

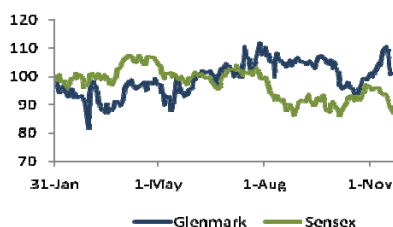
## Glenmark Pharmaceuticals Ltd

Recommendation	HOLD
CMP	Rs. 295
Target Price	Rs. 364
Sector	Pharmaceuticals

## Stock Details

BSE Code	532296
NSE Code	GLENMARK
Bloomberg Code	GNP IN
Market Cap (Rs cr)	7,960
Free Float (%)	51.7
52- wk HI/Lo (Rs)	351/242
Avg. volume BSE (Quarterly)	46,580
Face Value (Rs)	1.0
Dividend (FY 11)	40%
Shares o/s (Crs)	27.1

Relative Performance	1Mth	3Mth	1Yr
Glenmark	6.2%	0.9%	1.5%
Sensex	9.1%	-4.8%	-8.0%



Shareholding Pattern	31 <sup>st</sup> Dec 11
Promoters Holding	48.3
Institutional (Incl. FII)	39.3
Corporate Bodies	1.8
Public & others	10.6

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Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	Rep. PAT (Rs cr)	Margin (%)	EPS (Rs)	P/E (x)	P/BV (x)
FY 10A	2,501	18.2	620	24.8	324	13.0	12.0	24.5	3.4
FY 11A	2,949	17.9	592	20.1	453	15.4	16.8	17.6	3.9
FY 12E	3,772	27.9	754	20.0	381	10.1	14.1	20.9	3.3
FY 13E	4,324	14.6	886	20.5	594	13.7	22.0	13.4	2.6

## Results below expectations

Glenmark Pharma reported results below than expectations due to high forex loss and adverse change in sales mix

Sales (excluding out-licensing income) grew by 7.5% qoq and 32.8% yoy at Rs 1007.5 cr. The company received out-licensing income of Rs 23.8 cr during the quarter as compared to 118.5 cr in Q2FY12. Core EBITDA margin (adjusted for forex loss and out-licensing income) has declined to 18.0% from 20.5% in Q2FY12 and 23.0% in Q3FY11.

## Key Highlights

- During the quarter the company reported forex loss of Rs 102 cr (MTM on foreign currency loans) which negated the healthy sales growth of 32.8% yoy
- EBITDA margin has declined due to lower contribution of high margin business like India (grew by 12.8% yoy in 9MFY12), US (42%) and higher contribution by low margin business like SRM (48%), LatAm (55%)
- High R&D cost also affected the EBITDA margins during the quarter. The company spent Rs 76 cr on R&D in Q3FY12 i.e. 7.5% of sales as compared to 6.9% in Q2FY12 and 4.6% in Q3FY11. Company has indicated of spending Rs 75 cr in Q4FY12 taking the full year figure to Rs 261 cr as against the earlier guidance of Rs 200 cr.
- Management has indicated that one of the reason for subdued performance of India business was inventory rationalization to reduce accounts receivable (which came down to 116 days from 125 days earlier)
- Management has indicated that going forward margins would improve from here onwards especially from FY13 onwards EBITDA margins are expected to improve substantially on year on year as the company is currently focusing on growth at the cost of margins.

## Valuation &amp; Recommendation

We believe that major headwinds are factored in the price. With future triggers like improving margins, positive sales mix and better balance sheet position, we expect company to report better numbers.

At CMP the stock trades at 20.8x FY12E and 13.3x FY13E. We believe the stock is available at attractive valuations. We are rolling our price target o FY13E. Based on our EPS of Rs 22 for FY13E target price comes to Rs 364 (earlier Rs 358). We maintain our HOLD rating on the stock.

## Glenmark Pharmaceuticals Ltd

### Quarterly Result Table

Particulars (Rs Cr)	Q3FY12	Q3FY11	yoy	Q2FY12	qoq
Gross Sales	1,031	751	37.3%	1,055	-2.3%
Other Op. income	0	8	-97.1%	0	-10.0%
<b>Net Sales</b>	<b>1,031</b>	<b>758</b>	<b>36.0%</b>	<b>1,056</b>	<b>-2.3%</b>
Cost of materials	370	248	49.2%	333	11.0%
Personnel Exps	173	120	44.9%	158	10.1%
Other exps	385	217	77.7%	339	13.5%
<b>EBITDA</b>	<b>103</b>	<b>174</b>	<b>-40.9%</b>	<b>226</b>	<b>-54.4%</b>
<i>margins (%)</i>	<i>10.0</i>	<i>23.0</i>		<i>21.4</i>	
Depreciation	23	34	-32.7%	25	-6.4%
<b>PBIT</b>	<b>80</b>	<b>140</b>	<b>-42.9%</b>	<b>201</b>	<b>-60.3%</b>
Interest	36	30	17.5%	29	22.9%
Other Income	11	27	-60.4%	(8)	-230.4%
<b>PBT</b>	<b>55</b>	<b>136</b>	<b>-59.9%</b>	<b>164</b>	<b>-66.7%</b>
Tax	8	26	-68.0%	(24)	-135.4%
<i>Tax rate (%)</i>	<i>15.4</i>	<i>19.4</i>		<i>-14.5</i>	
<b>PAT</b>	<b>46</b>	<b>110</b>	<b>-57.9%</b>	<b>188</b>	<b>-75.4%</b>
Minority Interest	0	0		0	
EO items	0	0		132	
<b>PAT reported</b>	<b>46</b>	<b>110</b>	<b>-57.9%</b>	<b>56</b>	<b>-17.4%</b>
<i>margins (%)</i>	<i>4.5</i>	<i>14.4</i>		<i>5.3</i>	
Equity Capital (FV Re 1)	27	27		27	
<b>EPS</b>	<b>1.7</b>	<b>4.1</b>	<b>-57.9%</b>	<b>2.1</b>	<b>-17.4%</b>

### Revenue Break Up

Segments (Rs Cr)	Q3FY12	Q3FY11	yoy	Q2FY12	qoq
<b>Specialty Business</b>	<b>585</b>	<b>452</b>	<b>29.3%</b>	<b>632</b>	<b>-7.5%</b>
India	255	239	6.5%	254	0.3%
Semi Regulated Markets	157	115	36.1%	148	6.2%
Latin America	82	53	56.1%	74	11.7%
Europe	66	45	48.3%	38	75.9%
Out-Licensing	24	0		118	-79.9%
<b>Generics Business</b>	<b>437</b>	<b>299</b>	<b>46.2%</b>	<b>399</b>	<b>9.5%</b>
US	319	204	56.3%	300	6.3%
Europe	31	15	99.1%	19	65.4%
Latin America	4	4	-17.2%	4	-14.1%
API	84	75	11.5%	76	9.6%
<b>Others</b>	<b>10</b>	<b>0</b>		<b>25</b>	<b>-60.4%</b>
<b>Consolidated Revenues</b>	<b>1,031</b>	<b>751</b>	<b>37.3%</b>	<b>1,055</b>	<b>-2.3%</b>

### Change in Estimates

Rs Cr	FY12			FY13		
	Old	New	% chg	Old	New	% chg
Sales	3710.0	3772.5	1.7%	4141.7	4323.8	4.4%
PAT	536.5	512.7	-4.4%	622.3	594.5	-4.5%

## Glenmark Pharmaceuticals Ltd

### Financials

P&L (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
Net Sales	2500.6	2949.1	3772.5	4323.8
% change	18.2%	17.9%	27.9%	14.6%
EBITDA	619.6	592.3	754.5	886.4
EBITDA margin	24.8%	20.1%	20.0%	20.5%
Depn & Amort	120.6	94.7	97.9	116.5
Operating income	499.0	497.6	656.6	769.9
Interest	165.5	160.5	142.4	124.3
Other Income	50.4	144.4	26.6	39.4
PBT	383.9	481.6	540.8	685.0
Tax	52.9	23.7	27.0	89.1
MI	6.6	4.6	131.7	0.0
Rep PAT	324.5	453.2	382.1	596.0
PAT margin (%)	13.0%	15.4%	10.1%	13.8%
Adj PAT	324.5	453.2	513.7	596.0
Sh o/s - Diluted	27.0	27.0	27.0	27.0
FDEPS	12.0	16.8	14.2	22.1

Quarterly (Rs Cr)	Dec.10	Jun. 11	Sept. 11	Dec. 11
Revenue	758.5	868.5	1055.7	1031.3
EBITDA	174.1	296.9	225.6	102.9
Dep & Amorz	34.4	26.4	24.7	23.1
Op Income	139.7	270.5	200.9	79.7
Interest	30.4	40.8	29.1	35.7
Other Inc.	26.6	12.3	-8.1	10.5
PBT	135.9	242.0	163.7	54.5
Tax	26.3	31.9	-23.8	8.4
EO	0.0	0.0	131.7	0.0
PAT	109.6	210.1	55.9	46.1
EPS (Rs.)	4.1	7.8	2.1	1.7

Performance Ratio	FY10A	FY11A	FY12E	FY13E
EBITDA margin (%)	24.8%	20.1%	20.0%	20.5%
EBIT margin (%)	20.0%	16.9%	17.4%	17.8%
PAT margin (%)	13.0%	15.4%	10.1%	13.8%
ROE (%)	16.3%	20.5%	17.0%	21.9%
ROCE (%)	8.1%	10.8%	9.2%	13.4%

Valuation Ratio	FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	24.5	17.6	20.8	13.4
Price/BV (x)	3.4	3.9	3.3	2.6
EV / Sales	3.9	3.3	2.6	2.2
EV / EBITDA	15.7	16.7	13.0	10.8

Balance Sheet (Rs Cr)	FY10A	FY11A	FY12E	FY13E
Share Capital	27.0	27.0	27.0	27.0
Reserves & Surplus	2328.3	2010.2	2378.9	2953.9
Minority	13.0	26.7	26.7	26.7
Net Worth	2368.2	2063.9	2432.6	3007.7
Net Deferred Tax Liab	71.0	-108.1	-108.1	-108.1
Total Loans	1869.4	2100.5	1950.5	1750.5
<b>Total Liabilities</b>	<b>4308.6</b>	<b>4056.3</b>	<b>4275.0</b>	<b>4650.0</b>
Net Fixed Assets	1787.3	2066.6	2161.6	2241.5
Capital WIP	600.8	145.7	152.9	156.4
Investments	18.1	28.1	28.1	28.1
Cash & Bank	107.0	198.6	75.5	95.3
Inventories	708.5	807.0	1038.7	1155.0
Debtors & Other CA	1605.6	1595.9	1806.1	2070.1
CL & P	518.6	785.7	988.0	1096.5
Net CA	1902.4	1815.8	1932.4	2223.9
<b>Total Assets</b>	<b>4308.6</b>	<b>4056.3</b>	<b>4275.0</b>	<b>4650.0</b>

Cash Flow (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
<b>Operating Cash Flow</b>				
Op CF before tax	619.6	592.3	622.8	886.4
Change in WC	-244.1	178.2	-239.7	-271.7
Tax	-52.9	-23.7	-27.0	-89.1
CF from Operation	322.6	746.8	356.1	525.6
<b>Investing Activities</b>				
Capex	-392.3	247.2	-200.0	-200.0
Oth Income	50.4	134.4	26.6	39.4
CF from Investing	-341.9	381.6	-173.4	-160.6
<b>Financing</b>				
Dividend Paid	-12.6	-12.6	-13.4	-20.9
Share Capital	399.3	0.0	0.0	0.0
Loans & Others	-331.9	-1024.3	-292.4	-324.3
CF from Financing	54.8	-1036.8	-305.8	-345.2
Net Chg. in Cash	35.5	91.6	-123.1	19.8
Cash at beginning	71.5	107.0	198.6	75.5
Cash at end	107.0	198.6	75.5	95.3

Per Share Data	FY10A	FY11A	FY12E	FY13E
Adj EPS	12.0	16.8	14.2	22.1
BV per share	87.8	76.5	90.2	111.5
Cash per share	4.0	7.4	2.8	3.5
Dividend per share	0.4	0.4	0.4	0.7



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