

Glenmark Pharmaceuticals

Reco: Buy

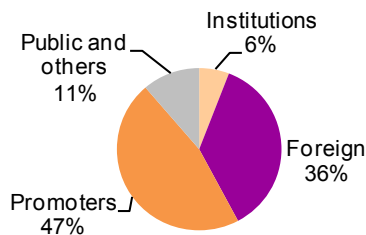
Focus on niche launches, outlook strong; maintain Buy with unchanged price target of Rs1,150

CMP: Rs936

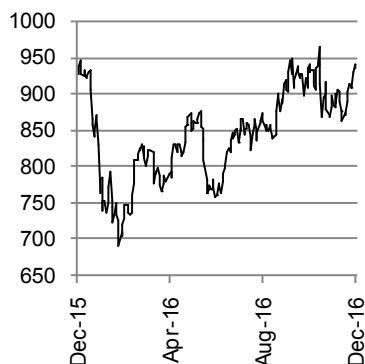
Company details

Price target:	Rs1,150
Market cap:	Rs26,386 cr
52-week high/low:	Rs993/671
NSE volume: (No of shares)	5.74 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	4.5	2.3	24.3	3.5
Relative to Sensex	3.6	10.9	24.8	-1.4

Key points

- Betting big on niche launches on account of a robust pipeline:** Glenmark Pharmaceuticals' (Glenmark Pharma) strategic blueprint outlines aggressive plans to expand its global presence by sharpening focus on complex generics (including Injectables), and widening the manufacturing base with a clear emphasis on therapeutic areas like Dermatology, Oncology and Respiratory. The company plans to grow the generic business through differentiated products, launch of speciality & innovative products and entry into new dosage forms like Inhalers (where competition intensity is low). Glenmark Pharma has a robust product pipeline, with a total of 110+ ANDAs approved, 60+ ANDAs pending for approval and 75+ ANDAs under development. The management has guided for 20-25 ANDA filings per year and 10-20 new product launches annually for the next 3-5 years. The company plans to leverage its expertise in the Dermatology segment, which has 15+ ANDAs pending for approval and 20+ products under development.
- Investment & financial update:** Glenmark Pharma's management has guided for an annual capex of Rs600-700 crore over the next three years for building facilities and widening the geographic presence. Annual spend on intangible assets will be Rs200 crore for the next three years, mainly on account of in-licensing deals. Net debt-to-equity will be around 1x by the end of FY2017 versus 1.25x as on March 31, 2016. With the recent launch of gZetia, cash generation over the next 2-3 quarters should remain strong, which should primarily be utilised to repay debt. Net working capital days stand at 110 days. We expect the ROCE to improve from the current level of 19-20% to 24%+ over the next 4-5 years.
- Guidance:** Glenmark Pharma's management has guided for revenue CAGR of 15-20% over the next five years, with 80% revenue contribution coming from India, USA & EU markets and the API segment. The Operating Profit Margin (OPM) is expected to be in the range of 22-24% from FY2018 onwards, while the R&D expenditure (net of out-licensing income) is forecast at 11% of sales. The tax rate should be around 25%.
- Maintain Buy with unchanged price target of Rs1,150:** Glenmark Pharma is in the process of aggressively ramping up products in USA, India and EU markets, which should give a major boost to its topline in the next couple of years. The gZetia launch scheduled in H2FY2017 will give a big fillip to sales and profitability, which should further help reduce debt on the company's balance sheet. Looking at management confidence, good product approval rate, new launches and sustained growth guidance, we have maintained our earnings estimates for FY2017 and FY2018. We continue to remain positive on the stock and hence maintain our 'Buy' rating with an unchanged price target of Rs1,150.

Valuation

Particulars	FY15	FY16	FY17E	FY18E
Total sales	6,645	7,650	9,499	10,272
Adj. net profit	774	1,068	1,451	1,631
Shares in issue (cr)	27.1	28.2	28.2	28.2
Adj. EPS (Rs)	28.5	37.8	51.4	57.8
P/E (x)	32.8	24.7	18.2	16.2
Cash EPS (Rs)	38.1	47.4	61.0	70.2
EV/EBIDTA (x)	20.6	16.1	12.2	10.4
Book value (Rs/share)	110.6	151.3	200.1	255.2
P/BV (x)	8.5	6.2	4.7	3.7
Mcap/sales (x)	3.8	3.4	2.8	2.6
RoCE (%)	15.8	19.6	24.3	25.7
RoNW (%)	25.8	25.0	25.7	22.7

US product pipeline table

Select large and complex generic products in pipeline for the US market

Product	Market Size (\$ Bn)	Source	Filing Status			
			Filed	CY17	CY18	CY19
gWelchol	0.6	In-house	✓			
gRenagel	2.1	In-house	✓			
gVagifem	0.4	In-house		✓		
gConcerta	1.8	In-license			✓	
gAbraxane	0.7	In-license				✓
gSuboxone	1.6	In-license				✓
gNuvaring	0.8	In-license				✓
GSP 101 (Generic inhaler)	~ 4.5	In-house			✓	
GSP 103 (Generic inhaler)	-1.0	In-house			✓	
GSP 104 (Generic inhaler)	-0.8	In-house				✓

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