

Glenmark signs co-development deal

16th November 2009

Hold

Price	Target Price
Rs 222	Rs214

Sensex –	16,849
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(13)	29	(33)
Rel. to Sensex	(7)	(20)	(7)	(62)

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	GLEN.BO
Bloomberg	GNP@IN
Equity Capital (Rs mn)	270
Face Value (Rs)	1
No of shares o/s (mn)	270
52 Week H/L (Rs)	346/119
Market Cap (Rs bn /USD mn)	60/1293
Daily Avg Vol (No of shares)	2110768
Daily Avg Turnover (US\$ mn)	10.4

Shareholding Pattern (%)

	30-Sep-09	30-Jun-09	31-Mar-09
Promoters	48.4	52.1	52.1
FII/NRI	28.5	27.5	29.0
Institutions	4.0	2.7	3.4
Private Corp	5.5	4.2	3.3
Public	13.5	13.5	12.3

Source: Capitaline

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Glenmark has entered into a drug development and commercialize deal with US based Medicis Pharmaceuticals for one of their NDDS based dermatological product (Acne treatment; potential market size- US\$500mn). Glenmark has received an upfront milestone payment of US\$5mn and expect to receive additional milestone and royalty on commercialization. We view this development as positive one for Glenmark though it will take another 2-3 years for Glenmark to have recurring earnings from this product, if launch successfully. We take US\$5mn payment as one time impact and maintain our core business earnings of Rs11.7 and Rs 15.3 for FY10E and FY11E respectively. At the CMP of Rs 222, the stock is trading at 19x FY10E and 14.5x FY11E. We maintain Hold on the stock with a target price of Rs214.

Glenmark enters into a co-development and commercialize deal with Medicis

Glenmark has entered into an agreement with Medicis Pharmaceutical to co-develop and commercialize a speciality product in North American region. The product is mainly for the treatment of acne vulgaris which has a market potential of US\$500mn (as per company). Glenmark has received an upfront milestone of US\$5 mn and is expected to receive additional payments upon achieving certain development milestones and royalty upon commercialization of the product. Glenmark expect this molecule to be commercialized in next 2-3 years.

Along with this outlicensing deal, the company has also entered into a Para IV settlement with Medicis for the generic version of Vanos and Loprox. As per the settlement, Glenmark will be able to market and distribute its generic version of Vanos as early as December 2013, or earlier in certain circumstances where as for Loprox, Glenmark will have a license to launch a generic version immediately.

What is Medicis?

Medicis is the leading independent specialty pharmaceutical company in the US focusing primarily on the treatment of dermatological and aesthetic conditions. Its pharmaceutical franchises are divided between the dermatological and non-dermatological fields. The dermatological field represents products for the treatment of acne and acne-related dermatological conditions and non-acne dermatological conditions. The non-dermatological field represents products for the treatment of urea cycle disorder and contract revenue. The acne and acne-related dermatological product lines include SOLODYN, TRIAZ and ZIANA. The non-acne dermatological product lines include LOPROX, PERLANE, RESTYLANE and VANOS. The non-dermatological product lines include AMMONUL, and BUPHENYL. In CY08, the company had a total revenue of US\$517mn (net income of US\$10mn), out of which, acne and acne related products contributed 63% (US\$325mn) of overall revenue.

The company has dedicated sales force, consisting of 216 employees, focuses on high patient volume dermatologists and plastic surgeons. Dermatology sales forces consist of 105 employees and aesthetic sales force consists of 111 employees.

Emkay's View

We view this development as positive one for Glenmark. Medicis is one of the leading dermatology companies and Glenmark will be able to capitalize Medicis marketing strength to attain higher revenue if molecule is successfully commercialized. Though Glenmark has received upfront milestone payment of US\$5mn, the real impact on core earnings will only come after 2-3 years. We take US\$5mn payment as one time impact and maintain our core business earnings of Rs11.7 and Rs 15.3 for FY10E and FY11E respectively. At the CMP of Rs 222, the stock is trading at 19x FY10E and 14.5x FY11E. We maintain Hold on the stock with a target price of Rs 214

Income Statement

Balance Sheet

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E	Y/E, Mar (Rs. mn)	FY08	FY09	FY10E	FY11E
Net Sales	20,092	21,161	24,456	28,290	Equity share capital	249	251	269	269
<i>Growth (%)</i>	64	5	16	16	Share Application Money	0	0	0	0
Expenses	12,087	16,610	17,987	20,765	Share Premium	2,897	3,184	7,305	7,305
<i>Growth (%)</i>	52	37	8	15	Other Reserves	12,033	12,547	15,581	19,535
Raw Materials	4,722	6,581	7,312	8,430	Networth	15,179	15,982	23,155	27,109
% of sales	24	31	30	30	Deferred tax liability	946	569	569	569
Employee cost	1,983	3,049	3,644	4,215	Minority Int.	15	32	32	32
% of sales	10	14	15	15	Secured Loans	6,211	15,282	8,782	6,982
Manufacturing exp	1,893	2,099	1,956	2,263	Unsecured Loans	1,961	3,827	2,327	1,327
% of sales	9	10	8	8	FCCB	1,737	1,835	1,835	1,835
Selling & Dist exp	2,730	4,000	3,473	3,989	Prof. Share	0	0	0	0
% of sales	14	19	14	14	Loan Funds	9,924	20,975	12,975	10,175
R&D	758	883	1,602	1,867	Total Liabilities	26,048	37,526	36,699	37,854
EBIDTA	8,005	4,550	6,469	7,525	Gross Block	11,241	18,386	24,840	25,840
<i>Growth (%)</i>	88	-43	42	16	Less: Depreciation	2,056	2,723	4,182	5,893
EBIDTA %- Cons.	40	22	26	26.6	Net current assets	9,185	15,662	20,658	19,947
EBIDTA-Core	0	22	25	26	Capital WIP	3,372	5,454	0	0
Other income	458	1,740	376	247	Investment	188	181	181	181
Interest	632	1,405	1,435	922	Current Assets	16,510	20,791	20,643	23,252
Depreciation	717	1,027	1,459	1,710	Inventories	4,007	6,302	5,996	6,930
Misc. Exp. W/O	0	0	0	0	Sundry debtors	8,069	9,553	10,190	11,788
PBT	7,115	3,859	3,950	5,139	Cash & bank balance	1,565	715	1,033	574
Total Tax	794	1,137	790	1,028	Loans & advances	2,869	4,221	3,424	3,961
Effective tax rate (%)	11	29	20	20	Other assets	0	0	0	0
PAT (Before E/O items)	6,321	2,721	3,160	4,112	Current liabilities	3,207	4,563	4,782	5,527
	0	0	0	0	Current liab.	3,030	4,399	4,537	5,244
E/O items	325	1,120	0	0	Provisions	178	164	245	283
RPAT	6,321	2,721	3,160	4,112	Net current assets	13,303	16,228	15,861	17,725
E/O Inc. (Forex Gain)	0	0	0	0	Misc. expenditure	0	0	0	0
APAT- Cons.	5,996	1,602	3,160	4,112	Total Assets	26,048	37,526	36,699	37,854
<i>Growth (%)</i>	95	-73	97	30					
APAT- CORE	4,192	3,087	3,142	4,112					
<i>Net Margin (%) - Cons.</i>	30	8	13	15					
Net Margin- Core	24	15	13	14					

Cash Flow

Key Ratios (%)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10E	FY11E	Y/E, Mar	FY08	FY09	FY10E	FY11E
Pre-tax profit	7,115	2,689	3,950	5,139	Per Share Data (Rs)				
Depreciation	717	1,027	1,459	1,710	DEPS	25.2	12.3	11.7	15.3
Pre-operative exp.	0	0	0	0	FDEPS (Consolidated)	23.9	12.3	11.7	15.3
Chg in working cap	-4,136	-3,775	686	-2,323	FDEPS - CORE	16.7	12.3	11.7	15.3
Tax paid	-595	-1,137	-790	-1,028	Cash EPS (x)	28.0	16.4	17.1	21.6
Operating cash Inflow	3,101	-1,197	5,305	3,499	Book Value (x)	60.5	63.8	86.1	100.8
Capital expenditure	-5,170	-9,586	-1,000	-1,000	Valuations				
Free Cash Flow	-2,069	-10,783	4,305	2,499	PER (x) (consolidated)	9.3	18.1	19.0	14.5
Investments	-1	7	0	0	Price / CEPS (x)	7.9	13.5	13.0	10.3
Equity Capital Raised	2,108	111	4,139	0	Price / BV (x)	3.7	3.5	2.6	2.2
Loans Taken / (Repaid)	542	11,034	-8,000	-2,800	EV / Net Sales (x)	3.3	3.6	3.0	2.5
Prof. Share	0	0	0	0	EV / EBITDA (x)	8.2	16.8	11.2	9.3
Min. Interest	15	17	0	0	Dividend Yield (%)	0.3	0.2	0.2	0.2
Dividend (incl tax)	-201	-117	-126	-158	Returns (%)				
Others	113	-1,119	0	0	RoCE	35.3	11.4	13.7	15.8
Increase in Msc Exp	0	0	0	0	RoNW	54.4	19.8	16.0	16.3
Net chg in cash	508	-850	318	-459	Gearing Ratio				
Opening cash position	1,058	1,565	715	1,033	Net debt/ Equity (x)	0.5	1.3	0.5	0.4
Closing cash position	1,565	715	1,033	574	Total Debt/Equity (x)	0.7	1.3	0.6	0.4
					Turnover (x) Days				
					Debtors T/O	144.6	162.5	150.0	150.0
					Creditors T/O	85.2	89.8	84.0	84.0
					Inventory T/O	112.7	128.6	111.0	111.0

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