

Glenmark Pharmaceuticals Ltd.

INR:208.9



Drab Performance!!

BUY

**Topline below our expectation:** The topline of the company has shown a decline of 10% y-o-y to Rs 491.1 crore whereas on q-o-q basis the company reported a decline of 11%. The fall in sales was due to absence of licensing income during the quarter as compared to Rs 61.0 crore in the corresponding previous period. Excluding licensing income, the base business declined by 4%. Dip in the base business is due to factors like fewer ANDA approval, destocking in the regions like Latin America & Russia, currency impact in Latin America & Russia and price erosion of Glyptal.

Going forward, we expect the revenues to improve on back of improved performance from Glenmark generics, specialty formulation and Indian formulation business.

**Depressing performance at the Operating level:** Glenmark posted negative operating income mainly due to write-offs of inventory to the tune of Rs. 60 crore, higher production costs due to changes in the manufacturing process, several exhibit batches that became obsolete on account of delays in the ANDA approval process, higher packing material costs caused by regulatory changes, and a changing sales mix that led to lower gross margins. The operating income of the company for the quarter was Rs (18.4) crore whereas it was Rs 223 crore during the same quarter last year. Going forward, we expect the margins to be under pressure due to higher R&D cost and other expenses.

**Bottom Line -** The bottom line of the company was below our expectation at Rs (120.7) crore. The main reason for the negative bottom-line was the unexpected extraordinary items which company incurred on the account of bill backs and rebates pertaining to the US sales of Oxcarbazepine. The profit growth was also restricted by the doubling of the interest cost to Rs 71.9 crore due to an increase in the borrowings at higher interest rates of ~15-16% to fund the ongoing capital expenditure.

#### Our View:

Glenmark's Q4FY2009 performance has been significantly below estimates on the profitability front. While the economic slowdown and the currency turmoil have affected its non-US business, the slowdown in product approvals from the USFDA has affected the US generic business.

We expect that the company would come out of the dark clouds and shine. The company's block buster drug Melogliptin would enter phase III trial this year end and the company is in discussion to out license the same. The rich pipeline of drugs coupled with several ANDA approvals confirms the revenue visibility of the company. Going forward we also expect that the company would receive an outlicensing fee from its partners Forest labs and Teijin Pharma for Oglemilast if the result of phase II B trail turns out positive.

Therefore we maintain our optimistic view on the company supported by the consolidation from the acquisitions (like Actavis), revenue contribution from the new launches and increasing number of approvals from USFDA which would strengthen the earnings visibility of the company.

#### Key Financials

	Rs. Crore			
	FY08	FY09	FY10E	FY11E
Revenue	1976	2122	2664	3370
EBITDA	801	484	731	1129
OPM	40.5%	22.8%	27.4%	33.5%
Net Profit	632	193	431	838
NPM	32.0%	9.1%	16.2%	24.9%
EPS	26	12	17	34
P/E	8	17	12	6
ROCE	29.7%	18.1%	20.2%	27.1%
RONW	41.6%	18.2%	20.2%	28.4%

Source: KRC Research

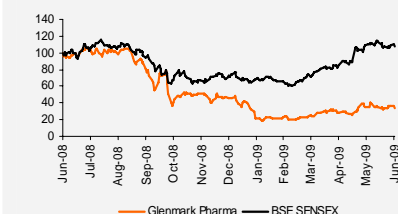
Price Outlook (INR): 252.2

Market Data	1 <sup>st</sup> July, 2009
Shares outs (Cr)	25.0
Equity Cap (Rs. Cr)	25.0
Mkt Cap (Rs. Cr)	5,222.5
52 Wk H/L (Rs)	699.5/119.2
Avg Vol (1yr avg)	5,27,590
Face Value (Rs)	1
Bloomberg Code	GNP IN

#### Market Info:

SENSEX	14,654.5
NIFTY	4,340.9

#### Price Performance



#### Share Holding pattern (%)

Particulars	31-Mar	31-Dec	Chg
Promoters	52.1	52.1	-
Institutions	3.4	2.8	0.6
FII	28.2	30.4	(2.2)
Public/Others	16.3	14.7	1.6
Total	100	100	-

#### Analysts :

Bhawana Verma

[bhawana.verma@krchoksey.com](mailto:bhawana.verma@krchoksey.com)

☎ 91-22-6696 5571

Carrol D'Silva

[carrol.dsilval@krchoksey.com](mailto:carrol.dsilval@krchoksey.com)

☎ 91-22-6696 5570

[www.krchoksey.com](http://www.krchoksey.com)

☎ 91-22-6696 5555

☎ 91-22-6691 9569

### Other Key Highlights

- Management guidance for FY10E is 30-40% in top-line and domestic market to grow by 20-30%.
- The capex for FY'10 would be around USD 5 to 10 million.
- R & D cost for FY09 stood at Rs 80-90 crore and for Q4FY09 Rs 30-35 crore. R & D expenditure for FY10 is expected to be USD 50 million.
- For the entire Africa, Asia and Russia/CIS region, Glenmark filed 15 product dossiers during the quarter and have received 8 products approvals. For FY09, it filed 105 dossiers and received 123 approvals.
- Glenmark has filed 12 product dossiers during the quarter in Latin America and received 7 product approvals. For the year it filed 70 dossiers and received 25 approvals.
- As on date, the company has a pipeline of 13 NCE and NBE molecules. In additions, the company has one in-licensed molecule, Crofelemer.
- Crofelemer molecule continues to progress well in Phase 3 clinical testing. An NDA with the US FDA is slotted to be filed in the first half of CY 2010 by Salix.
- Melogliptin has completed Phase IIb studies and will enter Phase III trials. Glenmark is in advanced discussion with several potential partners to out-license this molecule.
- The company plans to file at least six new products and anticipates successful launch of products to strengthen their growing semi-solid portfolio.
- Debt on the books as on 31st March'09 is around Rs 1900 crore. Company is planning to bring the debt to Rs 1500 crore by FY10.

### Revenue Break-up (Rs In Crore)

	Q4FY09	Q4FY08	Q3FY09	Y-O-Y	Q-O-Q	Comments
<b>Formulations</b>						
US	156	196	210	-20%	-26%	Lower filings coupled with slower approval process led to slowdown in US generics sales.
Latin America (Brazil & others)	27	42	44	-36%	-38%	LATAM business continued to face pressure as witnessed in 3QFY09, further impacted by higher costs and channel destocking.
Latin America (Argentina)	8	6	11	27%	-31%	
SRM	42	53	83	-21%	-49%	
Europe (Specialty)	38	8	19	363%	99%	Strengthened operations in Romania, Czech, Slovakia and Poland.
Europe (Generics)	7	1	4	722%	80%	
India	162	145	157	12%	3%	Growth was led by 5 new launches and strong performance of key brands in dermatology, and cardiovascular segments.
<b>Total</b>	<b>441</b>	<b>451</b>	<b>529</b>	<b>-2%</b>	<b>-17%</b>	
API	51	59	53	-15%	-4%	
Outlicensing Income	0	61	0	-	-	
<b>Total</b>	<b>491</b>	<b>571</b>	<b>581</b>	<b>-14%</b>	<b>-15%</b>	

Source: Company, KRC Research

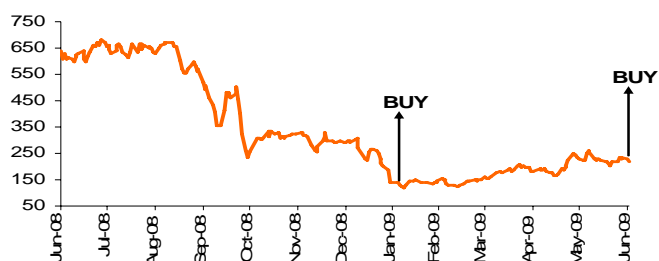
## Q4FY09 Result (Rs In Crore)

## Key Financials

	Q4FY09	Q4FY08	Q3FY09	Y-O-Y	Q-O-Q	Comments
Net Sales	516	573	581	-10%	-11%	Revenues declined mainly due to poor performance from the US & Brazil markets as well as lack of the outlicensing income in this quarter
Total expenditure	534	349	392	53%	36%	
Raw Material Consumed	115	132	134	-13%	-14%	
(Inc)/Dec in stock	-113	49	-68	-334%	65%	
Staff Cost	75	35	83	114%	-10%	
Purchases of traded goods	217	22	89	892%	144%	
Other Expenses	241	112	155	115%	55%	
EBIDTA	-18	223	189	-108%	-1129%	Operating income turned negative mainly due to inventory writeoff and also increase in the staff cost
EBIDTA Margin	-3.6%	39.0%	32.5%	-4256 bps	-3608 bps	
Depreciation	30	25	29	20%	2%	
Other Income	85	34	9	148%	818%	
EBIT	37	233	169	-84%	360%	
EBIT Margin	7.1%	40.6%	29.1%	-3351 bps	-2198 bps	
Interest	72	16	34	349%	110%	Interest cost surged on account of higher loans and an increased cost of borrowing.
PBT	-35	217	135	-116%	-126%	
Tax	-31	-2	53	-	-159%	
Reported Profit After Tax	-4	218	81	-102%	-105%	PAT turned negative, owing to the absence of out-licensing income during the quarter and pressure on topline and profitability in several business segments.
Exceptional items	-117	0	0	-	-	Exceptional charge were on account of additional bill-backs and rebates on Oxcarbazepine
Adjusted Profit After Tax	-121	218	81	-155%	-248%	
Net Profit Margin	-0.7%	38.1%	14.0%	-3886 bps	-1473 bps	
EPS	-4.82	8.73	3.25	-155%	-248%	

Source: Company, KRC Research

Rajiv Choksey	Co-Head Institutional Equities	<a href="mailto:rajiv.choksey@krchoksey.com">rajiv.choksey@krchoksey.com</a>	+91-22-6653 5135
Anuj Choksey	Co-Head Institutional Equities	<a href="mailto:anuj.choksey@krchoksey.com">anuj.choksey@krchoksey.com</a>	+91-22-6696 5500
Alok Agarwal	Institutional Research	<a href="mailto:alok.agarwal@krchoksey.com">alok.agarwal@krchoksey.com</a>	+91-22-6696 5502

**Glenmark Pharmaceuticals Ltd.**

**Rating Legend**

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

**Other Stocks in the sector under our active coverage: Pharmaceuticals**

Ticker	Company	Recommendation	As of	Return	Bmk	Outper	BARR
Summary		Coverage 6	Avg Rating: 4.6		9.97%	-16.98%	26.96%
RBXY	IN Ranbaxy Laboratories Ltd	Buy	04/01/09	30.73%	3.17%	27.56%	
JOL	IN Jubilant Organosys Ltd	Buy	03/03/09	-33.72%	-44.47%	10.75%	
SUNP	IN Sun Pharmaceutical Industries Ltd	Buy	02/07/09	13.24%	-3.67%	16.91%	
GNP	IN Glenmark Pharmaceuticals Ltd	Buy	01/28/09	39.62%	-38.40%	78.01%	4th
DRRD	IN Dr Reddys Laboratories Ltd	Hold	01/21/09	0.00%	-1.56%	1.56%	

**Disclaimer:**

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to [krc.research@krchoksey.com](mailto:krc.research@krchoksey.com)

Visit us at [www.krchoksey.com](http://www.krchoksey.com)

**Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.  
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

**Branch Office:**

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 058.  
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.