

29th June 2009

Accumulate

Price	Target Price
Rs230	Rs241

Sensex –	14,785
----------	---------------

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	56	(22)	(63)
Rel. to Sensex	(10)	6	(51)	(64)

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	GLEN.BO
Bloomberg	GNP@IN
Equity Capital (Rs mn)	250
Face Value (Rs)	1
No of shares o/s (mn)	250
52 Week H/L (Rs)	697/119
Market Cap (Rs bn /USD mn)	58/1203
Daily Avg Vol (No of shares)	2239847
Daily Avg Turnover (US\$ mn)	9.9

Shareholding Pattern (%)

	31/03/09	31/12/08	30/9/08
Promoters	52.1	52.1	52.1
FII/NRI	29.0	31.3	30.7
Institutions	3.4	2.8	3.5
Private Corp.	3.3	1.6	1.4
Public	12.3	12.3	12.3

Source: Capitaline

Manoj Garg

manoj.garg@emkayshare.com

+91 22 6612 1257

Akshat Vyas

akshat.vyas@emkayshare.com

+91 22 6612 1491

Glenmark Pharma

Disappointing numbers, one offs impacted further

Result Update

Glenmark posted disappointing set of numbers, significantly below our/market estimates. Revenue fell by 14% to Rs 4911mn because of absence of NCE income (Rs609mn in Q4FY08) and a base business decline across all segment (decline by 4%), except its domestic formulation business (grew by 12%). Operating margins were affected because of a) Inventory write-down for the US and LatAm market (Rs700mn), b) Closure of operations in Australia and China (Rs600mn) and c) A charge back of Rs1.17bn on account of price erosion in Oxcarbazepine. This has resulted 21 percentage point contraction in EBIDTA margins to 17.7% in Q4FY09. Pressure in top-line and operating margins coupled with higher interest cost (up by 364%) has led to 96% decline in APAT to Rs91mn in Q4FY09. For FY09, Revenue was up by 6% to Rs20.9bn. excluding NCE income, revenue grew by 21%. Adjusted EBIDTA for FY09 de-grew by 27% to Rs5850mn. APAT de-grew by 55% to Rs2830mn. On the back of lower than expected performance, we have downgraded our FY10E earning estimates by 25% to Rs12.8 and introduced our FY11E earning estimates (EPS of Rs17.2 for base business). We are positive on the outcome of Melogliptin Phase IIb clinical data and have revised the NPV of R&D assets from Rs44 per share to Rs69 per share. However, we feel that monetizing of R&D opportunity in the near term will remain a key challenge for the company. Maintain Accumulate rating with a price target of Rs241 (10x FY11E EPS ex. R&D NPV). Positive data for Oglemilast and out-licensing deal for Melogliptin will be key upsides.

Glenmark Pharma Ltd (GPL)

GPL (Ex NCE) grew by 8% to Rs2.7bn, mainly aided by India (up 12%) and Europe (up 360% albeit on a low base). The growth in Europe is mainly on the back of the acquisition done by the company of Polish brands from Actavis for Rs750mn. During Q4FY09 the company launched 3 brands i.e. Topimark in Czech Republic, Lextril in Poland and Diuremid in Romania. The growth in the Indian market is primarily on the back of higher contribution of dermatology and cardiology segment.

Glenmark Generic Ltd (GGL)

GGL de-grew by 15% to Rs2219mn on the back of 20% and 15% decline in the US and API business respectively. During Q4FY09, the company filed 6 ANDAs constituting a total of 16 ANDAs filed in the entire financial year and received final ANDA approvals for 5 products from the U.S. FDA. Going ahead, the company plans to file at least 6 new products in Q1FY10E.

Segment wise break-up

(Rs mn)	Q4FY09	Q4FY08	Gr (YoY)	FY09	FY08	Gr (YoY)
US	1564	1963	-20%	7338	5640	30%
Europe	74	9	705%	147	9	1497%
Latin America (Argentina)	76	60	26%	400	308	30%
API	505	591	-15%	1972	1959	1%
Total Generics Business [A]	2219	2623	-15%	9857	7917	25%
Latin America (Brazil & Others)	269	420	-36%	1580	1905	-17%
Semi Regulated Markets [SRM]	423	533	-21%	2355	2046	15%
Europe	384	83	360%	996	369	170%
India	1617	1445	12%	6142	5132	20%
Specialty Formulation [1]	2692	2482	8%	11073	9451	17%
Out-licensing Revenues [2]	0	610		0	2403	
Specialty Business (B= 1+2)	2692	3091	-13%	11073	11854	-7%
Consolidated Revenues [A + B]	4911	5714	-14%	20930	19771	6%

Margins remain under pressure

During Q4FY09, the company reported a loss of Rs 432mn vis-à-vis a profit of Rs 2208 mn on the back of 40% increase in Raw material cost and 58% increase in employee cost. The other expenditure during the quarter has increased substantially mainly due to inventory write off Rs700mn and Rs600 mn for closure of facility. However after adjusting these one time write-offs the company's operating profit declined by 61% to Rs 868mn. The Adjusted EBIDTA has declined to 17.7% from 38.6% in Q4FY08.

APAT decline by 96%

During Q4FY09, the company reported a higher other income (up 209%) to Rs 1094mn primarily on the back of forex gain and the change of accounting policy (AS-11). This has resulted additional gain of Rs850mn. Also during the quarter, the company has reported an extraordinary item of Rs 1169mn on the back of write off of Oxcarbazepine. After adjusting all the extra- ordinary items, the Adjusted PAT de-grew by 96% to Rs 91mn.

Melogliptin to enter Phase III; raise pipeline NPV to Rs69 from Rs44

Glenmark has recently announced that its oral anti-diabetic molecule 'Melogliptin' is set to enter global Phase III trials by end CY09. Its Phase IIb trials were completed successfully and achieved 1% average HbA1c reduction (compare to peers which showed 0.44 to 0.77% reductions) and a positive safety profile. This comparison places Melogliptin favorably with respect to competing molecules such as Sitagliptin, Alogliptin and Saxagliptin. Armed with above set of data's, Glenmark believes it is now better positioned to find a partner to take the molecule further.

We do believe that positive data of Melogliptin enhances Glenmark's ability to out-license the same in next few quarters despite being a late entrant in this class of molecules (2 drugs are already in the market and 2 more are waiting for FDA approvals). Melogliptin would be 5th or 6th entrant in oral DPP IV category. However, given the current challenging environment, the actual closure of out-licensing will be a challenging proposition for any pharma company in the near term. Given the huge potential of the oral anti-diabetic space in general ~US\$24bn in 2007 (DPP-IV inhibitors in particular- US\$1.5bn current market size, likely to reach US\$4bn by 2012), we believe, Glenmark may secure out-licensing deal worth US\$300mn including upfront payments of US\$45-50mn. We expect peak potential revenue of US\$600-700mn.

Glenmark also has another molecule 'Oglemilast', which is currently in Phase IIb stage. Company expects data from Phase IIb trial by July end and positive outcome of the same will increase the NPV of Oglemilast by Rs35 per share. Our current NPV for Oglemilast is Rs33.2 per share. So the NPV of these two assets is Rs69 per share.

Downward revision in FY10E

We have revised our FY10E earnings estimate downwards by 25% on the back of lower than expected performance and introducing our FY11E numbers. Our EPS for base business in FY11E is Rs17.2.

Revenue and earning estimates

	FY10E	FY11E
Revenue (Rs mn)		
Old Estimate	25780	-
New Estimate	24429	28169
% Change	-5%	-
EBIDTA Margins		
Old Estimate	28.6%	-
New Estimate	27.1%	27.6%
% Change	-150 bps	-
EPS (Rs)		
Old Estimate	17	-
New Estimate	12.8	17.2
% Change	-25%	-

Valuations and outlook

Despite adjusting to one-offs, Glenmark's Q4FY09 numbers are significantly below our expectations. Sluggish growth across all geographies and significant increase in the debt (Rs5bn in Q409) clearly indicates the challenges faced by company esp. in 2HFY09. Though management has indicated that things have started improving from Q1FY10 onwards, but we would like to watch one or two quarter's performance before we change our stance on the generic business.

We are positive on the outcome of Melogliptin Phase IIb clinical data and have revised the NPV of R&D assets (Melogliptin and Oglemilast) from Rs44 per share to Rs69 per share. However, we feel that monetizing of R&D opportunity in the near term will remain a key challenge for the company.

On the back of lower than expected performance, we have downgraded our FY10E earning estimates by 25% to Rs12.8 and introduced our FY11E earning estimates (EPS of Rs17.2 for base business). Maintain Accumulate rating with a price target of Rs241 (10x FY11E EPS ex. R&D NPV). Positive data for Oglemilast and out-licensing deal for Melogliptin will be key upsides.

Key Financials

Income Statement Rs mn	Q4FY09	Q4FY08	Gr (YoY)	Q3FY09	Gr (QoQ)	FY09	FY08	Gr (YoY)	FY10E	FY11E
Cons. Sales	4911	5714	-14.1%	5814	-15.5%	20930	19771	5.9%	24429	28169
NCE		610					2403		0	0
Core Sales	4911	5104	-3.8%	5814	-15.5%	20930	17368	20.5%	24428	28169
Raw Material cost	2189	1567	39.7%	1541	42.0%	6646	5079	30.9%	6693	7718
% of sale	45	27		27		32	26		27	27
Employee cost	746	472	58.1%	828	-9.9%	3123	2078	50.2%	3615	4169
% of sale	15	8		14		15	11		15	15
Other Exp.	2409	1468	64.1%	1554	55.0%	6612	4608	43.5%	7500	8507
% of sale	49	26		27		32	23		31	30
Total Expenditure	5343	3507	52.4%	3923	36.2%	16380	11765	39.2%	17809	20395
Ebidta- Cons.	-432	2208	-119.6%	1891	-122.9%	4550	8005	-43.2%	6620	7775
Ebidta margins (%)	-8.8	38.6		32.5		21.7	40.5	-1880 bps	27.1	27.6
Adj Ebidta- Cons.	868	2208	-60.7%	1890.6	-54.1%	5849.8	8005.3	-26.9%	6620	7775
Ebidta margins (%)	17.7	38.6	-2090 bps	32.5	-1480 bps	27.9	40.5	-1260 bps	27.1	27.6
Interest	719	155	364.5%	343	109.7%	1405	632	122.4%	1,501	1,156
Depreciation	296	243	21.8%	291	1.7%	1027	717	43.3%	1,320	1,425
Other Income	1094	354	209%	92	1085.1%	1740	458	280%	222	204
PBT	-354	2164	-116.3%	1349	-126.2%	3858	7115	-45.8%	4021	5398
Tax	-316	-35	816.4%	535	-	754	794	-5.0%	804	1080
Tax- %	89.4	-1.6	-	39.6	-	19.5	11.2	75.2%	20.0%	20.0%
Reported Profit After Tax	-37	2198	-101.7%	814	-104.6%	3104	6321	-50.9%	3217	4318
Extra-ordinary Items	1170	0		0		1170	0			
RPAT after EO items	-1207	2198	-154.9%	814	-248.2%	1935	6321	-69.4%	3217	4318
Adjusted PAT- Cons	91	2198	-95.9%	814	-88.8%	2830	6321	-55.2%	3217	4318
FDEPS	0.4	8.7	-95.9%	3.22	-88.8%	11.2	25.0	-55.2%	12.8	17.2

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Global Financial Services Ltd.,
Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.
Tel: +91-22-66121212, Fax: +91-22-66242410