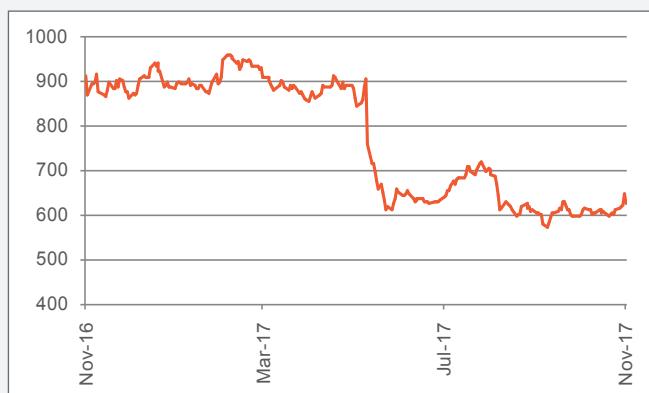
Company details

Price target:	Rs730
Market cap:	Rs17692 cr
52-week high/low:	Rs973 / 567
NSE volume: (No of shares)	12.8 lakh
BSE code:	532296
NSE code:	GLENMARK
Sharekhan code:	GLENMARK
Free float: (No of shares)	15.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.4	-7.5	-27.3	-30.9
Relative to Sensex	0.9	-10.8	-35.8	-44.1

Key points

- Operationally weak quarter; profit buoyed by low tax rate:** Glenmark Pharmaceuticals (Glenmark Pharma) revenue grew 1.5% y-o-y to Rs. 2,256.6 crore for Q2FY18, while operating profit declined by 13.5% to Rs. 388.4 crore. Adjusted profit declined 4.2% to Rs. 214.2 crore. The weak performance was on account of a 5.7% decline in US business and a 21.7% drop in Latin America (LatAm) business. The US business is witnessing pricing pressure to the tune of 13% (versus 10-12% earlier). Moreover, raw material cost increased 22.2%, while staff cost rose 15.5% (owing to increments and bonuses given to employees), leading to a sharp fall in operating profit. However, a lower tax rate of 21.6% (versus 29.1% y-o-y) restricted the decline in adjusted profit to 4.2%.

- Near-term visibility limited; cautious outlook:** The management gave a cautious outlook, as there is significant pricing pressure on the US base business owing to consolidation of players and increasing competition, which will continue for next two years. Although there are few more significant opportunities that will emerge in FY18 and FY19, we feel that a few overhangs will continue in the near term: 1) pricing pressure in the US base business; 2) limited visibility of margin expansion; 3) increasing capital expenditure and research and development (R&D) cost; 4) lower-than-expected debt reduction (Rs. 300 crore in FY18). Timely monetisation of key products and a big licensing deal in the R&D business (GBR-830 reported positive data in phase 2a) will be key positive triggers to watch out for.

- Maintain hold with revised PT of Rs. 730:** Taking into account the management's cautious outlook, post a weak quarterly performance, we reduce our sales and earnings estimates by 4% /4% and 21.8%/15% for FY2018/ FY2019, respectively. We maintain our Hold rating and revise our PT downward to Rs. 730, valuing the stock at 15x FY2019 earnings.

Results

Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	Rs cr QoQ (%)
Net sales	2256.6	2224.1	1.5	2363.0	-4.5
Expenditure	1868.2	1775.3	5.2	1785.6	4.6
Operating profit	388.4	448.8	-13.5	577.4	-32.7
Other income	29.7	-1.8	1518.2	15.3	94.5
EBIDTA	418.1	446.9	-6.4	592.7	-29.5
Interest	69.8	62.9	11.0	70.9	-1.5
Depreciation	75.2	68.7	9.5	77.7	-3.2
PBT	273.1	315.4	-13.4	444.1	-38.5
Tax	58.9	91.8	-35.8	110.8	-46.8
Adjusted PAT (Bfr Excp.Item)	214.2	223.6	-4.2	333.4	-35.8
Adj EPS (Rs)	7.6	7.9	-4.2	11.8	-35.8
BPS					
OPM (%)	17.2	20.2	-297	24.4	-723
EBIDTA margin (%)	18.5	20.1	-157	25.1	-656
Net profit margin (%)	9.5	10.1	-56	14.1	-462
Tax Rate (%)	21.6	29.1	-752	24.9	-336

Source: Sharekhan Research

Valuation

Particulars	FY16	FY17	FY18E	FY19E	Rs cr
Total Sales	7650	9186	9501	10608	
Adj. Net profit	1068	1275	1104	1371	
Shares in issue (cr)	28.2	28.2	28.2	28.2	
Adj. EPS (Rs)	37.8	45.2	39.1	48.6	
PER (x)	16.6	13.9	16.1	13.0	
cash EPS (Rs)	47.4	54.5	49.9	60.2	
EV/Ebidta (x)	11.6	10.1	10.5	8.5	
Book value (Rs/share)	151.3	159.2	195.6	241.5	
P/BV (x)	4.2	4.0	3.2	2.6	
Mcap/sales	2.3	1.9	1.9	1.7	
ROCE (%)	18.3	20.5	17.7	19.2	
RONW (%)	25.0	28.4	20.0	20.1	

Source: Sharekhan Research

Geographical business performance

India: India business grew just 5.3% to Rs. 710.7 crore. India sales number for previous year include excise and for this quarter, the sales is reported net of GST. Thus, on a like-to-like basis, the India business grew by 8%.

US: During the quarter, the company registered de-growth of 5.72% in the US market to Rs. 727.1 crore, in line with expectations, mainly on account of absence of gZetia exclusivity sales (exclusivity ended in June 2017) and increased pricing pressure due to channel consolidation and increased competition. During the quarter, Glenmark received approval for eight abbreviated new drug applications (ANDAs) and filed three ANDAs. It plans to file seven more in upcoming quarters. As on September 30, 2017, Glenmark has 126 generic products authorised for distribution in the US market and 61 pending approvals, which include 28 Para-IV applications.

Europe: Europe's operations revenue grew by a robust 48.5% to Rs. 200.024 crore, mainly on account of strong growth in Western and Central Eastern Europe. Glenmark launched seven products in the UK, two products in Germany, four products in Netherlands and one product in Poland, Sweden and Finland each.

Latin America (LatAm): Sales in these markets continued to decline 48.5% to Rs. 104.7 crore. The region's performance continued to be affected by issues in Venezuela sales. Excluding Venezuela, regional sales grew in excess of 20% in constant currency terms. The Brazilian subsidiary reported a growth of 14%, while the Mexican subsidiary recorded strong growth in excess of 70% on a low base. The management has guided for growth in LatAm markets (ex-Venezuela) to pick up from H2FY18.

Sales Break-up

Country	Q2FY2018	Q2FY2017	YoY %	Q1FY2018	Rs cr QoQ %
India	710.7	674.9	5.30	616.4	15.29
USA	727.1	771.2	-5.72	1045.0	-30.42
ROW	252.1	253.8	-0.69	226.5	11.32
Europe	200.0	134.7	48.50	162.1	23.41
Latin America	104.7	133.8	-21.73	84.5	23.92
API	236.6	221.3	6.90	204.8	15.55
Total Core Revenue	2231.2	2189.8	1.89	2339.3	-4.62
Out Licencing income	25.4	34.3	-26.05	23.7	7.02
Total consolidated revenue	2256.6	2224.1	1.46	2363.0	-4.50

Source: Sharekhan Research

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