



BODHI CAPITAL

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Glenmark Pharmaceuticals Ltd.

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Company Profile: Glenmark Pharmaceuticals Ltd.

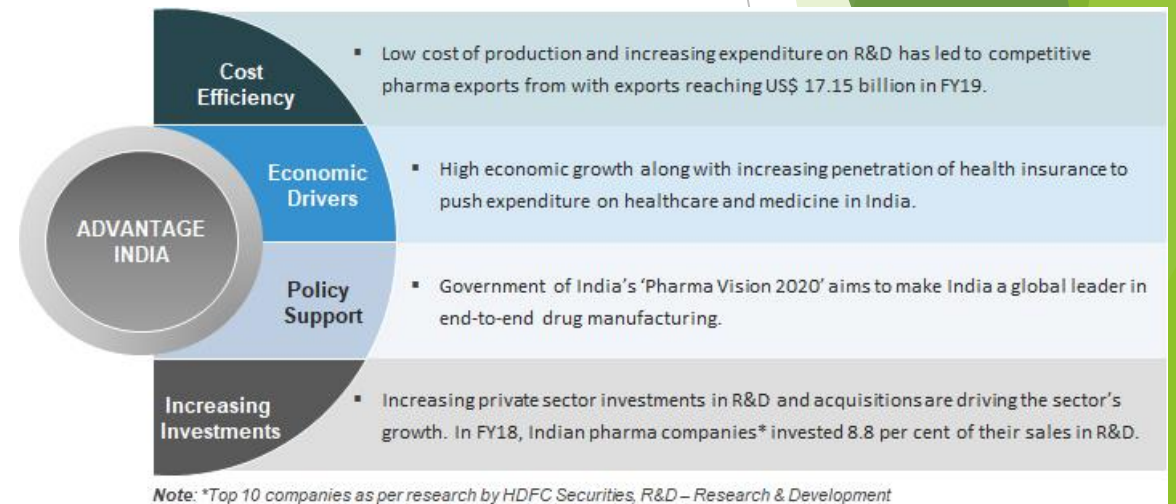
- ▶ Current Price as on 12:00 P.M. 31st December, 2019: Rs. 347.05/-
- ▶ Market Capitalisation: Rs. 9755 Cr.
- ▶ Analyst Take: HOLD
- ▶ CRISIL Credit Rating: AA-
- ▶ Target Price: Rs.195.00/-
- ▶ Face Value: Rs. 208.93/-

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Industry Analysis and Macroeconomic Trends

- ▶ India is the largest provider of generic drugs globally. Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK.
- ▶ India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.
- ▶ Medicine spending in India is projected to grow 9-12 per cent over the next five years, leading India to become one of the top 10 countries in terms of medicine spending.
- ▶ Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise.
- ▶ The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.



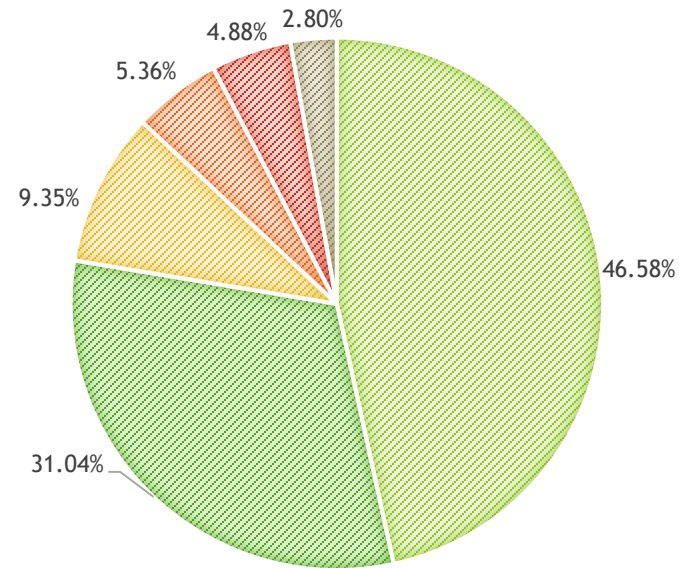
Company Overview

- ▶ Glenmark Pharmaceuticals Ltd is a specialty and generic drug manufacturing company. The company's research and development activity is focused on generating intellectual property assets that will help address the unmet medical needs. Glenmark's product categories include novel molecular entities, formulations, and API products. The company considers merger and acquisition investment to be a potential component of its operational growth strategy for expanding its research, development, manufacturing, and marketing capabilities.
- ▶ The company in the past year has gone under reorganization and now has divided its business into three segments i.e. Formulation, Active Pharmaceutical Ingredients and Innovative R&D Business.

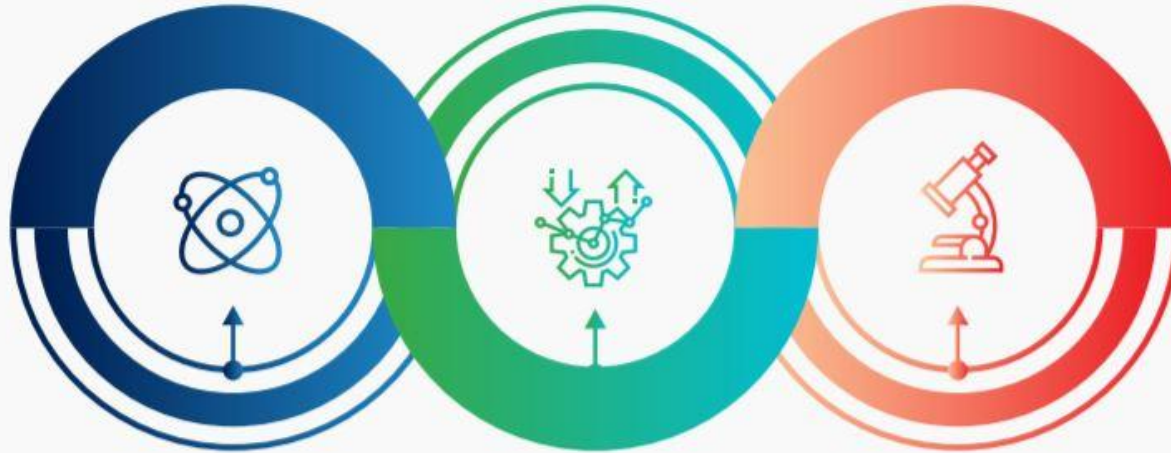
Shareholding Pattern

SHAREHOLDING PATTERN

■ Promoters ■ ForeignInstitutions ■ GeneralPublic ■ Others ■ NBanksMutualFunds ■ FinancialInstitutions



Key Business Segments



API Business

- B2B business: Strong relationship with major generics players across the globe
- Cost leadership and scale of operations critical for profitability
- Driven by efficient procurement and manufacturing processes

Formulations Business

- Strong global brands, sales and distribution network
- Large customer base and robust medical affairs and PV capabilities
- Focus on prescription generation to drive growth
- Differentiated products to command premium pricing

Innovative R&D Business

- Long time to market and significantly higher level of attrition (High Risk-High Reward)
- Need to work on cutting edge technology as drug landscape is constantly evolving
- Direct competition with Big Pharma and leading biotech organizations

GLENMARK PHARMACEUTICALS

	API Mfg and Marketing (GLS)	Formulations - Generics, Branded Generics, Specialty and OTC				Innovative R&D (NewCo)
		North America	India and MEA	Europe and LATAM	ARCIS	
 Contribution to Glenmark	 10%	 32%	 29%	 16%	 13%	 1-2%
 Key Geographies	US, Europe, India	US, Canada	India, Kenya, Republic of South Africa, Kingdom of Saudi Arabia	United Kingdom, Germany, Poland, Brazil, Mexico	Russia, Malaysia, Philippines	US, India, Switzerland
 Current Focus	Small molecules in Reg. markets	 Respiratory	 Dermatology	 Oncology	Autoimmune Disease, Oncology and Pain	
 Key Strategy	Expand offering, new technologies	Expand specialty	Expand share Rx and OTC	Expand core therapies	Expand core therapies	Develop pipeline, selective out-licensing

Key Frameworks For Qualitative Analysis

PORTER'S FIVE
FORCES

BCG MATRIX

SWOT
ANALYSIS

Porters Five Forces



Threat of new entrants

- Competitors exist in this industry at every level of the business. It is a highly competitive market.
- The pharmaceutical industry is governed by a lot of laws and regulations and therefore acquiring licenses, permits or patents poses a challenge for new entrants.



Threat of substitutes

- Threat for substitutes in this industry is high.
- Many of the major players in the industry actively take part in R&D and possibility of substitutes for existing drugs remains highly likely.



Bargaining power of customers

- The customers have moderate bargaining power over the company.
- Out of the 3 business segments of the company, customers have the highest bargaining power in their B2B segment.



Bargaining power of suppliers

- The suppliers hold a high amount of bargaining power in this industry.
- The company is highly dependent on third party suppliers for commercial production of their product.
- The company does maintain safety stocks for critical procedures but that might not be enough to continue production for a long period of time.

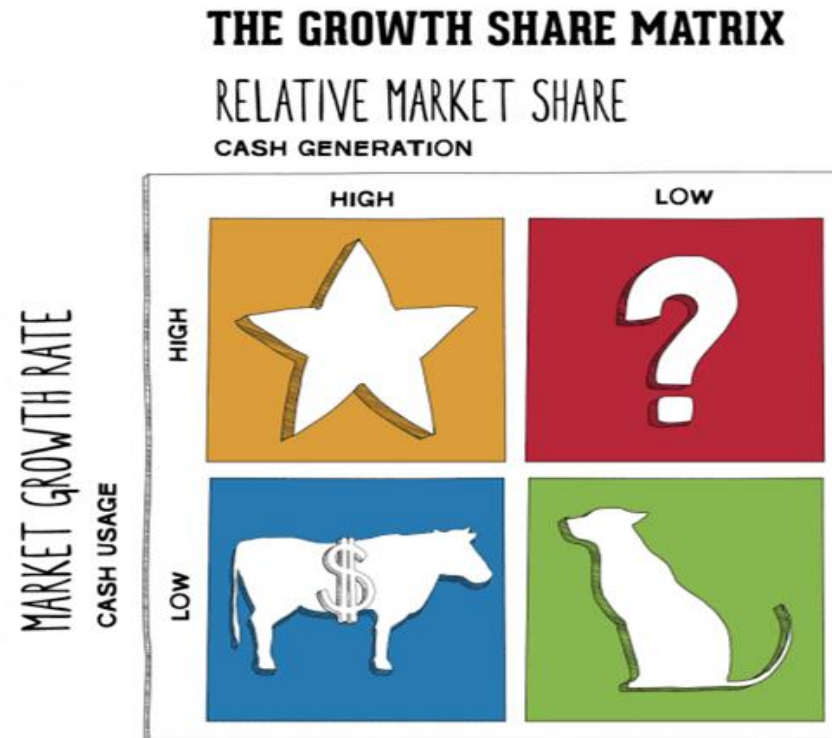


Competitive rivalry

- The company faces huge competitive rivalry.
- The generics market is very concentrated.
- For specialty products Glenmark does indeed possess certain patents and licenses which help the company maintain its market share.

BCG MATRIX

- ▶ Glenmark Pharmaceuticals Ltd. Can be classified as a Question mark or a Problem child.
- ▶ It is not the leader in the industry but has potential to turn into a star with the new reorganization and effective R&D
- ▶ On the other hand the huge amounts of funds that are being used up in R&D could yield no result and a more efficient substitute for existing drugs might come up.



SWOT Analysis

Strengths

The company has been showing a positive cash flow and has low debt. The company is the leader in innovation and is the first company in India to launch SGLT2 inhibitor.



Weaknesses

The company has shown low-moderate growth in the recent years and has been unsuccessful in significantly increasing their market share.

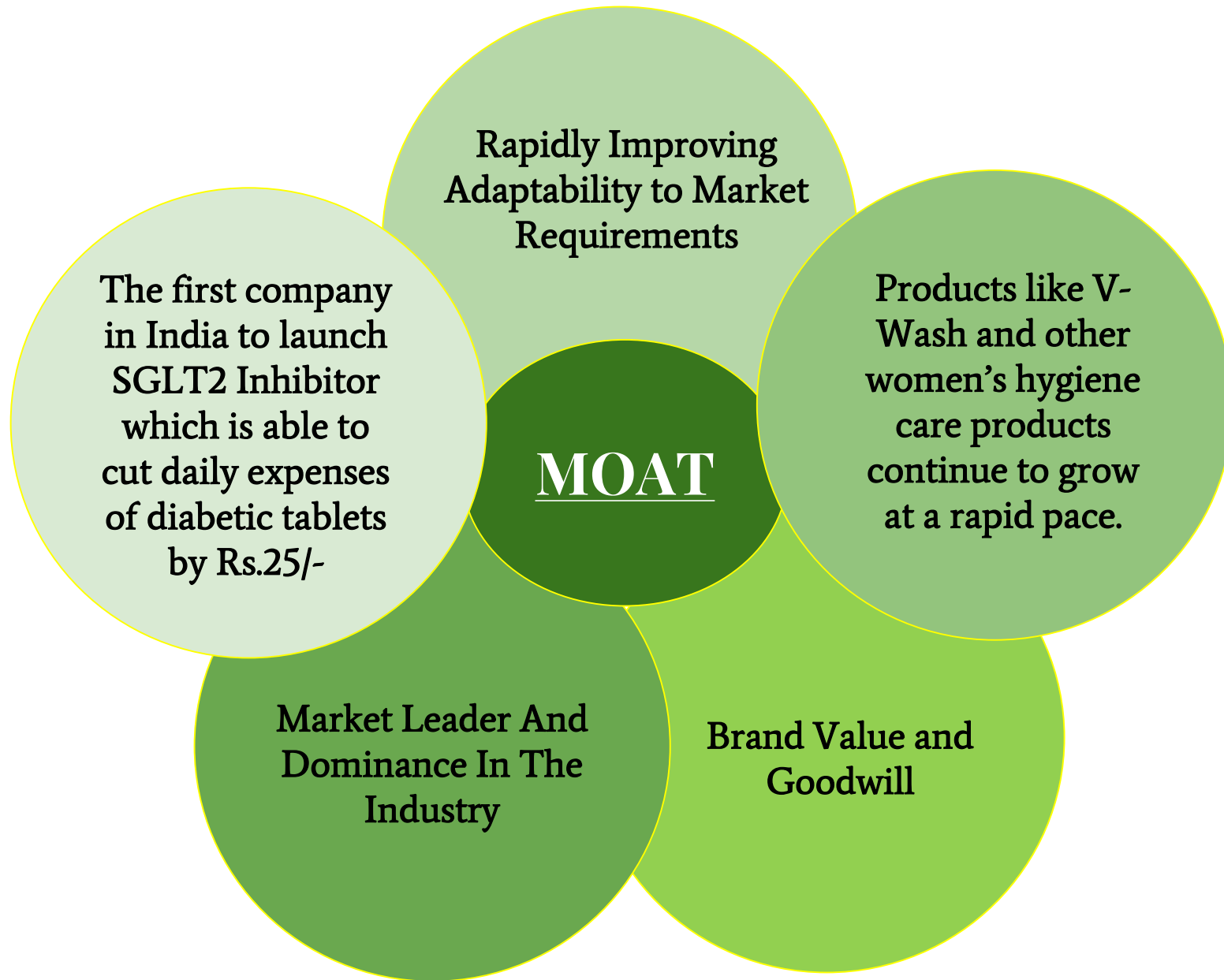
Opportunities

Pending patent applications and licensing rights open a lot of opportunities for the company. Effective R&D can result in utilization of such opportunities.



Threats

The industry is prone to threats of substitution and problems in supply chain management. The company needs to be wary of such threats and take mitigating actions.



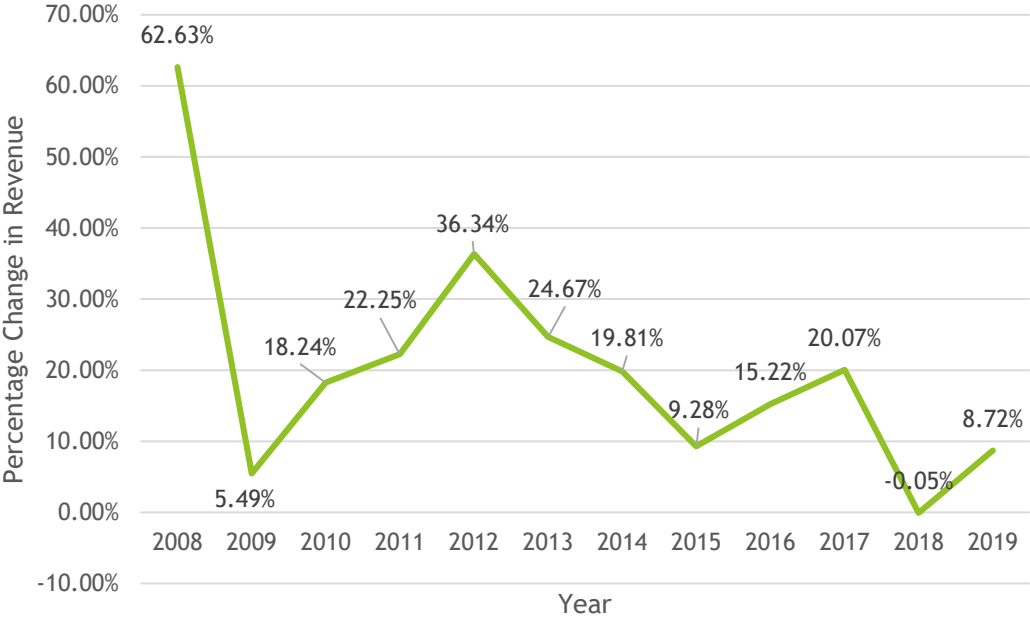
"In business, I look for economic castles protected by unbreachable moats."

–Warren Buffet

Quantitative Analysis

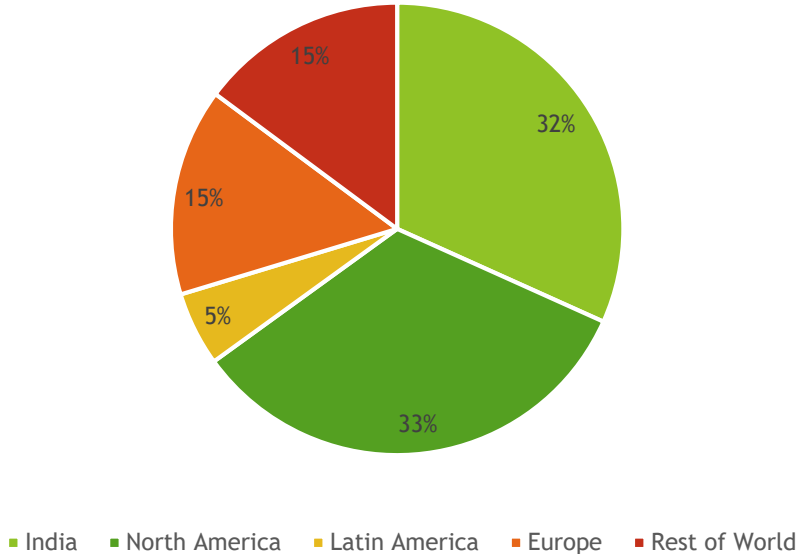
Revenue Growth and Break-up of Business

Revenue Change Across Years



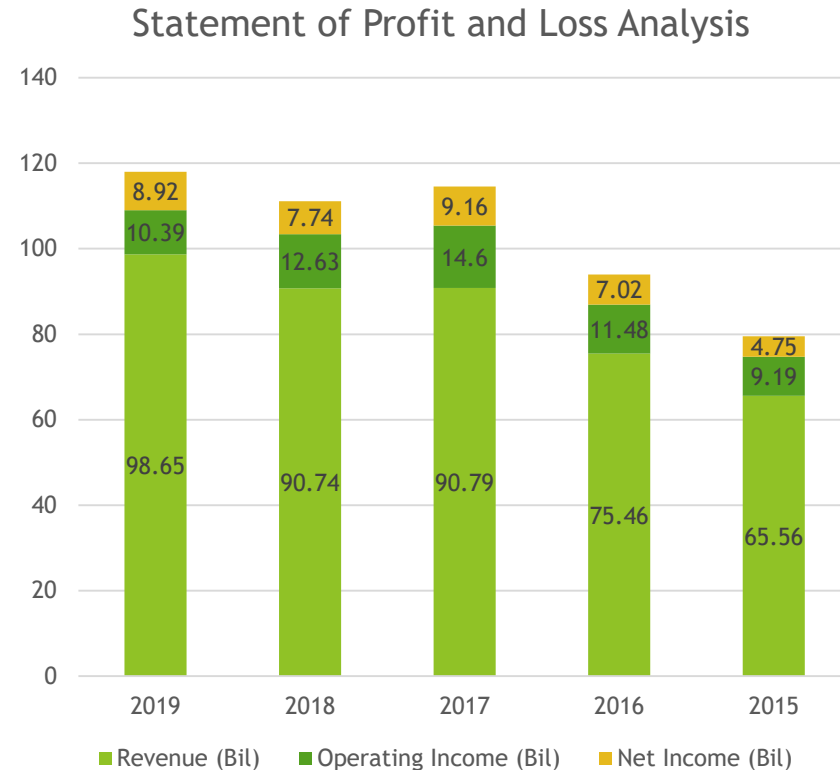
*The Company has shown an unstable growth in revenue in the recent 3 years.

Segment-Wise Distribution of Revenue



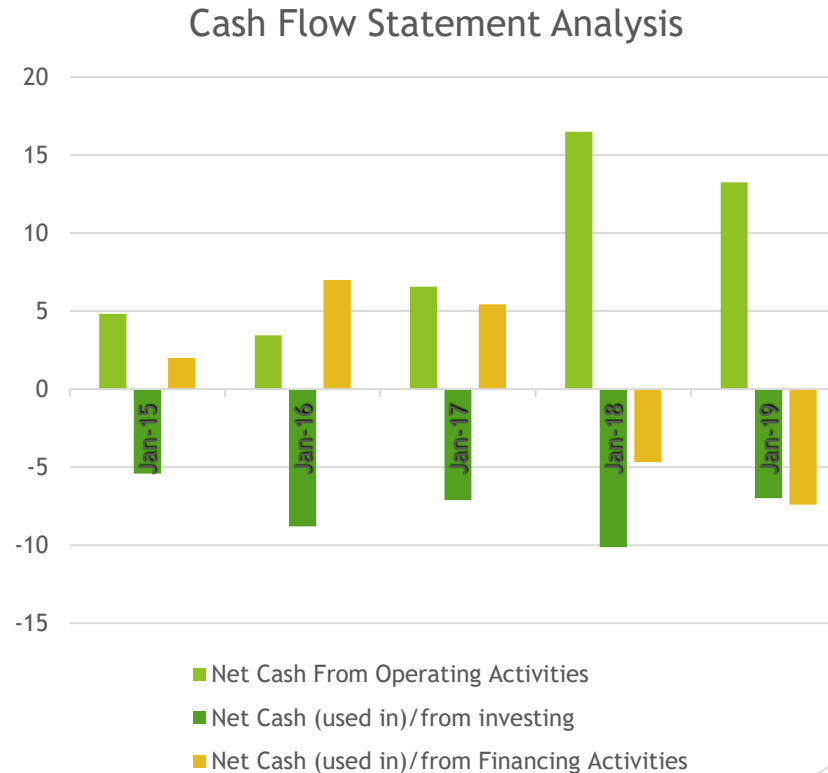
Profit and Loss Statement

- ▶ In the year 2018-19 the company was successfully able to come back on a path of increasing profit with a revenue growth rate of 8.72%
- ▶ There is an increase in expenses in the current year due to the increase in price of raw materials which results in a lower operating profit
- ▶ Profit before tax in the current year is higher due to increase in other income majorly due to exchange gain.



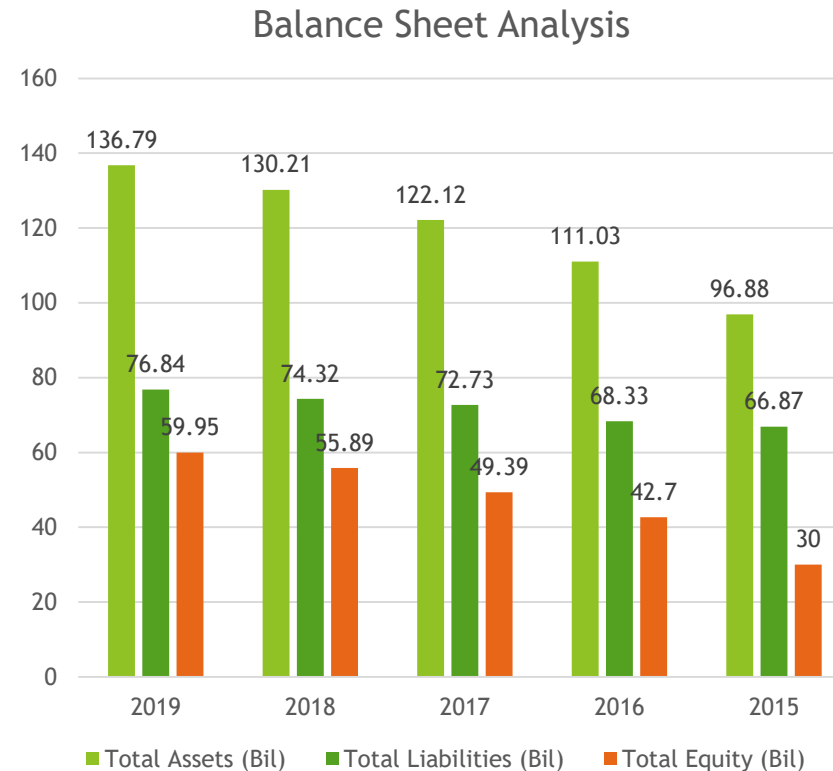
Cash Flow Statement

- ▶ The company in the current year invested more marginally and also sold investments which might show that the company is facing problems maintaining cash.
- ▶ The dividend paid is consistent which is preferable
- ▶ The company in the current year has also paid a significant amount to repay the borrowings
- ▶ The company has a negative cash flow of Rs. 297 million.
- ▶ The company also has a decrease in Free Cash Flow from Rs. 6030 million to Rs. 870 Million.



Balance Sheet

- ▶ Glenmark Pharmaceutical Ltd.'s Balance sheet shows very consistent growth and values.
- ▶ The company has actively worked on decreasing debt and also spends a lot in Research and Development.
- ▶ A stable balance sheet shows sound business practice and also contributes to business growth.



Competitor Analysis- Quantitative

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	Sun Pharma.Inds.	430.15	23.84	103207.39	0.64	1064.09	57.62	8123.35	17.09	11.19
2.	Dr Reddy's Labs	2888.85	17.53	48001.52	0.69	1106.80	113.54	4812.80	26.07	12.42
3.	Cipla	479.95	23.47	38694.89	0.62	471.35	25.01	4395.78	9.57	10.94
4.	Piramal Enterp.	1585.05	17.30	35750.20	1.44	554.69	17.26	3603.56	14.61	9.42
5.	Biocon	291.75	44.85	35010.00	0.17	215.70	-24.60	1572.20	19.02	13.39
6.	Torrent Pharma.	1855.95	56.69	31406.39	0.92	244.00	36.31	2005.00	5.86	12.66
7.	Aurobindo Pharma	465.25	10.59	27260.79	0.54	639.86	2.69	5600.47	17.87	18.45
8.	Glenmark Pharma.	345.70	15.18	9755.43	0.58	255.50	-17.23	2815.04	9.05	14.78

Valuation And Ratio Analysis

Ratio Analysis (Price)

1. Price to Earnings

- a. 15.18 (IND Avg- 23.52)
- b. A below industry average P/E ratio shows that there might exist opportunity to invest and gain from the stock. This also shows that there is not a lot of positive sentiment about this stock in the market which also need to be considered.

2. Price by Earnings to Growth

- a. 1.77
- b. A moderately-high PEG ratio is usually seen in companies with moderate growth rates. A moderately-high PEG ratio also indicates that a company might be slightly overvalued. In this case a PEG ratio of 1.77 coupled with the P/E ratio of 15.18 can be seen as an indication to how the company lies between fair valued to overvalued.

3. Price to Book Value

- a. 1.65 (IND Avg- 3.04)
- b. A P/B value close to 1 shows that investors do not have a lot of positive sentiment on this particular stock. It shows that the value of the company is backed up by tangible assets.

Ratio Analysis (Other)

1. Debt to Equity

- a. 0.60 (IND Avg-0.51)
- b. A D/E ratio more than industry average shows comparatively higher dependency on external funds. In this case the company has recently reduced debt and therefore it can be seen that the company is actively working on reducing dependence on external funds.

2. Interest Coverage

- a. 3.55 times (IND Avg- 12.47 Times)
- b. A lower interest coverage ratio than the industry shows that the company might face difficulty in paying off interest on debt in comparison to its peers in the same industry..

3. Profit Margins

- a. Operating profit margin- 15.51%
- b. The company has shown mediocre growth in profits with a low growth of 10.58% in the recent years.

4. Return on Equity

- a. 15.20%(IND Avg- 10.09%)
- b. A high ROE shows efficiency and profitability of a business. This ratio shows that the company's business is profitable and efficient.

DCF Analysis

Year	2019	2020	2021	2022	2023	2024	2025
Free Cash Flow	0.873	0.95	1.04	1.13	1.23	1.34	1.41
Growth Rate		9.00%	9.00%	9.00%	9.00%	9.00%	5.00%
Duration	0	1	2	3	4	5	6
						151.35	Terminal value
Future cash flows for the owner		0.95	1.0372113	1.13056032	1.23231075	1.343218713	152.7581069
PV of Future cash flows for the owner		₹ 0.89	₹ 0.91	₹ 0.93	₹ 0.95	₹ 0.97	₹ 103.81
Total MCAP to be paid(Bn Inr)		₹ 108.47					
MCAP with Margin of Safety (50%)		₹ 54.24				Growth Rate	7.0%
Price		193.700256				Risk Free Rate	6.7%
						WACC	7.9971%

Conclusion

- ▶ Glenmark Pharmaceuticals is one of the top ten Pharmaceutical companies in India with operations ranging in multiple countries.
- ▶ The Pharmaceutical market India shows a certain promise and space for investment for future profits.
- ▶ The company in the recent years has shown a high volatility in revenue and profits and hence raises some warning signals.
- ▶ Although the company has strong financials, it is advisable to wait to buy the company till the time it starts to show consistent returns and a consistent free cash flow balance.