

November 15, 2019

## Q2FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	335		385	
Sales (Rs. m)	1,07,224	1,15,452	1,07,797	1,14,214
% Chng.	(0.5)	1.1		
EBITDA (Rs. m)	15,065	19,050	16,224	17,989
% Chng.	(7.1)	5.9		
EPS (Rs.)	26.5	34.6	29.2	32.1
% Chng.	(9.3)	7.7		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	97,051	1,07,224	1,15,452	1,25,246
EBITDA (Rs. m)	14,254	15,065	19,050	20,666
Margin (%)	14.7	14.1	16.5	16.5
PAT (Rs. m)	9,250	7,464	9,752	10,495
EPS (Rs.)	32.8	26.5	34.6	37.2
Gr. (%)	10.2	(19.3)	30.7	7.6
DPS (Rs.)	2.0	2.0	2.0	2.0
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	17.2	12.6	14.5	13.7
RoCE (%)	11.5	12.2	15.5	16.0
EV/Sales (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	8.0	7.6	5.7	5.1
PE (x)	9.2	11.4	8.7	8.1
P/BV (x)	1.5	1.4	1.2	1.0

### Key Data

GLEN.BO | GNP IN

52-W High / Low	Rs.707 / Rs.267
Sensex / Nifty	40,357 / 11,895
Market Cap	Rs.85bn/ \$ 1,183m
Shares Outstanding	282m
3M Avg. Daily Value	Rs.1091.05m

### Shareholding Pattern (%)

Promoter's	46.58
Foreign	31.37
Domestic Institution	7.43
Public & Others	14.62
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.1	(48.8)	(54.7)
Relative	0.3	(53.0)	(60.4)

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## Q2 benefitted from seasonality :Problem area remains problematic

### Quick Pointers:

- Employee expense creates a drag on EBITDA margin
- Key markets grew with seasonality effect

**GNP sales grew 21% QoQ while it grew 10% YoY, implying seasonality benefits in key markets including India and US. Overall, its key growth came in India (15% YoY), US (15% QoQ), ROW (14% YoY) and Brazil (23%YoY). Adj. EBITDA grew 22% QoQ while on YoY basis it was flat, again it showed traditionally Q2 was strong quarter for GNP due to seasonality. While sales and EBITDA gained on the benefits, its margin remain flat at 14.4%, implying quality of sales remain similar despite launch of 8 new ANDAs in H1FY20. Disproportional growth in employee costs (vs the growth in sales) decreased EBITDA margin 130 bps YoY. We noticed the similar trends since FY17 as it disbursed salary increments and annual bonus in Q2. The company paid out Rs.1.5bn as bonus and incentives during Q2FY20. Adjusted with one-offs, employee costs increased by 10% QoQ and 5% YoY. Finance cost grew declined 3% QoQ, while net debt remained cause of concern as it increased by 1.2bn QoQ.**

**GNP continues to invest US\$30m/quarter in NCE business and plans to raise capital as well as divest non-core assets in US and other export markets by Q4FY20E. This will help to reduce net debt by Rs7-8bn in FY20E. With track record of only sporadic debt repayment, we believe that reduction of debt remains an unmet promise over many years. Till it set a trend of reducing debt consistently over 6-8 quarters, the valuation of the company continues to be impacted with lower multiple than peers. GNP trades at PE 11.4x of FY20E and 8.7x of FY21E earnings. We maintain 'Reduce' while decreased TP to Rs335 (PE 9x of FY22E earnings) from Rs385.**

## Conference call highlights

- GNP received WL (Warning letter) for its Baddi facility while USFDA visit of plants in Goa and Monroe issued 2 and 1 ANDAs in Q2FY20. Its Indore plant also completed USFDA visit without any Form 483 in Q2FY20. Baddi contributes US\$30m sales mainly from its exports of derma products to US and Canada. Management guided for USFDA re-inspection of the plant in H1FY21E.
- Glenmark filed one ANDA during the quarter and launched 8 ANDAs in H1FY20. It plans to file 3 ANDAs Q3FY20E.
- Launches of Tacrolimus and Fulversant led US sales to US\$121m in Q2FY20 from US\$105m in Q1FY20. Overall, new launches and derma portfolio contributed major incremental sales sequentially.

- Brazil grew exceptionally by 23% YoY due to additional sales from the launches of 3 respiratory product in-licensed from Novartis and launch of Baclofen from the pipeline.
- Management retained their growth guidance of single digit growth in US in FY20E.
- Expects to launch Ryaltris in US in H2FY20E. GNP also actively exploring options to launch Ryaltris key non-US markets (Australia, China and Korea) with multiple partners.
- R & D spend was Rs3.5bn (12.6% of sales), of which Rs1.9bn spend on NCE molecules through its subsidiary ICHNOS Sciences
- Remogliflozin improved market share of 20% in new diabetic therapy, SGLT2 in India. Its current sales is Rs30m/ month.
- GNP maintained capex guidance at Rs8bn in FY20E, with Rs5bn incurred in H1FY20.
- Continues to sell non-core assets as per its new line of strategy to focus in key therapies and key markets as well as reduce debts.

#### Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
<b>Net Sales</b>	<b>27,637</b>	<b>25,399</b>	<b>8.8</b>	<b>22,836</b>	<b>50,473</b>	<b>46,692</b>	<b>8.1</b>
Raw Material	9,861	8,808	12.0	8,101	17,963	16,396	9.6
<i>% of Net Sales</i>	<i>35.7</i>	<i>34.7</i>		<i>35.5</i>	<i>35.6</i>	<i>35.1</i>	
Employee Costs	6,866	6,059	13.3	4,867	11,733	10,584	10.9
<i>% of Net Sales</i>	<i>24.8</i>	<i>23.9</i>		<i>21.3</i>	<i>23.2</i>	<i>22.7</i>	
Others	6,919	6,545	5.7	6,592	13,761	12,620	9.0
<i>% of Net Sales</i>	<i>25.0</i>	<i>25.8</i>		<i>28.9</i>	<i>27.3</i>	<i>27.0</i>	
Total Expenditure	23,646	21,412	10.4	19,560	43,456	39,600	9.7
<b>EBITDA</b>	<b>3,991</b>	<b>3,986</b>	<b>0.1</b>	<b>3,276</b>	<b>7,017</b>	<b>7,093</b>	<b>(1.1)</b>
<i>Margin (%)</i>	<i>14.4</i>	<i>15.7</i>		<i>14.3</i>	<i>13.9</i>	<i>15.2</i>	
Depreciation	942	825	14.2	907	1,849	1,618	14.2
<b>EBIT</b>	<b>3,049</b>	<b>3,162</b>	<b>(3.6)</b>	<b>2,369</b>	<b>5,168</b>	<b>5,474</b>	<b>(5.6)</b>
Other Income	1,321	1,814	(27.1)	409	1,731	3,558	(51.4)
Interest	898	851	5.5	930	1,828	1,641	11.4
<b>PBT</b>	<b>3,473</b>	<b>4,124</b>	<b>(15.8)</b>	<b>1,848</b>	<b>5,071</b>	<b>7,391</b>	<b>(31.4)</b>
Extra-Ord. Inc./Exps.	-	(1,672)		-	-	(1,254)	
Total Taxes	918	1,656	(44.6)	506	1,423	2,593	(45.1)
<i>ETR (%)</i>	<i>26.4</i>	<i>40.2</i>		<i>27.4</i>	<i>28.1</i>	<i>35.1</i>	
<b>Reported PAT</b>	<b>2,555</b>	<b>4,140</b>	<b>(38.3)</b>	<b>1,343</b>	<b>3,648</b>	<b>6,052</b>	<b>(39.7)</b>

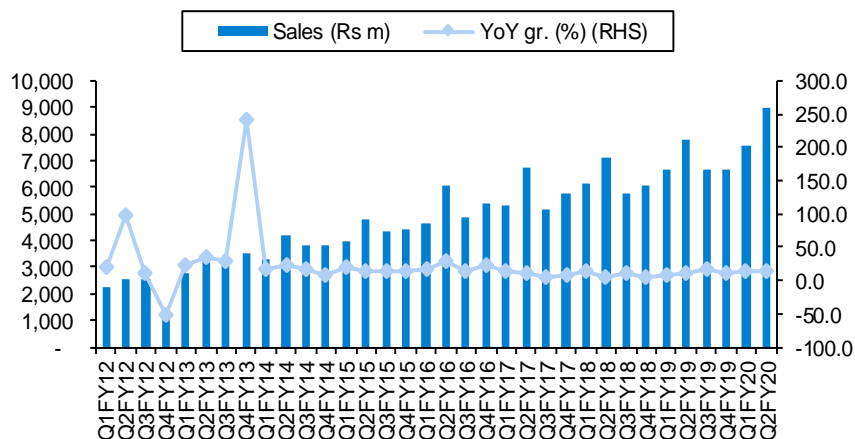
Source: Company, PL

## Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
<b>Glenmark generics</b>	<b>11,176</b>	<b>9,138</b>	<b>22.3</b>	<b>9,615</b>	<b>20,791</b>	<b>19,753</b>	<b>5.3</b>
US generics	8,478	7,037	20.5	7,309	15,787	15,140	4.3
APIs	2,698	2,101	28.4	2,306	5,004	4,613	8.5
<b>Glenmark Pharma (Branded generics)</b>	<b>16,515</b>	<b>12,261</b>	<b>34.7</b>	<b>13,349</b>	<b>29,864</b>	<b>26,689</b>	<b>11.9</b>
India Formulations	8,964	6,633	35.1	7,522	16,486	14,416	14.4
Semi-Reg market	3,488	2,454	42.1	2,587	6,075	5,505	10.4
Latam formulations	1,212	976	24.2	811	2,024	1,961	3.2
EU branded generics	2,851	2,198	29.7	2,429	5,279	4,806	9.9
Outlicense fees	459	257	78.8	265	724	1,028	(29.6)
<b>Net Sales</b>	<b>28,150</b>	<b>21,656</b>	<b>30.0</b>	<b>23,229</b>	<b>51,379</b>	<b>47,470</b>	<b>8.2</b>

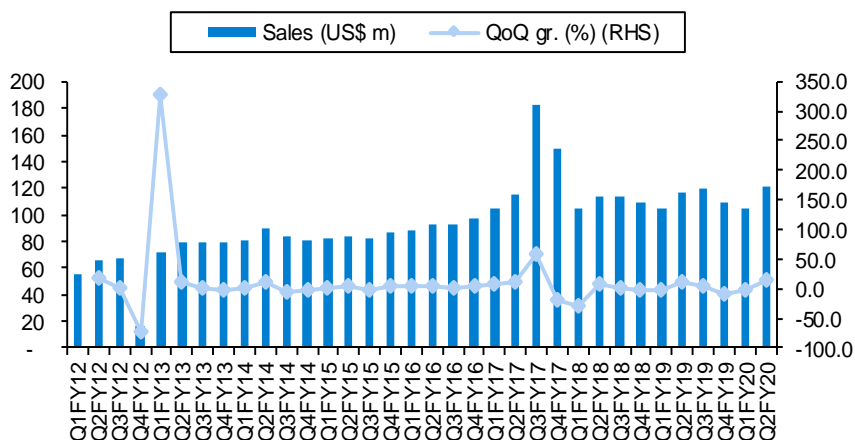
Source: Company, PL

## Exhibit 3: India formulation sales



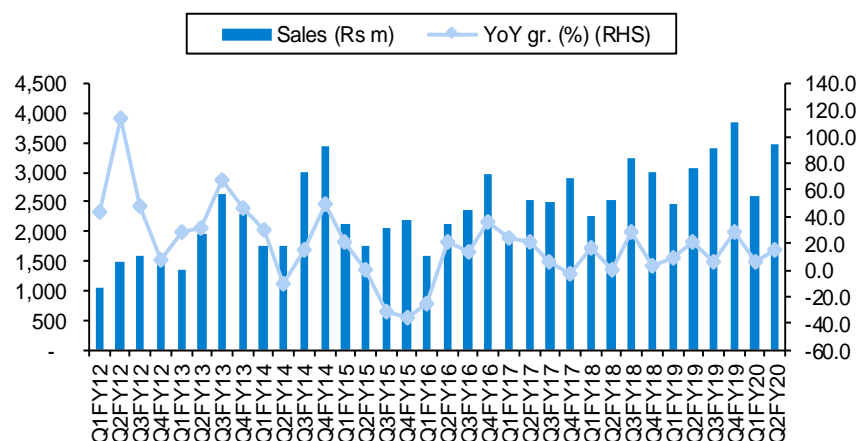
Source: Company, PL

## Exhibit 4: US Generics



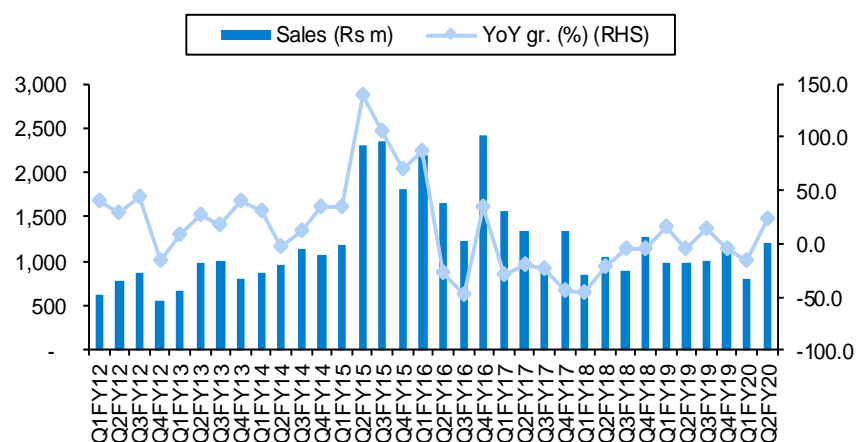
Source: Company, PL

Exhibit 5: Semi-Reg Markets



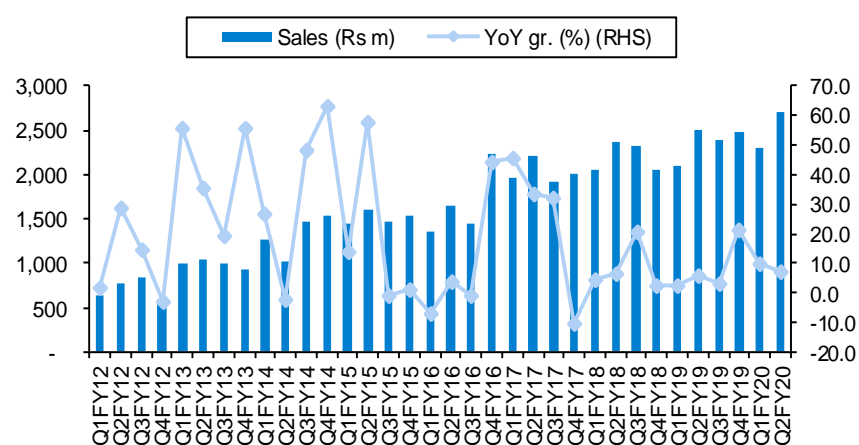
Source: Company, PL

Exhibit 6: Latam: Sales growth

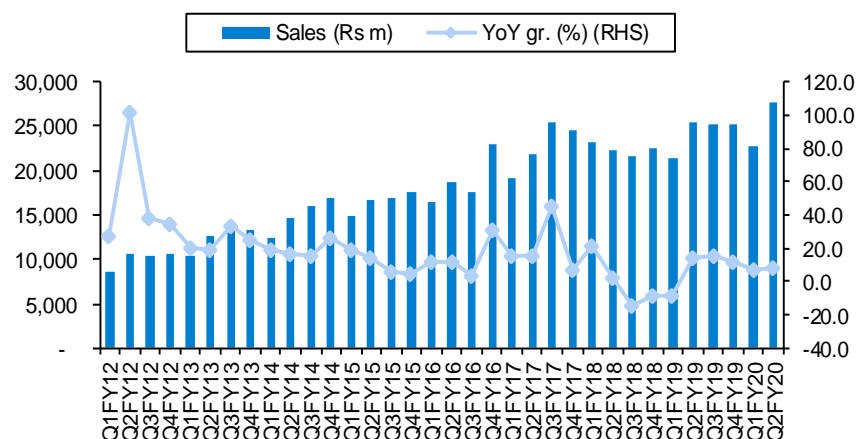


Source: Company, PL

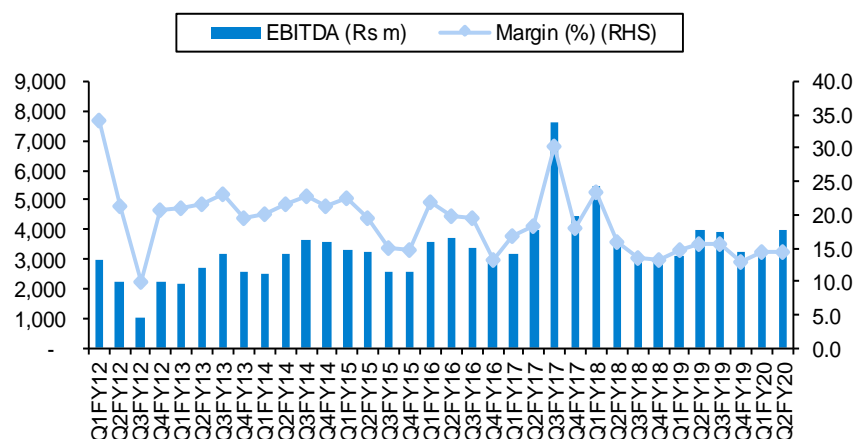
Exhibit 7: API Sales



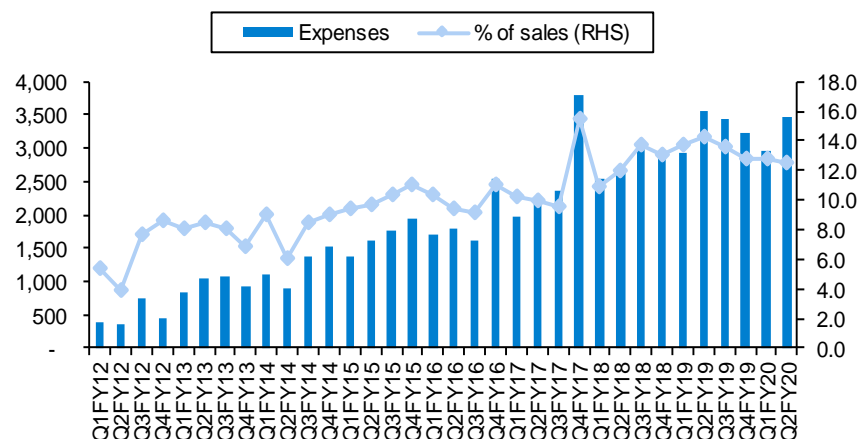
Source: Company, PL

**Exhibit 8: Overall Sales**


Source: Company, PL

**Exhibit 9: EBITDA and Margin**


Source: Company, PL

**Exhibit 10: R&D Exps as % of sales**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>97,051</b>	<b>1,07,224</b>	<b>1,15,452</b>	<b>1,25,246</b>
YoY gr. (%)	8.2	10.5	7.7	8.5
Cost of Goods Sold	33,623	36,671	39,831	43,210
Gross Profit	63,427	70,553	75,621	82,036
Margin (%)	65.4	65.8	65.5	65.5
Employee Cost	20,561	22,517	25,399	27,554
Other Expenses	13,172	13,403	9,813	10,646
<b>EBITDA</b>	<b>14,254</b>	<b>15,065</b>	<b>19,050</b>	<b>20,666</b>
YoY gr. (%)	(4.0)	5.7	26.4	8.5
Margin (%)	14.7	14.1	16.5	16.5
Depreciation and Amortization	3,259	3,392	3,528	3,708
<b>EBIT</b>	<b>10,995</b>	<b>11,673</b>	<b>15,521</b>	<b>16,957</b>
Margin (%)	11.3	10.9	13.4	13.5
Net Interest	3,346	3,680	4,048	4,453
Other Income	3,685	3,317	3,416	3,519
<b>Profit Before Tax</b>	<b>11,334</b>	<b>11,309</b>	<b>14,889</b>	<b>16,022</b>
Margin (%)	11.7	10.5	12.9	12.8
Total Tax	3,756	3,845	5,137	5,528
Effective tax rate (%)	33.1	34.0	34.5	34.5
<b>Profit after tax</b>	<b>7,578</b>	<b>7,464</b>	<b>9,752</b>	<b>10,495</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>9,250</b>	<b>7,464</b>	<b>9,752</b>	<b>10,495</b>
YoY gr. (%)	10.2	(19.3)	30.7	7.6
Margin (%)	9.5	7.0	8.4	8.4
Extra Ord. Income / (Exp)	(1,672)	-	-	-
<b>Reported PAT</b>	<b>7,578</b>	<b>7,464</b>	<b>9,752</b>	<b>10,495</b>
YoY gr. (%)	(9.7)	(1.5)	30.7	7.6
Margin (%)	7.8	7.0	8.4	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,578	7,464	9,752	10,495
<b>Equity Shares O/s (m)</b>	<b>282</b>	<b>282</b>	<b>282</b>	<b>282</b>
<b>EPS (Rs)</b>	<b>32.8</b>	<b>26.5</b>	<b>34.6</b>	<b>37.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>62,581</b>	<b>67,581</b>	<b>72,581</b>	<b>77,581</b>
Tangibles	30,447	33,447	36,447	39,447
Intangibles	32,134	34,134	36,134	38,134
<b>Acc: Dep / Amortization</b>	<b>26,426</b>	<b>29,818</b>	<b>33,347</b>	<b>37,055</b>
Tangibles	9,469	10,703	12,028	13,412
Intangibles	16,957	19,115	21,319	23,643
<b>Net fixed assets</b>	<b>36,155</b>	<b>37,763</b>	<b>39,235</b>	<b>40,526</b>
Tangibles	20,978	22,744	24,420	26,035
Intangibles	15,177	15,019	14,815	14,491
Capital Work In Progress	13,989	15,189	12,989	10,789
Goodwill	547	657	788	946
Non-Current Investments	798	1,038	1,349	1,754
Net Deferred tax assets	13,830	13,830	13,830	13,830
Other Non-Current Assets	600	629	692	761
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	22,521	23,593	24,747	26,000
Trade receivables	21,946	23,342	24,672	26,079
Cash & Bank Balance	9,378	5,238	6,547	7,804
Other Current Assets	10,321	11,353	12,489	13,987
<b>Total Assets</b>	<b>1,32,888</b>	<b>1,35,716</b>	<b>1,41,192</b>	<b>1,46,715</b>
<b>Equity</b>				
Equity Share Capital	282	282	282	282
Other Equity	55,770	62,573	71,665	81,500
<b>Total Networth</b>	<b>56,052</b>	<b>62,856</b>	<b>71,947</b>	<b>81,782</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	35,738	32,164	28,947	26,053
Provisions	-	-	-	-
Other non current liabilities	6	4	3	2
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,030	2,121	1,909	1,718
Trade payables	22,208	24,510	26,570	27,451
Other current liabilities	14,973	13,446	11,385	9,410
<b>Total Equity &amp; Liabilities</b>	<b>1,32,888</b>	<b>1,35,716</b>	<b>1,41,192</b>	<b>1,46,715</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	11,334	11,309	14,889	16,022
Add. Depreciation	3,259	3,392	3,528	3,708
Add. Interest	3,346	3,680	4,048	4,453
Less Financial Other Income	3,685	3,317	3,416	3,519
Add. Other	(3,166)	(8,955)	(10,646)	(11,313)
Op. profit before WC changes	14,773	9,427	11,819	12,871
Net Changes-WC	1,515	(1,655)	(2,859)	(4,411)
Direct tax	(3,756)	(3,845)	(5,137)	(5,528)
<b>Net cash from Op. activities</b>	<b>12,532</b>	<b>3,927</b>	<b>3,824</b>	<b>2,932</b>
Capital expenditures	(12,410)	(6,200)	(2,800)	(2,800)
Interest / Dividend Income	13	13	13	13
Others	251	240	311	405
<b>Net Cash from Invt. activities</b>	<b>(12,147)</b>	<b>(5,947)</b>	<b>(2,475)</b>	<b>(2,382)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(5,600)	(4,483)	(3,428)	(3,086)
Dividend paid	(660)	(660)	(660)	(660)
Interest paid	3,346	3,680	4,048	4,453
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,915)</b>	<b>(1,463)</b>	<b>(40)</b>	<b>707</b>
<b>Net change in cash</b>	<b>(2,529)</b>	<b>(3,483)</b>	<b>1,308</b>	<b>1,257</b>
Free Cash Flow	122	(2,273)	1,024	132

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>25,098</b>	<b>25,261</b>	<b>22,836</b>	<b>27,637</b>
YoY gr. (%)	15.6	12.4	7.2	8.8
Raw Material Expenses	8,620	8,607	8,101	9,861
Gross Profit	16,478	16,654	14,735	17,776
Margin (%)	65.7	65.9	64.5	64.3
<b>EBITDA</b>	<b>3,894</b>	<b>3,267</b>	<b>3,276</b>	<b>3,991</b>
YoY gr. (%)	34.0	10.8	5.5	0.1
Margin (%)	15.5	12.9	14.3	14.4
Depreciation / Depletion	831	810	907	942
<b>EBIT</b>	<b>3,063</b>	<b>2,458</b>	<b>2,369</b>	<b>3,049</b>
Margin (%)	12.2	9.7	10.4	11.0
Net Interest	885	819	930	898
Other Income	(637)	764	409	1,321
<b>Profit before Tax</b>	<b>1,540</b>	<b>2,403</b>	<b>1,848</b>	<b>3,473</b>
Margin (%)	6.1	9.5	8.1	12.6
Total Tax	377	786	506	918
Effective tax rate (%)	24.5	32.7	27.4	26.4
<b>Profit after Tax</b>	<b>1,163</b>	<b>1,617</b>	<b>1,343</b>	<b>2,555</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,163</b>	<b>1,617</b>	<b>1,343</b>	<b>2,555</b>
YoY gr. (%)	11.1	6.6	(51.1)	220.9
Margin (%)	4.6	6.4	5.9	9.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,163</b>	<b>1,617</b>	<b>1,343</b>	<b>2,555</b>
YoY gr. (%)	11.1	6.6	(51.1)	220.9
Margin (%)	4.6	6.4	5.9	9.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,163</b>	<b>1,617</b>	<b>1,343</b>	<b>2,555</b>
Avg. Shares O/s (m)	282	282	282	282
<b>EPS (Rs)</b>	<b>4.1</b>	<b>5.7</b>	<b>4.8</b>	<b>9.1</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	32.8	26.5	34.6	37.2
CEPS	44.3	38.5	47.1	50.3
BVPS	198.6	222.8	255.0	289.8
FCF	0.4	(8.1)	3.6	0.5
DPS	2.0	2.0	2.0	2.0
<b>Return Ratio(%)</b>				
RoCE	11.5	12.2	15.5	16.0
ROIC	8.5	8.5	10.9	11.3
RoE	17.2	12.6	14.5	13.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.5	0.3	0.2
Net Working Capital (Days)	84	76	72	72
<b>Valuation(x)</b>				
PER	9.2	11.4	8.7	8.1
P/B	1.5	1.4	1.2	1.0
P/CEPS	6.8	7.8	6.4	6.0
EV/EBITDA	8.0	7.6	5.7	5.1
EV/Sales	1.2	1.1	0.9	0.8
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

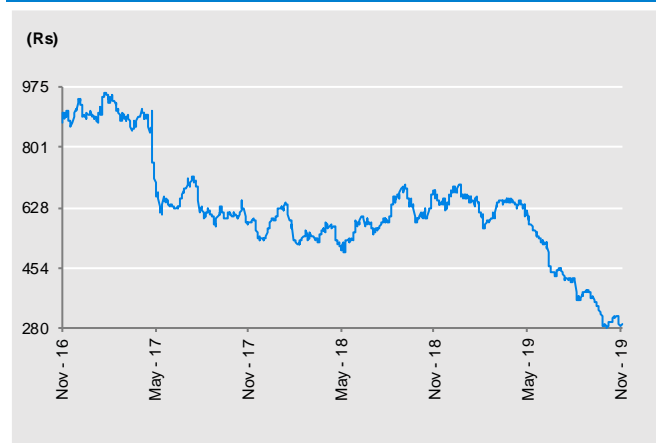
### Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Generics	48,695	52,639	55,713	58,975
US Formulations	31,393	34,214	35,925	37,721
EU Formulations	7,330	5,803	6,267	6,769
LatAm Formulations	479	527	579	637
APIs	9,493	12,095	12,942	13,848
Branded	48,107	53,861	59,739	66,271
India Formulations	27,770	31,380	35,145	39,363
ROW Formulations	12,759	13,908	15,298	16,828
LatAm Formulations	3,701	3,987	4,251	4,531
EU Formulations	3,877	4,586	5,044	5,549

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Reduce	385	320
2	14-Aug-19	Reduce	385	383
3	01-Aug-19	Reduce	417	423
4	04-Jul-19	Reduce	589	440
5	05-Apr-19	Reduce	591	645
6	15-Feb-19	Reduce	591	569
7	07-Jan-19	Reduce	528	654

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	434
2	Cadila Healthcare	Hold	220	225
3	Cipla	Reduce	439	481
4	Dr. Lal PathLabs	Hold	1,437	1,442
5	Dr. Reddy's Laboratories	Accumulate	2,910	2,757
6	Eris Lifesciences	Accumulate	459	426
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Hold	157	159
9	Ipca Laboratories	Accumulate	1,238	1,074
10	Jubilant Life Sciences	Reduce	433	562
11	Lupin	Hold	760	736
12	Sun Pharmaceutical Industries	Reduce	396	441
13	Thyrocare Technologies	BUY	686	551

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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