

Analyst:

**Atul Kanwar**

[atulkanwar@bajajcapital.com](mailto:atulkanwar@bajajcapital.com)

Reviewed by:

**Alok Agarwala**

[aloka@bajajcapital.com](mailto:aloka@bajajcapital.com)

## BUY

# Glenmark Pharmaceuticals Limited

Investment Details	
CMP (Rs.)	278.7
Target (Rs.)	345.0
Upside Potential (%)	23.8
Horizon (Months)	12 M

Glenmark Pharmaceuticals Ltd. (GPL) is a research-driven, global and integrated pharmaceutical company. Glenmark has re-organized its business model into two separate business units –Specialty business under the name of GPL and Generics business under the head of Glenmark Generics Limited (GGL), which is also GPL's subsidiary. Specialty division of Glenmark takes care of the new drug discovery and its branded generics business. The Generics business covers the pure (no brand name) generics and API's (Active Pharmaceutical Ingredients). GPL is a leading player in the discovery of new molecules with eight molecules in various stages of clinical development. The company has twelve manufacturing facilities in four countries and has five R&D centers. GPL is focused in the areas of dermatology (skin related problems), inflammation (asthma etc.) and metabolic disorders (diabetes, obesity etc). It markets products in 70 countries across the globe including the regulated markets of the USA and Europe. Saldanha family is the promoter of GPL.

Profile	
Industry	Pharma
Market Cap (Rs cr.)	7522.1
Face Value (Rs.)	1.0
52-week high/low (Rs.)	302.4/190
Book Value (Rs.)	87.3
Price / Book Value	3.2
PE Ratio (TTM)	22.7
Dividend (%)	40.0
Average Daily Volume (1 Y)	1097237

## KEY INVESTMENT ARGUMENTS

### ➤ Strong R&D capabilities

GPL has a strong pipeline of 2 New Biologics Entities (NBEs) & 6 New Chemical Entities (NCEs) in various stages of clinical trials. GPL's drug discovery is focused in the therapeutic segments of inflammation, metabolic disorders and pain. Specialty drug discovery business has three dedicated R&D centers.

### ➤ Robust financial performance (consolidated)

The net sales increased 19.1% to Rs. 2484.9cr. in FY10 from Rs. 2086.5cr. in FY09. PBIDT increased 29.2% to Rs. 668.5cr. from Rs. 517.3cr. APAT increased 72.7% to Rs. 331cr. from Rs. 191.7 cr. PBIDTM (%) increased 210 bps to 26.9% from 24.8% & APATM (%) increased 410 bps to 13.3% from 9.2% for the same period. According to the management, the top-line is expected to grow by ~25% in FY11 while the PBIDT margins are expected to sustain or grow in the current financial year.

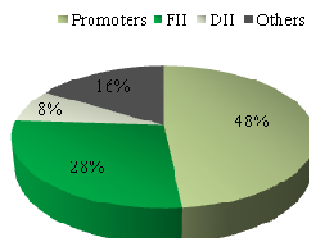
### ➤ Strong performance in India and Rest of the World markets

GPL's growth in Q4FY10 was on the back of a) 224% growth in SRM (Semi Regulated Market) and 29% growth in Latin America. The company showed good growth in all the 4 SRMs of Russia, Africa, Middle East and Asia. Secondary sales for the Russian subsidiary stood at 50%. Secondary sales have also picked up in Africa and Middle East with strong performance of nine power brands of the company. Similarly, in India the company has improved its market share in two important therapy segments of - cardiology from 1.9% to 2% and dermatology from 7.9% to 8%, during Q4FY10. For FY10 as a whole, sales were driven by 64% and 23% growth in SRMs and India respectively.

### ➤ GGL's business – back on track

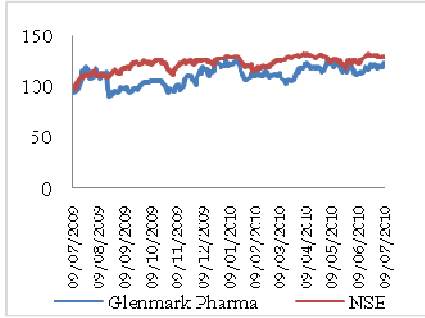
Generics business recorded sales growth of 23% and API business went up by 39% in Q4FY10 compared to the same quarter in FY09. Its European operations showed a 32% growth, while those in US grew by 18% for the same period. GGL has received 4 ANDA (Abbreviated New Drug Applications) approvals and launched 3 products in Q4FY10. Going forward the company expects 10-12 new launches in the niche segments in FY11E. GGL is building a pipeline of differentiated products in segments of dermatology (22) and oral contraceptives (11).

## Shareholding

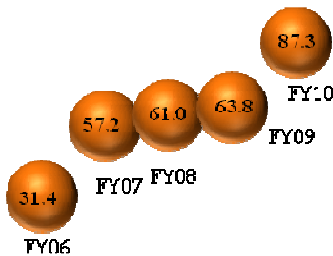


Source: BSE. Figures as on June 30, 2010.

Glenmark Pharmaceuticals V/s NSE

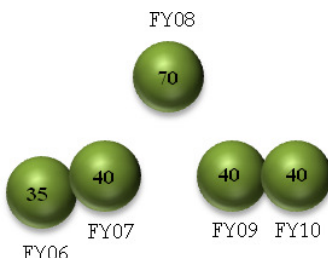


Book Value (Consolidated)



Figures in Rupees.

Dividend (%)



➤ **Glenmark Generics Ltd. IPO**

GPL holds 98% stake in GGL. SEBI has already approved a Rs 630cr. IPO of GGL. This IPO is expected to unlock a lot of value when it is launched. GGL is established in US and is increasing its presence in EU & Argentina. It primarily sells its FDF (Finished Dosage Form) products in the US and the EU, as well as its oncology (branch of medicine that deals with tumors) FDF products in South America. The company supplies APIs to customers in approximately 63 countries, including US, EU, South America and India.

➤ **Glenmark Generics Inc. (GGI) strong drug portfolio**

GGI's (the US based subsidiary of GGL) current portfolio consists of 55 products authorized for distribution in the US market. The company has over 50 ANDA pending approval with the USFDA. In addition to this, GGI continues to identify and explore external development partnerships to supplement and accelerate the growth of its existing pipeline and portfolio.

➤ **Lucrative agreement with Sanofi Aventis**

The agreement with Sanofi Aventis in May 2010, grants the French major a license to develop and market GPL's research molecule to treat chronic pain. The compound, called GRC 15300, is in the first phase of clinical trials and is for treatment of osteoarthritis and neuropathic pain. Peak sales in this area of pain management in the US are estimated at \$3bn (Rs. ~13,950cr.). GPL gets an upfront payment of \$20mn (Rs ~93cr.) that will reflect in the Q1FY11 numbers. It will receive \$325mn (Rs ~1,511cr.) if the molecule advances through the three research phases and is commercialized. Though the milestone payment is large, it is linked to targets and may not come through if results of future clinical trials are unsatisfactory.

➤ **Adapalene Gel launch to boost revenues and profits**

GGI received ANDA approval from USFDA (United States Food and Drug Administration) for Adapalene Gel on July 2, 2010, and will soon commence marketing and distribution of this product in the US market. The company anticipates a successful launch based on their semi-solid experience and the limited number of competitors in this market. Adapalene Gel is indicated for the topical treatment of acne vulgaris. GPL's product is the generic equivalent of Galderma's Differin® gel which generated approximately \$ 84mn (Rs. ~391cr.) in sales for the 12 month period ending March 2010. The approval expands the volume of the company's portfolio to include a total of 15 semisolid products authorized for distribution.

➤ **US launch of 'Tarka' to boost financials of the company**

GPL has scored in its patent tussle with Sanofi Aventis and Abbott, after the US district court ruled in favour of Glenmark for the drug Tarka, in June 2010. Glenmark has now launched Tarka generic in US which is used to treat hypertension. The market size of Tarka is ~\$60mn (Rs. ~280cr.) annually.

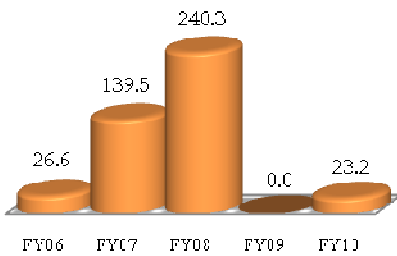
➤ **Licensing agreements with Par and Taro**

GGL entered into an exclusive licensing arrangement with Par Pharmaceutical for Ezetimibe, the generic version of Merck Schering-Plough's Zetia. This cholesterol drug has annual US sales of \$1.4bn (Rs. ~6510cr.). GGL has a first-to-file status for this product which means it will be the only company to market the drug, besides the innovator. GGL gets a payment & a share in profits for granting the rights to Par and the two will share the costs of the patent litigation case. The tie-up will help GGL save on distribution costs and spread risk on the legal cost front. The company received tentative approval in April last year. The final approval is likely to be based on the outcome of the case which is currently on in USA courts. GGL has also tied up with Taro Pharmaceuticals, under which it will manufacture and supply a branded product exclusively for Taro USA. GGL will receive milestone payments and a royalty on sales.

➤ **Debt to be brought down by Rs 200cr. in Q1FY11**

GPL's R&D spend is expected to remain pretty flat or come down marginally in FY11. Now that the company has out-licensed GRC 15300, the entire cash that is coming into the business is going towards debt repayment. GPL has been able to bring down debt by Rs 200cr. which will reflect in Q1FY11 numbers.

**Out-licensing Revenues**



Source: Company. Figures in Rs. Cr.

➤ **GPL’s ‘Out-licensing of molecules’ strategy has paid off**

GPL has focused on the strategy of out-licensing its molecules in clinical development to large multinational pharmaceutical organizations. This out-licensing strategy has been successful so far, with four deals struck by the organization in the last five years, collecting US\$ 115mn as upfront and milestone payments. It is the only Indian company which has got so much revenue from R&D activities.

➤ **GPL has recovered from the failed molecule effect**

GPL stock suffered in the past due to molecule that failed the clinical tests. In October 2008, Eli Lilly suspended the clinical development of GPL’s experimental drug GRC 6211, to treat osteoarthritis pain. The deal with Eli Lilly had a projected potential of \$350mn and GPL had received an upfront payment of \$45mn. The company has since recovered from this setback with its stock price stabilizing and moving up gradually.

**KEY CONCERNS**

➤ **Exchange rate fluctuation risk**

As GPL’s business is spread in various countries including USA & Europe, the strengthening of the rupee against major currencies like the US dollar and the Euro would impact its earnings negatively.

➤ **Regulatory Issues**

Any disciplinary action by USFDA taken against the company, in case of any violation sited by them, would adversely impact the growth prospects of the company.

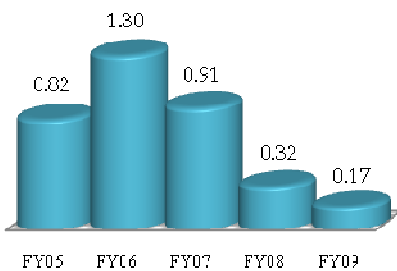
➤ **Delay in ANDA approvals**

The company’s ability to achieve further sales growth and profitability in US is dependent on its success in continuing to successfully obtain ANDA approvals, challenge patents and develop non-infringing products relative to branded pharmaceuticals.

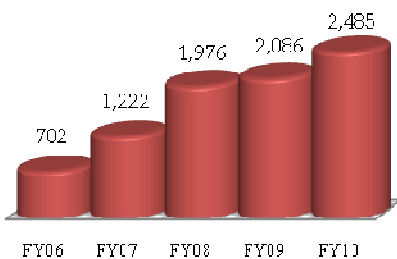
➤ **Failure of R&D molecules**

In order to remain competitive, the company spends substantial amount on R&D activities and looking for out-licensing partners. If the on-going and increasing R&D investments prove unsuccessful, it would result in higher costs without a proportionate increase in the income, which in turn would adversely affect the company’s financial condition.

**Long Term Debt-Equity Ratio (Consolidated)**



**Net Sales (Consolidated)**



Figures in Rs. Cr.

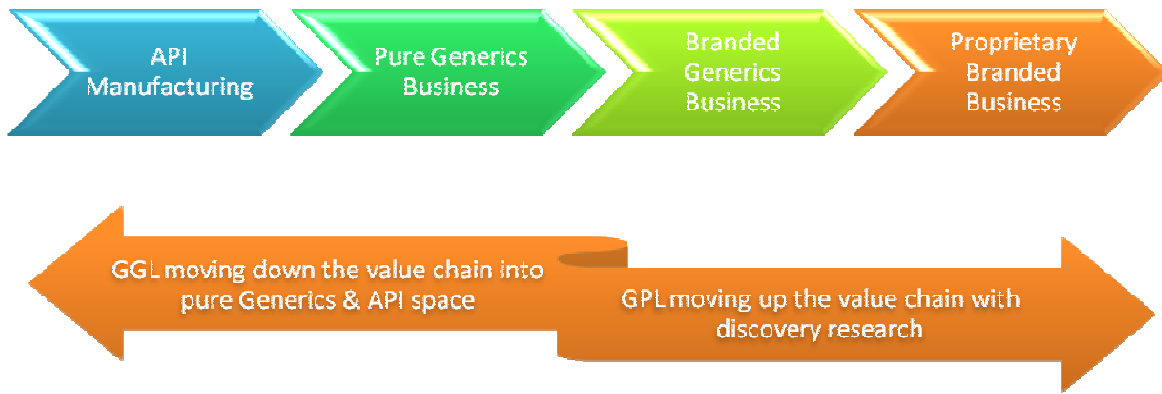
**VALUATIONS**

GPL’s share price had taken a beating after the failure of its GRC 6211 molecule in FY2008-09. The situation was also not helped by the economic environment worldwide, at that time. The company, since then has been in a recovery phase. It has 8 new molecules in the pipeline. The Generics business has also picked up. GPL’s IPO would see a lot of value unlocking for the GPL. The company is also focusing on reducing its debt burden substantially in FY10-11.

GPL, a Rs 7522.1 cr. company by market capitalization, is currently trading at a share price of Rs 278.7. The current EPS is Rs 12.3, which translates into a PE of 22.7. In terms of price to book value, it is currently available at 3.2. The market cap to sales ratio is 3.0. We expect the top-line & the bottom-line of GPL to grow at ~25.0% for FY11. Given the growth prospects of the company, the stock is an attractive buy.

We recommend a “BUY” on the stock with an investment horizon of 12 months and target price of Rs. 345.

**Pharmaceutical Value Chain**



**Glenmark’s Drug Discovery Pipeline**

Category	NBEs/NCEs	Disease Targeted	Market Opportunity	Target Launch	Phase	Status
Inflammation	GBR 500 – mAB	Multiple sclerosis, Inflammatory bowel disorder	US\$ 3bn	2014	I	Currently undergoing Phase I trials in the US
Metabolic Disorders	GBR 600 – mAB	Antiplatelet agent, Acute coronary syndrome	US\$ 2bn	2014	I	Received approval from MHRA, UK for undertaking Phase I trials in Europe
Gastro Intestinal	Crofelemer	Diarrhea	US\$ 80mn for HIV associated diarrhea	2010	III	Currently undergoing Phase III trials in USA. Expected to be launched in developing countries including India, by CY2011
Metabolic Disorders	Melogliptin (GRC 8200)	Diabetes mellitus	US\$ 35bn by 2015, 125mn patients	2013	IIB	Glenmark is in discussions with potential partners to out-license this molecule
Inflammation	Oglemilast (GRC 3886)	COPD/Asthma	US\$ 28bn,75 mn patients	2013	IIB	Oglemilast is still being studied for the treatment of asthma, with results expected during FY2011
	Revamilast (GRC 4039)	Rheumatoid arthritis	US\$ 16bn, > 20mn patients	2014	I	Phase I trials complete. Phase II to be initiated in second half of CY 2010.
Pain	GRC 10693	Neuropathic pain, osteoarthritis	Neuropathic market: US\$ 5 bn; and over 40mn patients. Osteoarthritis market: US\$ 4bn; and over 20 mn patients	2014	I	Phase I trials complete. Phase II studies expected in second half of CY 2010
	GRC 15300	Osteoarthritis pain, Neuropathic pain, Skin disorders		2014	I	Undergoing Phase 1 trials in UK

Source: Company

**FINANCIAL STATEMENTS:**

Income Statement: Consolidated				Rs. Cr.	
Particulars	Q4FY10	Q3FY10	Q4FY09	QoQ (%)	YoY (%)
Net Sales	709.2	641.7	491.1	10.5	44.4
Other Income	3.8	1.3	84.7	191.6	-95.5
Total Income	716.3	649.7	600.5	10.3	19.3
Total Expenditure	530.8	478.1	651.3	11.0	-18.5
PBIDT	185.5	171.6	-50.8	8.1	464.9
<b>PBIDT Margin %</b>	<b>26.2</b>	<b>26.7</b>	<b>-10.4</b>		
Interest	37.8	36.8	72.0	2.8	-47.5
PBDT	147.7	134.8	-122.8	9.6	220.3
Depreciation	16.9	36.3	29.6	-53.5	-42.9
PBT	130.8	98.5	-152.3	32.9	185.9
Tax	28.2	4.4	-31.6	542.1	189.1
APAT	102.6	94.1	-3.8	9.1	2836.5
<b>APATM (%)</b>	<b>14.5</b>	<b>14.7</b>	<b>-0.8</b>		

Financials: Consolidated							Rs. Cr.
	201003	200903	200803	200703	200603	200503	5 yr CAGR %
Share Capital	27.0	25.1	24.9	24.0	23.8	23.7	
Networth		1598.2	1517.9	686.4	373.1	309.0	
Capital Employed		3692.5	2508.8	1623.1	1128.5	766.4	
Total Income	2533.8	2476.9	2130.1	1320.6	724.9	604.7	33.2
Total Expenditure	1865.3	1959.6	1275.9	877.2	571.5	443.8	33.3
Revenues	2484.9	2086.5	1975.7	1222.0	702.0	569.4	34.3
PBIDT	668.5	517.3	854.2	443.4	153.4	160.9	33.0
Other Income	21.7	179.3	53.7	17.1	16.3	5.2	
Interest	164.0	145.7	71.0	39.8	18.2	17.3	
Depreciation	120.6	102.7	71.7	42.3	23.2	16.4	
PBIT	547.9	414.6	782.5	401.1	130.2	144.5	30.5
APAT	331.0	191.7	634.1	309.1	88.0	107.1	25.3
Operating Cash Flows		15.9	371.8	93.2	-26.8	14.4	
Free Cash Flows		-934.3	-138.1	-175.5	-283.6	-176.6	
Dividend %	40.0	40.0	70.0	40.0	35.0	35.0	
CEPS (Rs.)		11.8	28.2	29.2	9.1	10.3	
EPS (Rs.)*	12.3	7.7	25.3	25.7	7.2	8.9	
Debt-Equity Ratio		1.0	0.9	1.6	1.6	1.0	
Interest Coverage Ratio		2.9	11.0	10.1	7.2	8.4	
RoNW %		12.4	57.3	58.4	25.4	39.9	
PBIDT Margin %	26.9	24.8	43.2	36.3	21.9	28.3	
PBIT Margin %	22.1	19.9	39.6	32.8	18.5	25.4	
APAT Margin %	13.3	9.2	32.1	25.3	12.5	18.8	
Total Asset Turnover Ratio		0.6	0.8	0.7	0.6		
Fixed Asset Turnover Ratio		1.7	2.6	2.3	1.8		
Market Cap/Sales	3.0						
PE Multiple	22.7						
P/BV Ratio	3.2						

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Bajaj Capital Centre for Investment Research  
**Bajaj Capital Ltd**  
**97, Bajaj House, Nehru Place**  
**New Delhi 110019**  
Tel 4169 3000, 4169 2900, Ext. 1516  
Email: [bccir@bajajcapital.com](mailto:bccir@bajajcapital.com)