

## Branded focus, R&D calibration & more - takeaways from Glenmark Analyst Meet...

**About the stock:** Glenmark's business is separated into three entities –

- Glenmark Pharmaceuticals for building a global generic, specialty and OTC business in therapy areas of dermatology, respiratory, oncology among others. Glenmark Life Sciences for manufacturing and marketing APIs
- Innovation new company (ICHNOS) to focus on discovery and development of novel, first-in-class treatments in therapeutic areas of immunology, oncology and pain encompassing both NBEs as well as NCEs

**Investor Meet Takeaways:** Glenmark is embarking on the next phase of its strategy in alignment with changing dynamics of industry, emerging opportunities.

- The goal is to increase branded business contribution (~55% in FY22) to two-third by 2027 via global launches in the branded space
- The company aspires to balance the R&D investment between innovation (Ichnos) and core business
- Glenmark is aiming at 1) 10-12% sales CAGR in the next four years, 2) improvement in EBITDA margin profile, 3) targeting 22% RoCE by FY27, and zero debt by FY26

**What should investors do?** Glenmark's share price grew ~1.2x in the past three years.

- We maintain **HOLD** as we continue to monitor progress on various lingering aspects especially the progress on the profitability front

**Target Price and Valuation:** Valued at ₹ 470 i.e. 12x FY24E EPS of ₹ 39.3

### Key triggers for future price performance:

- In the US, regulatory clearance for newly commissioned US based Monroe facility will be the key determinant for future launches. Traction for Ryaltris in global markets along with the launch in the US
- In India, it is the market leader in dermatology and improving its presence in respiratory, CVS, anti-infectives and anti-diabetics, in particular. It has also forayed into consumer health segment focusing on Rx-OTC switch products led by two brands, Candid and Scalpe+
- Progress on the margins front amid cost rationalisation measures and decline in R&D expenses as percentage of sales

**Alternate Stock Idea:** Apart from Glenmark, in healthcare, we like Ajanta.

- Ajanta Pharma is a focused player in branded space with specific strategy
- For maximum number of first time launches with new drug delivery system. BUY with a target price of ₹ 1505



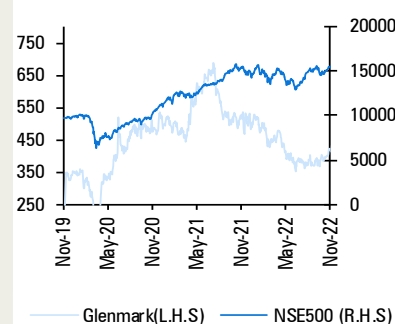
### Particulars

Particular	Amount
Market Capitalisation	₹ 11541 crore
Debt (FY22)	₹ 3670 crore
Cash & equivalent (FY22)	₹ 1412 crore
EV	₹ 13800 crore
52 week H/L (₹)	583/349
Equity capital	₹ 28.2 crore
Face value	₹ 1

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.7	46.7	46.7	46.7
Others	53.4	53.4	53.4	53.4

### Price Chart



### Recent Event & Key risks

- Launch of Thiiazolidinedione Lobeglitazone for type-2 diabetes.
- Key Risk:** ((i) Better traction for new launches, (ii) Delay in unlocking of innovation business

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	10641.0	10943.9	12304.9	6.0	12975.0	14202.7	7.4
EBITDA	1698.1	2084.4	2320.3	2.6	2383.7	2556.5	5.0
EBITDA margins (%)	16.0	19.0	18.9		18.4	18.0	
Adjusted PAT	743.1	925.5	1202.6	0.0	910.6	1105.5	-4.1
EPS (₹)	26.4	32.9	42.7		32.3	39.3	
PE (x)	15.1	12.0	12.4		12.8	10.6	
EV to EBITDA (x)	9.1	7.3	6.0		5.7	5.1	
RoNW (%)	12.2	13.1	13.2		9.2	10.1	
RoCE (%)	12.7	13.9	14.8		14.7	13.5	

## Investor Meet takeaways

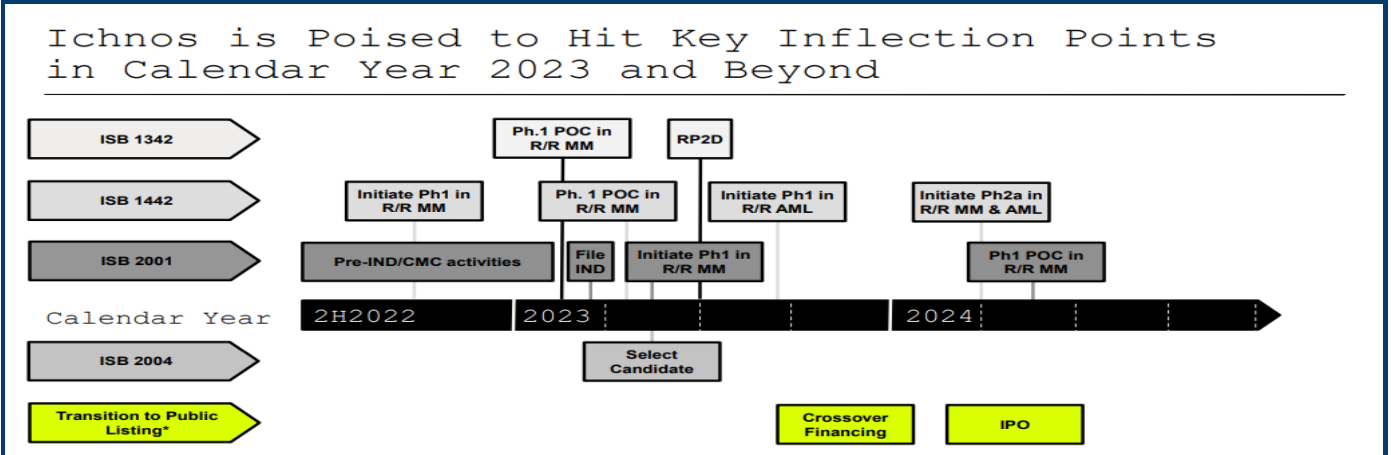
- Glenmark is embarking on the next phase of its strategy in alignment with changing dynamics of industry, emerging opportunities
- The goal is to increase branded business contribution to two-third of revenues by 2027 from ~55% in FY22) by launching new global products
- The company aspires to balance the R&D investment between innovation (Ichnos) and core business
- The company aspires to 1) 10-12% sales CAGR over the next four years, 2) continuous improvement in EBITDA margin profile, 3) targeting 22% RoCE by FY27 and zero debt by FY26
- Capex of ~₹ 700 crore (including GLS) per annum for the next four years; ex-GLS capex at ₹ 500-560 crore over the same period

### Chosen spaces for future business areas

- **US market:** Glenmark's US business has de-grown at a CAGR of -1% from ₹ 3137 crore in FY19 to ₹ 3039 crore in FY22 mainly due to price erosion
  - Working on remediating Monroe and targeting commercialisation of sterile injectable portfolio in FY24
  - Engaged to resolve import alert at Baddi
  - Continuously strengthening quality across all manufacturing sites;
- Glenmark has a pipeline of 46+ ANDAs pending for approval
- **Europe:** Glenmark's Europe business has grown at a CAGR of 11% from ₹ 1125 crore in FY19 to ₹ 1526 crore in FY22. It is one of the fastest growing regions for Glenmark.
  - Focus on respiratory franchisee to launch products across EU, market expansion
  - Focus on increasing share of branded in overall product mix
  - Respiratory is a critical therapeutic area with recent key launches like Soprobe, Salmex, Tiogiva, Ryaltris
  - Glenmark aspires to increase profitability through continuous portfolio optimisation
- **RoW:** Glenmark's Europe business has grown at 9% CAGR from ₹1697 crore in FY19 to ₹ 2166 crore in FY22
  - The company's base business (excluding Covid portfolio) growing at 20%+ in H1FY23
  - Russia (\$8-10 bn market) - 1) Glenmark's growth beat relevant market growth by 3x in Russia in FY22, 2) strong focus in dermatology and respiratory
  - Asia- (\$8-10 bn market)- 20% of sales contributed by differentiated innovative new launches (SKUs)
  - MEA (\$13-15 bn market)- Establishing leadership position in dermatology and respiratory in South Africa
  - LatAm (\$65-70 bn market) - Presence across most large markets such as Brazil, Mexico and Argentina; ranked among top 10 generic companies in overall CVM in both Brazil and Mexico
  - The company is targeting growth of 20%+ CAGR in the next four years in RoW markets via 1) gaining share through differentiated products in select therapy areas 2) gaining scale and driving profitability upwards through minimal incremental investments, 3) increasing strategic partnerships with local companies to in-license out-license key products

- India:** Glenmark has grown at a CAGR of 14% from ₹ 2777 crore in FY19 to ₹ 4085.5 crore in FY22
  - Strategic levers for growth are 1) focus on core therapy areas (derma, respiratory, CVS, CNS, anti-diabetics), 2) new launches, 3) MR addition and 4) OTC expansion
  - The company's key new product launches in FY24 are Remo-V, Nindanib, Ryaltris-AZ, FabiFlu, Vilor-F aspires to achieve 4-5% growth from new products every year
  - The company's OTC franchise has grown from ₹ 60 crore in FY19 to ₹ 180 crore in FY22. The company's key brands are Candid Powder, Scalpe and La-shield
- Ryaltris-** Already launched Ryaltris in 21 markets and expects to launch in 13 new markets (six with Glenmark and seven with partners). Gaining market share in key markets like South Africa (~9.3% share, as per IQVAI MAT September 2022), Australia (13.6%) and Czech (5.7%). Expects Ryaltris global sales potential of ~US\$100-150 mn and contribution will be 4-5% of FY27 sales. US will not be meaningful market as will it only get profit share from Hikma
- Glenmark in FY27:** Glenmark aspires to 1) achieve two-third of consolidated revenue to be contributed by branded products/markets, 2) to support GLS (API business) through majority ownership and a target of ₹ 100-150 crore capex for it out of total capex, 3) to generate shareholder value through strong return metrics
- Ichnos:** By the end of FY23, Glenmark has set a target of \$5 mn monthly burn for R&D (cutting R&D spend for innovation) and to close one oncology partnership

Exhibit 1: Ichnos



Source: Company, ICICI Direct Research

Exhibit 2: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)			RoE (%)				
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4404	5,230	Buy	63418	7.9	59.1	79.0	101.0	560.3	74.5	55.8	43.6	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	762	855	Buy	15549	-0.7	16.7	20.6	22.7	NA	45.6	37.1	33.6	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	144	150	Buy	1551	3.9	5.4	7.5	9.9	36.6	26.5	19.2	14.5	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	223	250	Buy	11148	3.0	10.5	10.8	16.7	75.4	21.2	20.7	13.4	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	312	380	Buy	4335	-13.9	3.9	4.5	8.8	-13.9	80.7	68.6	35.3	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
<b>MNC Pharma</b>																					
Abbott India	ABBIND	19545	21,725	Hold	41044	325.0	375.9	427.7	528.6	60.1	52.0	45.7	37.0	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4200	5,235	Hold	7140	106.5	116.0	124.8	140.6	39.4	36.2	33.7	29.9	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	5500	6,385	Hold	12650	207.4	410.1	270.5	264.8	26.5	13.4	20.3	20.8	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4404	4,480	Hold	20259	108.8	133.9	140.4	149.3	40.5	32.9	31.4	29.5	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1229	1,505	Buy	15734	51.0	55.6	60.1	71.1	24.1	22.1	20.5	17.3	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	620	625	Reduce	12219	62.8	27.8	15.3	26.9	9.9	22.3	40.6	23.0	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	463	540	Hold	27144	55.0	47.4	41.1	51.3	8.4	9.8	11.3	9.0	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	285	290	Hold	34283	6.3	5.7	5.5	11.3	45.6	50.1	52.4	25.2	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	396	480	Hold	40185	23.3	21.0	21.0	23.8	17.0	18.9	18.9	16.7	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1104	1,350	Buy	89129	29.9	32.9	38.6	45.8	37.0	33.6	28.6	24.1	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4358	4,750	Buy	72344	117.3	126.9	203.4	191.0	37.2	34.3	21.4	22.8	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	411	440	Hold	11601	32.9	42.7	39.5	44.9	12.5	9.6	10.4	9.2	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipsa Laboratories	IPCLAB	867	925	Hold	22029	44.9	34.8	27.5	35.1	19.3	24.9	31.6	24.7	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	380	340	Hold	6040	37.4	26.0	15.9	26.1	10.2	14.6	23.9	14.5	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	721	680	Reduce	32801	26.9	11.9	11.8	27.7	26.8	60.7	61.3	26.0	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	570	680	Hold	10422	24.2	9.3	41.6	42.3	23.6	61.2	13.7	13.5	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	1004	1,225	Buy	240740	30.0	32.0	34.8	40.1	33.4	31.4	28.8	25.0	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1625	1,730	Hold	54932	37.0	32.0	40.0	46.7	43.9	50.7	40.6	34.8	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	378	465	Buy	3478	10.1	16.8	21.6	29.2	37.4	22.5	17.5	13.0	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	734	955	Buy	5578	81.7	85.3	70.4	73.0	9.0	8.6	10.4	10.1	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	272	265	Reduce	3044	13.1	10.7	8.5	12.1	20.8	25.4	32.1	22.6	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2000	2,070	HOLD	1706	44.4	45.7	35.9	51.8	42.7	41.4	52.8	36.6	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
<b>API/CRAMS</b>																					
Divi's Lab	DIVLAB	3266	3,685	HOLD	86548	74.7	111.5	93.0	113.5	43.7	29.3	35.1	28.8	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	333	330	Reduce	4095	10.8	13.0	3.8	14.4	30.8	25.6	86.9	23.1	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	600	710	Buy	24056	10.1	9.9	11.5	14.6	59.3	60.8	52.0	41.2	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	359	375	Buy	8892	22.2	16.6	21.9	26.8	16.2	21.5	16.4	13.4	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	454	675	Buy	24358	18.3	15.4	20.7	27.0	24.8	29.5	21.9	16.8	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceutical	SUVPH	462	530	BUY	11781	14.2	17.8	17.0	17.6	32.5	25.9	27.2	26.2	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>10,943.9</b>	<b>12,304.9</b>	<b>12,975.0</b>	<b>14,202.7</b>
Growth (%)	2.8	12.4	5.4	9.5
Raw Material Expenses	3,698.8	4,385.3	4,583.6	4,899.9
Employee Expenses	2,343.7	2,447.4	2,714.8	3,018.1
Other Manufacturing Expenses	2,817.0	3,151.9	3,293.0	3,728.2
Total Operating Expenditure	8,859.6	9,984.6	10,591.4	11,646.2
<b>EBITDA</b>	<b>2,084.4</b>	<b>2,320.3</b>	<b>2,383.7</b>	<b>2,556.5</b>
Growth (%)	22.7	11.3	2.7	7.3
Interest	353.1	298.1	309.2	271.4
Depreciation	443.6	486.7	651.3	651.8
Other Income	50.2	166.7	320.6	71.0
PBT before Exceptional Items	1,337.9	1,702.2	1,743.8	1,704.3
PBT	1,382.5	1,441.2	1,743.8	1,704.3
Total Tax	412.4	447.6	757.6	511.3
PAT before MI	970.1	993.7	986.2	1,193.0
<b>PAT</b>	<b>970.0</b>	<b>941.7</b>	<b>910.6</b>	<b>1,105.5</b>
Adjusted PAT	925.5	1,202.6	910.6	1,105.5
Growth (%)	24.5	29.9	-24.3	21.4
<b>EPS (Adjusted)</b>	<b>32.9</b>	<b>42.7</b>	<b>32.3</b>	<b>39.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	872.2	882.8	910.6	1,105.5
Add: Depreciation & Amortization	443.6	486.7	651.3	651.8
Net Increase in Current Assets	-546.3	-646.0	-380.0	-621.4
Net Increase in Current Liabilities	160.5	84.8	168.6	233.4
Others	201.3	300.4	309.2	271.4
<b>CF from operating activities</b>	<b>1,131.2</b>	<b>1,108.7</b>	<b>1,659.7</b>	<b>1,640.8</b>
(Inc)/dec in Fixed Assets	-675.3	-788.5	-750.0	-650.0
(Inc)/dec in Investments	0.0	-10.0	0.0	0.0
Others	13.8	482.8	-54.4	-56.9
<b>CF from investing activities</b>	<b>-661.5</b>	<b>-315.8</b>	<b>-804.4</b>	<b>-706.9</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-77.7	-1,131.7	-400.0	-400.0
Other	-364.1	611.3	-393.7	-369.9
<b>CF from financing activities</b>	<b>-441.8</b>	<b>-520.5</b>	<b>-793.7</b>	<b>-770</b>
Net Cash flow	27.9	272.4	61.6	164.0
Opening Cash	1,111.2	1,139.2	1,411.5	1,473.1
<b>Closing Cash</b>	<b>1,139.2</b>	<b>1,411.5</b>	<b>1,473.1</b>	<b>1,637.1</b>
<b>Free Cash Flow</b>	<b>455.9</b>	<b>320.1</b>	<b>909.7</b>	<b>990.8</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	28.2	28.2	28.2	28.2
Reserve and Surplus	7,036.4	9,058.4	9,884.5	10,891.5
Total Shareholders fund	7,064.6	9,086.6	9,912.8	10,919.7
Total Debt	4,687.4	3,670.3	3,270.3	2,870.3
Deferred Tax Liability	28.7	31.5	34.6	38.1
Minority Interest	-0.4	351.5	369.0	387.5
Other Non Current Liabilities	420.9	352.5	370.1	388.6
<b>Source of Funds</b>	<b>12,201.4</b>	<b>13,492.5</b>	<b>13,956.9</b>	<b>14,604.3</b>
Gross Block - Fixed Assets	8,673.6	9,916.7	10,566.7	11,316.7
Accumulated Depreciation	3,602.7	4,089.4	4,740.7	5,392.5
Net Block	6,452.5	6,837.1	6,935.8	6,934.0
Goodwill on Consolidation	58.0	60.0	60.0	60.0
Investments	24.6	49.6	49.6	49.6
Inventory	2,276.8	2,499.8	2,612.9	2,793.2
Cash	1,139.2	1,411.5	1,473.1	1,637.1
Debtors	2,572.1	3,101.1	3,068.7	3,360.5
Other Current Assets	1,371.5	1,269.9	1,569.2	1,718.5
Total Current Assets	7,359.6	8,282.3	8,724.0	9,509.3
Creditors	2,237.8	2,288.7	2,392.2	2,557.3
Provisions & Other CL	1,164.6	1,302.2	1,367.3	1,435.6
Total Current Liabilities	3,402.4	3,590.8	3,759.5	3,992.9
Net Current Assets	3,957.2	4,691.5	4,964.5	5,516.4
LT L& A, Other Assets	174.4	168.1	176.5	185.3
Deferred Tax Assets	1,534.7	1,686.1	1,770.4	1,859.0
<b>Application of Funds</b>	<b>12,201.4</b>	<b>13,492.5</b>	<b>13,956.9</b>	<b>14,604.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adj EPS	32.9	42.7	32.3	39.3
BV	250.9	322.7	352.0	387.8
DPS	2.5	2.5	3.0	3.5
Cash Per Share	127.9	145.2	168.3	191.5
<b>Operating Ratios (%)</b>				
Gross Margin	66.2	64.4	64.7	65.5
EBITDA margins	19.0	18.9	18.4	18.0
Net Profit margins	8.5	9.8	7.0	7.8
Inventory days	225	208	208	208
Debtor days	86	92	86	86
Creditor days	221	190	190	190
Asset Turnover	1.3	1.2	1.2	1.3
EBITDA conversion Rate	54.3	47.8	69.6	64.2
<b>Return Ratios (%)</b>				
RoE	13.1	13.2	9.2	10.1
RoCE	13.9	14.8	14.7	13.5
RoIC	16.9	16.6	15.2	15.9
<b>Valuation Ratios (x)</b>				
P/E	12.0	12.4	12.8	10.6
EV / EBITDA	7.3	6.0	5.7	5.1
Market Cap / Sales	1.1	0.9	0.9	0.8
Price to Book Value	1.7	1.3	1.2	1.1
<b>Solvency Ratios</b>				
Debt / Equity	0.7	0.4	0.3	0.3
Debt / EBITDA	2.2	1.6	1.4	1.1
Current Ratio	1.8	1.9	1.9	2.0
Working Capital Cycle	89.6	109.6	103.9	103.9
Net Debt/Equity	0.5	0.2	0.2	0.1
Net Debt/EBITDA	1.7	1.0	0.8	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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