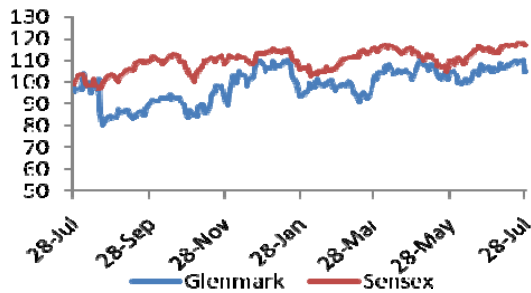


**Q1 FY11 Results Update**
**Glenmark Pharmaceuticals Ltd**

Recommendation	BUY		
CMP (30/07/2010)	Rs. 270		
Sector	Pharmaceuticals		
<b>Stock Details</b>			
BSE Code	532296		
NSE Code	GLENMARK		
Bloomberg Code	GNP IN		
Market Cap (Rs. cr)	732.6		
Free Float (%)	51.7		
52- wk HI/Lo	304/202		
Avg. volume BSE (Quarterly)	184871		
Face Value	1		
Dividend	40%		
Shares o/s (Cr)	27		

Relative Performance	1Mth	3Mth	1Yr
Glenmark	-0.6%	-0.1%	4.5%
Sensex	1.0%	1.8%	16.6%


**Shareholding Pattern as of 30/06/2010**

Promoters Holding	48.4
Institutional (Incl. FII)	35.2
Corporate Bodies	3.9
Public & others	12.5

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**Modest growth in Sales:** Glenmark Pharmaceuticals Limited reported sales of Rs 592.4 cr, a growth of 9% yoy, which was below our expectation. However the company received one time upfront payment from Sanofi Aventis for their out-licensed deal. Including the onetime income the company reported revenues of Rs 681.9 cr a growth of 25.4% yoy.

**Profitability improved:** Excluding onetime income, EBITDA increased 14.3% yoy with 80 bps improvements in margins at 23.8%. Major tailwind on EBIDTA was employee cost which grew by 26%. Glenmark reported decline in interest cost on back of restructuring and repayment of debt. This helped the company in improving PAT margins to 10.9% from 9.7% in Q1FY10.

**Key highlights of the quarter**

- During Q1FY11 the company launched Tarka generic at launch. However the launch was in the latter part of the quarter hence no major revenues were booked from the product.
- India and Latin America were major drivers during the quarter with growth of 16.7% and 21.1% respectively. The company launched 5 products in India during the quarter.
- R&D cost during the quarter was Rs 25 cr. The management has indicated of Rs 130-150 cr expenditure for the full year. It has recorded Rs 9 cr forex gain during the quarter.
- The company incurred 50 cr towards capex and expected to spend total of Rs 200-240 cr for FY11.

**Valuation & Recommendations**

At the current price of Rs.270, Glenmark is trading at a PE of 15.8x FY11 estimated EPS & 13.2x FY12 estimated EPS. The valuations look attractive at current levels given revenue outlook and profitability improvement. Based on our estimated EPS of Rs 17.0 for FY11E and a target PE multiple of 18.0x we arrive at a target price of Rs. 307 per share indicating a potential upside of 14.3%. We have not included any upside from monetization of molecules like the current GRC 15300, which presents an upside potential over our estimates. Consequently, We reiterate our BUY rating on the stock with a long-term view.

Year	Net Sales (Rs Cr)	Growth %	EBITDA (Rs Cr)	EBIDTA (Margin %)	PAT (Rs Cr)	PAT (Margin %)	Adj EPS (Rs)	P/E (x)	P/BV (x)
FY09	2,116	5.3	455	21.5	192	9.1	7.1	38.2	4.6
FY10e	2,468	16.7	642	26.0	324	13.1	12.0	22.6	3.1
FY11e	2,959	19.9	799	27.0	460	15.5	17.0	15.9	2.6
FY12e	3,376	14.1	912	27.0	531	15.7	19.7	13.8	2.2

Other highlights

- Currently, Glenmark is marketing 56 products in US and has similar number of ANDAs (50) pending approval showing a strong product portfolio.
- The management has indicated of 25% revenue growth for FY11 (including licensing income) and also expects EBIDTA margins to inch up further.
- The company expects 25% growth in US business and 30% in SRM

Particulars (Rs in Cr)	Q1FY11	Q1FY10	yoy	Q4FY10	qoq
Net Sales	681.9	543.7	25.4%	709.1	-3.8%
Other Op. income	14.5	5.0	186.8%	3.4	331.6%
<b>Net Sales</b>	<b>696.3</b>	<b>548.7</b>	<b>26.9%</b>	<b>712.5</b>	<b>-2.3%</b>
Cost of materials	187.8	177.6	5.7%	237.9	-21.0%
Personnel Exps	103.4	82.1	25.9%	80.4	28.5%
Other exps	171.1	162.6	5.2%	212.6	-19.5%
<b>EBITDA</b>	<b>234.0</b>	<b>126.4</b>	<b>85.1%</b>	<b>181.7</b>	<b>28.8%</b>
<i>margins (%)</i>	33.6	23.0		25.5	
Depreciation	32.7	31.2	5.1%	16.9	94.0%
<b>PBIT</b>	<b>201.3</b>	<b>95.3</b>	<b>111.3%</b>	<b>164.8</b>	<b>22.1%</b>
Interest	27.7	43.8	-36.7%	37.8	-26.6%
Other Income	11.6	2.5	354.6%	3.8	203.4%
<b>PBT</b>	<b>185.1</b>	<b>54.0</b>	<b>243.0%</b>	<b>130.8</b>	<b>41.5%</b>
Tax	29.6	0.5	5685.7%	28.2	4.9%
<i>Tax rate (%)</i>	16.0	0.9		21.5	
<b>PAT</b>	<b>155.5</b>	<b>53.5</b>	<b>191.0%</b>	<b>102.6</b>	<b>51.6%</b>
Minority Interest	0.0	0.0		0.0	
EO items	0.0	0.0		0.0	
<b>PAT reported</b>	<b>155.5</b>	<b>53.5</b>	<b>191.0%</b>	<b>102.6</b>	<b>51.6%</b>
<i>margins (%)</i>	22.3	9.7		14.4	
Equity Capital (FV Rs 1)	26.9	26.9		27	
<b>EPS</b>	<b>5.8</b>	<b>2.0</b>	<b>191.0%</b>	<b>3.8</b>	<b>51.6%</b>

**Revenue Mix**

Segments (Rs in Cr)	Q1FY11	Q1FY10	yoy	Q4FY10	qoq
<b>Specialty Business</b>	<b>418.3</b>	<b>305.0</b>	<b>37.1%</b>	<b>435.9</b>	<b>-4.0%</b>
India	193.6	165.9	16.7%	218.4	-11.4%
Semi Regulated Markets	73.3	78.6	-6.7%	137.0	-46.5%
Latin America	40.6	33.5	21.1%	34.6	17.4%
Europe	21.2	26.9	-21.3%	45.9	-53.8%
Out-Licensing	89.5	0.0		0.0	
<b>Generics Business</b>	<b>263.6</b>	<b>238.7</b>	<b>10.4%</b>	<b>273.3</b>	<b>-3.5%</b>
US	183.0	172.1	6.4%	185.2	-1.2%
Europe	10.4	4.1	150.8%	9.8	6.2%
Latin America	7.5	6.8	10.4%	8.0	-6.1%
API	62.7	55.7	12.6%	70.3	-10.8%
<b>Consolidated Revenues</b>	<b>681.9</b>	<b>543.7</b>	<b>25.4%</b>	<b>709.1</b>	<b>-3.8%</b>

**Specialty Business**

Specialty business reported sales growth of 37.1% at Rs 418 cr. This includes onetime income of out-licensing deal which the company received from Sanofi Aventis for its GRC 15300 molecule. Adjusting that the segment grew by 7.8% at Rs 328.8 cr.

- India is continuing the robust growth its been witnessing since last few quarters with growth rate of 16.7% during the quarter. The company launched five new products. As per ORG-IMS, Glenmark is growing faster @ 27.3 % as compared to industry average of 21.3%.
- SRM region reported decline of 6.7% at Rs 73 cr on account of channel re-stocking in Q1FY10. Revenues were down 46.5% down on qoq basis as the company recorded higher than normal sales in Q4FY10. The company filed 20 product dossiers and received 26 product approvals during the quarter. Going forward the management expects 30% of growth in the region.
- LatAm region is continued its growth momentum during the quarter also. Per Pharmexpert MAT the company is growing at a rate of 50%. CIS segment is the major growth driver backed by Ukraine, Kazakhstan and Uzbekistan countries. The growth in LatAm reflects the results of restructuring in Brazil and contribution from newer markets like Mexico and Venezuela.
- European region declined on back of currency fluctuations and on account of higher channel inventory in Poland. During the quarter, the company launched 'Clopidogrel' in few territories and 'Donepezil' in Romania, strengthening its cardiology and CNS portfolios respectively.
- On R&D front, the company signed an out-licensing deal with Sanofi-Aventis for its GRC 15300 for which it received \$20 mn as upfront payment and expecting to get milestone payments on development as high as \$325 mn.

#### Generics Business

Generics business grew by 10.4% during the quarter at Rs 263.6 cr on yoy however it reported decline of 3.5% on qoq basis.

- US territory reported disappointing growth rate of 6% at Rs 183 cr. The company launched Tarka generic, first company to launch the drug. However, the product was introduced in the latter part of the quarter hence no major revenues were recorded from the drug sales. The company has 56 product portfolio and similar of pending approvals of about 50. It has also launched its first product in hormone segment. During the quarter the company filed four ANDAs. We are positive on the US prospects and expect going forward US would contribute to the growth of the overall business on back of Tarka exclusivity and new product launches.
- Revenues from European region were Rs 10.4 cr registering a growth of 151% yoy and 6% qoq on back of dossier sales. The company signed three deals during the quarter for licensing and supply of products to EU markets.
- LatAm or Argentina market reported sales of Rs 7.5 cr a growth of 10.4%. This region represents the oncology portfolio of the company. Glenmark submitted 28 product dossiers worldwide.
- API business clocked growth of 12.6% at Rs 62.7 cr. The outlook remains modest for the segment although it got impacted by currency fluctuations during the quarter.

#### Valuation & Recommendation

At the current price of Rs.270, Glenmark is trading at a PE of 15.8x FY11 estimated EPS & 13.2x FY12 estimated EPS. The valuations look attractive at current levels given revenue outlook and profitability improvement. Based on our estimated EPS of Rs 17.0 for FY11E and a target PE multiple of 18.0x we arrive at a target price of Rs. 307 per share indicating a potential upside of 14.3%. We have not included any upside from monetization of molecules like the current GRC 15300, which presents an upside potential over our estimates. Consequently, We reiterate our BUY rating on the stock with a long-term view.

NOTE

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