

16 August 2024

India | Equity Research | Q1FY25 results review

## Glenmark Pharmaceuticals

Pharma

### India traction improving; co maintains FY25 guidance

Glenmark Pharmaceuticals' (Glenmark) Q1FY25 result was driven by better traction in India (+12% YoY) and EU (+21%) and lower R&D (-190bps). Profitable India business accounted for ~37% of sales vs 35% QoQ though its gross margin dived 172bps QoQ. US revenue rose 3% QoQ (-4.9% YoY) supported by new launches. Key respiratory products may accelerate US growth in H2FY25. India growth of ~12% YoY was a surprise and management target's 10-15% India growth in FY25. At FY24 end, it had net cash balance of INR 6.7bn; in Jul'24, it divested balance 7.85% stake in Glenmark Lifesciences (GLS) for INR ~7.8bn which will further boost cash balance in near term. Management expects increase in working capital to 72-75 days, R&D between 7-7.5% of sales and capex of INR 7bn in FY25. Maintain **REDUCE**; TP revised to INR 1,345, based on 20x (18x earlier) FY26E EPS.

### India and EU drive growth; gross margin subdued

Q1FY25 revenue grew 6.9% YoY to INR 32.4bn (I-Sec: INR 32.5bn), driven by strong performance in India and Europe. Gross margin of 65.8% expanded 491bps YoY (-172bps QoQ). R&D spends declined 15.1% YoY (-9.1% QoQ) to INR 2.4bn and stood at 7.4% of sales, as against 9.3% in Q1FY24 and 8.7% in Q4FY24. Adjusted for forex loss (INR 220mn), EBITDA rose 39.5% YoY (+21.0% YoY) to INR 6.1bn. Margin expanded 440bps YoY (+234bps QoQ) to 18.8% (I-Sec: 17.7%). Adj. profit rose to INR 3.5bn (I-Sec: INR 2.2bn) led by lower interest cost and taxes.

### India growth accelerating, US to pick up in H2FY25

India business grew 11.9% YoY (27.4% QoQ) to INR 11.9bn driven by key therapy areas of cardiac and dermatology. Consumer care sales grew 11% in Q1FY25. Flagship brand Candid Powder recorded its highest monthly market share of 58.8%. On a low base, we expect India sales to grow at 21.6% CAGR over FY24-26E. US sales dropped 4.9% YoY (+2.9% QoQ) to USD 94mn due to lack of new launches and delay in scale up of recent launches. Glenmark filed 1 ANDA in Q1FY25 and is on track to file two more in Q2FY25. New launches in the respiratory portfolio are likely to drive growth in H2FY25. Monroe plant may be reinspected by the USFDA in Sep'24. Europe grew 21.4% YoY (+13.7% QoQ) to INR 6.9bn led by double-digit growth across key markets. RoW markets grew 3.3% YoY (-24.2% QoQ) to INR 5.7bn. Management sees global sales of Ryaltris at USD 80mn in FY25 (USD 20mn in Q1FY25).

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,15,832	1,18,131	1,37,597	1,51,573
EBITDA	16,350	11,953	25,282	29,365
EBITDA Margin (%)	14.1	10.1	18.4	19.4
Net Profit	6,537	6,093	15,403	18,789
EPS (INR)	23.2	21.6	54.6	66.6
EPS % Chg YoY	(41.7)	(6.8)	152.8	22.0
P/E (x)	(260.3)	(23.3)	28.7	23.5
EV/EBITDA (x)	28.9	35.7	17.1	14.3
RoCE (%)	(4.2)	(723.0)	19.3	19.6
RoE (%)	7.0	7.0	18.0	18.6

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#### Market Data

Market Cap (INR)	442bn
Market Cap (USD)	5,263mn
Bloomberg Code	GNP IN
Reuters Code	GLEN.BO
52-week Range (INR)	1,577 /702
Free Float (%)	53.0
ADTV-3M (mn) (USD)	14.9

Price Performance (%)	3m	6m	12m
Absolute	55.8	79.5	96.4
Relative to Sensex	47.1	68.9	72.5

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.9)	(1.9)
EBITDA	8.1	7.5
EPS	20.2	18.7

#### Previous Reports

28-05-2024: [Q4FY24 results review](#)17-02-2024: [Q3FY24 results review](#)

## Valuation and risks

Strong performance in India and EU offset the impact of muted performance in US and RoW markets in Q1. Its quarterly US run-rate has been in USD 90-100mn range for the last five quarters and management expects the run-rate to improve a bit in the next couple of quarters as it has respiratory launches lined up in H2FY25. India business growth of 12% was much ahead of market growth of ~9% (as per IQVIA) and sustaining the momentum will be critical for Glenmark to achieve its annual revenue and EBITDA margin guidance. R&D cost in Q1FY25 at 7.4% of sales was in line with management's FY25 guidance of 7.5% and R&D spending on ICHNOS may come down if the company is able to partner with another company for conducting further clinical trial.

Glenmark has already divested 75% of its stake in Glenmark Life Sciences (GLS) to Nirma Ltd. Net proceeds of INR 45bn from this transaction were used to repay debt and the company ended FY24 with a net cash balance of INR 6.6bn. The company has further divested its 7.85% stake in GLS in Jul'24 which will further improve its cash balance. The proceeds from this divestment may be largely utilised to fund its higher working capital requirement (INR 3.8-4.5bn), R&D (INR 10-12bn) and capex (INR 7bn) in FY25.

The stock currently trades at valuations of 28.7x FY25E and 23.5x FY26E earnings, and EV/EBITDA multiples of 17.1x FY25E and 14.3x FY26E, respectively. We cut our revenue estimates for FY25/26E by ~2% each, though raise our EBITDA estimates by ~8% for FY25/26E and earnings estimate by ~19-20% for FY25/26E. Enhanced free cash generation and maintaining a prudent balance sheet are essential avenues to be watched in the quarters ahead. Glenmark also aims to close 1-2 licensing deals every year, which may meet IGI's R&D requirements. On a low base, we expect 13.3%/56.7%/75.6% revenue/EBITDA/PAT CAGR over FY24-26E, with EBITDA margin at ~19% in FY26E. We maintain **REDUCE** with a revised TP of INR 1,345, based on 20x FY26E EPS (earlier INR 1,000 on 18x FY26E earnings). **Key upside risks:** Healthy launches, faster recovery in US.

## Exhibit 1: Quarter review

Y/E Mar (INR mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	FY24	FY23	YoY(%)
Net Sales	32,442	30,361	6.9	30,630	5.9	1,18,131	1,15,832	2.0
Gross Profit	21,341	18,483	15.5	20,674	3.2	56,087	58,925	(4.8)
Gross margins (%)	65.8	60.9	491	67.5	-172	47.5	50.9	-339
R&D	2,410	2,838	(15.1)	2,650	(9.1)	12,402	11,953	3.8
R&D (% of sales)	7.4	9.3	-192	8.7	-122	10.5	10.3	17.9
EBITDA	6,102	4,374	39.5	5,043	21.0	11,953	16,350	(26.9)
EBITDA Margins (%)	18.8	14.4	440	16.5	234	10.1	14.1	-400
Other Income	315	197	59.7	7,732	(95.9)	8,400	2,889	190.8
Interest	396	1,116	(64.5)	1,486	(73.4)	5,160	3,490	47.8
Depreciation	1,178	1,420	(17.1)	1,513	(22.2)	5,819	5,692	2.2
PBT	4,843	2,034	138.1	9,776	(50.5)	9,375	10,057	(6.8)
Tax	1,221	1,137	7.4	17,695	(93.1)	18,673	3,294	466.9
Tax Rate (%)	25.2	55.9		181.0		199.2	32.8	
EO income	220	520		4,468		(9,010)	(7,659)	
PAT (after Minority)	3,403	145	2,249.3	(12,427)	(127.4)	(18,990)	(1,697)	1,018.9
Adj. PAT	3,554	504	605.5	1,289	175.8	6,093	6,537	(6.8)
NPM (%)	11.0	1.7		4.2		5.2	5.6	

Source: Company data, I-Sec research

**Exhibit 2: Business mix**

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% YoY	% QoQ
Formulations	26,672	24,506	28,388	30,591	29,886	30,136	31,930	23,858	30,594	32,435	7.6	6.0
US	7,378	6,628	7,533	8,373	8,628	8,183	7,392	7,629	7,557	7,808	(4.6)	3.3
India	8,847	10,352	10,916	10,745	8,316	10,693	11,217	2,622	9,391	11,962	11.9	27.4
RoW	5,479	4,226	6,154	6,541	6,864	5,528	7,324	7,250	7,528	5,708	3.3	(24.2)
EU	4,968	3,300	3,785	4,932	6,078	5,732	5,997	6,357	6,118	6,957	21.4	13.7
<b>Total</b>	<b>26,672</b>	<b>24,506</b>	<b>28,388</b>	<b>30,591</b>	<b>29,886</b>	<b>30,136</b>	<b>31,930</b>	<b>23,858</b>	<b>30,594</b>	<b>32,435</b>	<b>7.6</b>	<b>6.0</b>
US sales (USD)	98	86	95	102	104	98	89	92	91	94	(4.9)	2.9

Source: Company data, I-Sec research

**Exhibit 3: Key growth drivers of domestic business in Q1FY25**

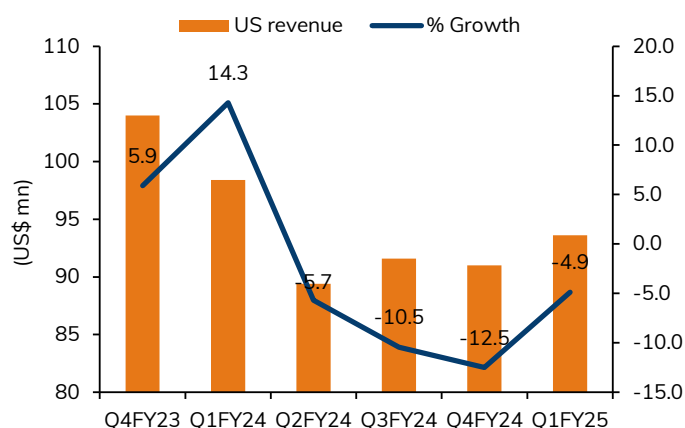
Brands (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
Telma	1,239	1,002	23.6	1,287	-3.7	4,628	4,130	12.1
Telma-H	981	769	27.5	990	-0.9	3,504	2,844	23.2
Telma-Am	929	706	31.5	939	-1.1	3,147	2,512	25.3
Ascoril-Ls	397	381	4.3	731	-45.7	2,464	2,391	3.1
Candid	765	544	40.5	345	121.6	1,712	1,629	5.1
Candid-B	395	343	15.2	374	5.8	1,525	1,416	7.7
Alex	233	247	-5.7	427	-45.3	1,410	1,321	6.7
Ascoril +	197	236	-16.6	359	-45.2	1,314	1,396	-5.9
Ascoril D Plus	183	209	-12.1	331	-44.6	1,187	1,084	9.5
Milibact	266	218	22.3	218	21.8	1,011	833	21.4

Source: IQVIA

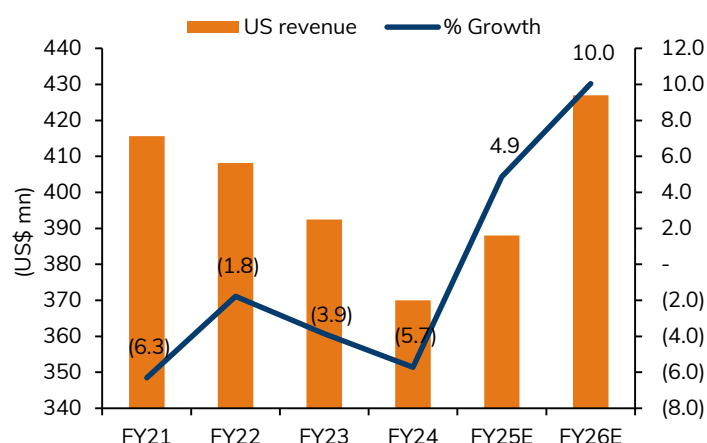
**Exhibit 4: Growth profile of key therapies in India**

Therapies (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
Cardiac	4,034	3,182	26.8	4,072	-0.9	14,373	11,905	20.7
Derma	3,145	2,694	16.7	2,642	19.0	10,867	10,025	8.4
Respiratory	1,847	1,816	1.8	2,894	-36.2	10,074	9,496	6.1
Anti-Infectives	1,011	863	17.1	1,012	-0.2	4,080	3,777	8.0
Anti-Diabetic	646	652	-1.0	662	-2.5	2,577	3,082	-16.4
Stomatologicals	171	158	8.5	155	10.8	628	631	-0.5
Antineoplast/Immunomodulator	132	103	28.5	122	7.9	480	673	-28.7
Ophthalm / Otologicals	106	92	14.9	107	-0.8	474	450	5.4
Gynaec.	119	102	16.6	114	4.5	471	440	7.0
Gastro Intestinal	59	54	9.7	44	33.2	205	190	8.0

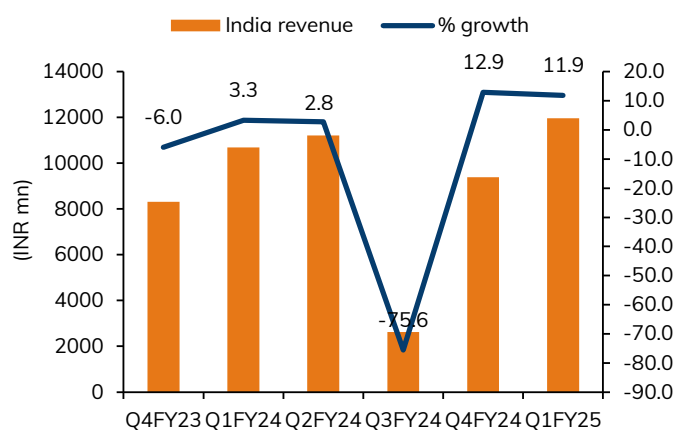
Source: IQVIA

**Exhibit 5: Growth impacted due to lower revenue contribution from new launches**

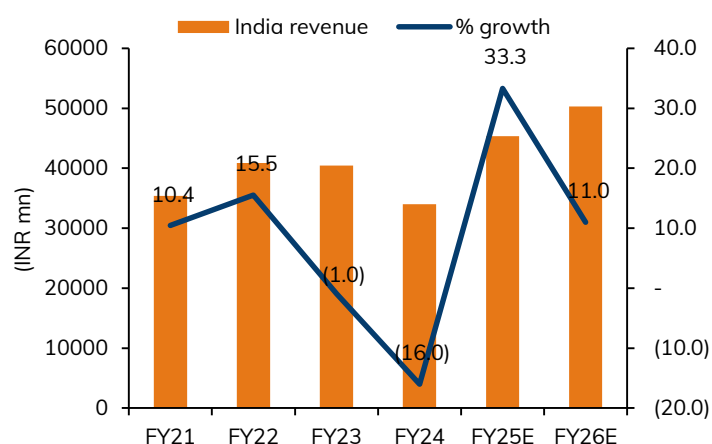
Source: Company data, I-Sec research

**Exhibit 6: Respiratory drug launches to improve US traction**

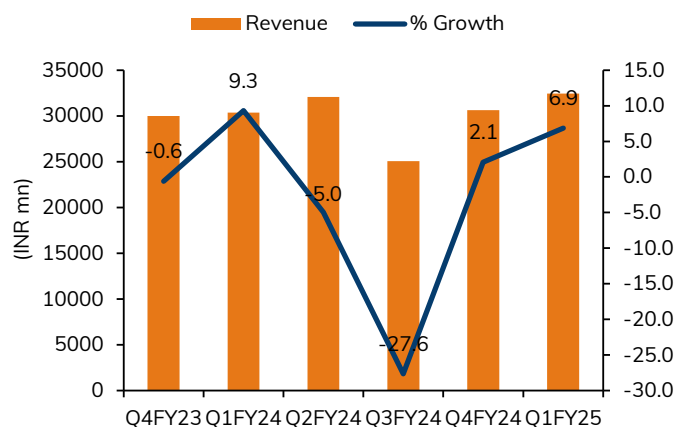
Source: Company data, I-Sec research

**Exhibit 7: India growth back on track**

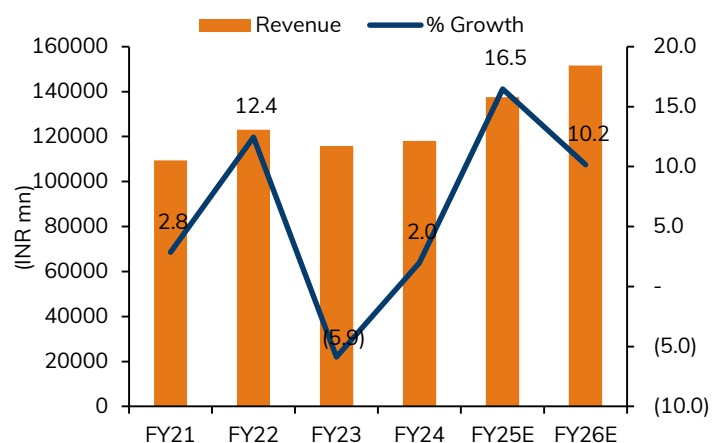
Source: Company data, I-Sec research

**Exhibit 8: On a low base, India business to grow faster**

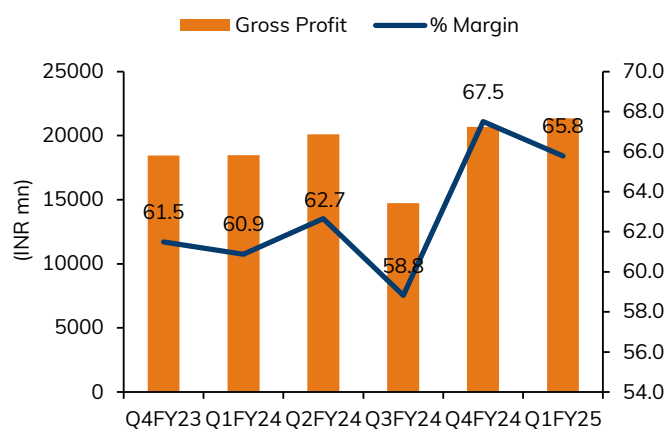
Source: Company data, I-Sec research

**Exhibit 9: Revenue growth driven by traction in India and Europe**

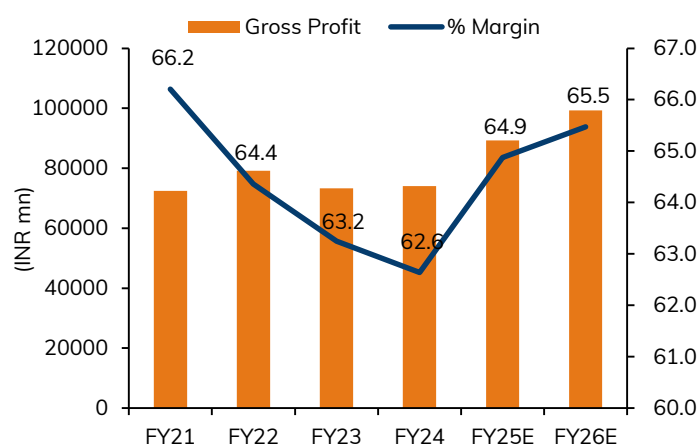
Source: Company data, I-Sec research

**Exhibit 10: FY24–26E revenue to grow 13.3%**

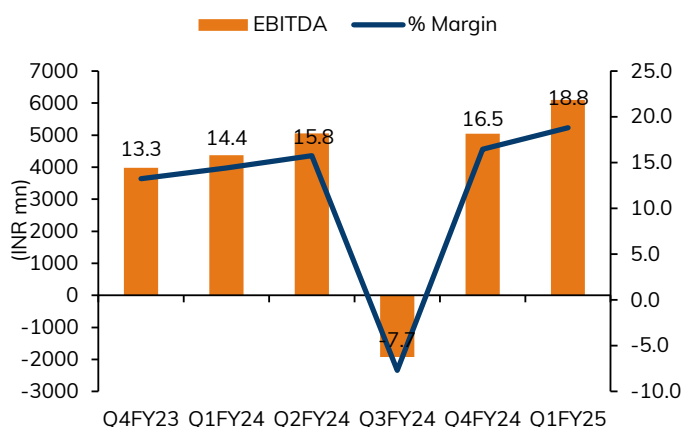
Source: Company data, I-Sec research

**Exhibit 11: Product mix and better traction in India drive margins**

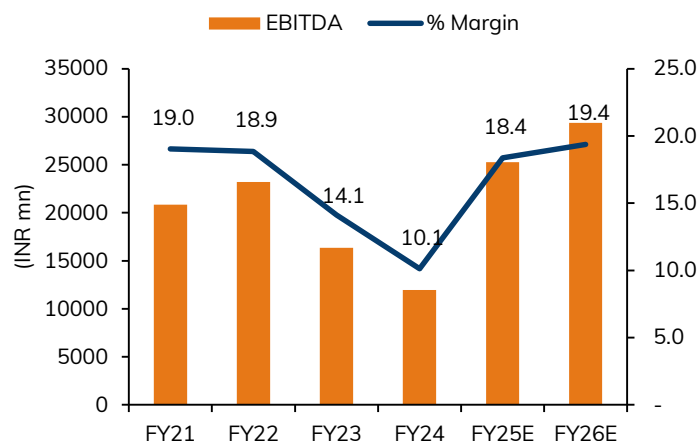
Source: Company data, I-Sec research

**Exhibit 12: Gross margin may rise to ~66% in FY26E**

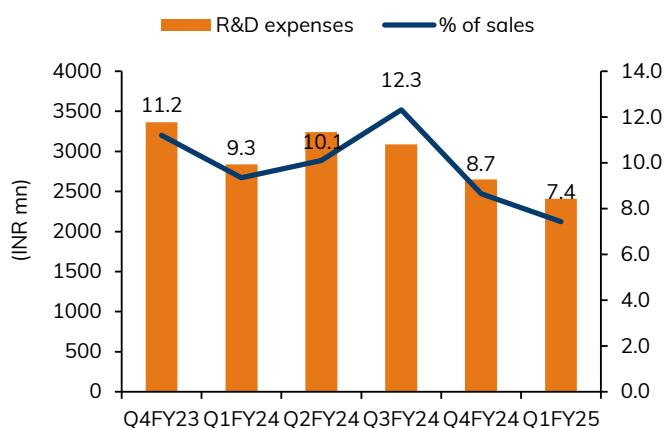
Source: Company data, I-Sec research

**Exhibit 13: EBITDA cushioned by lower R&D**

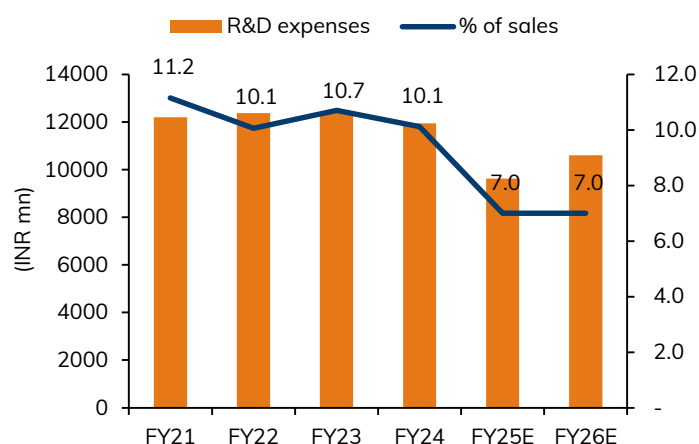
Source: Company data, I-Sec research

**Exhibit 14: Better traction in India and lower R&D to aid recovery in EBITDA margin**

Source: Company data, I-Sec research

**Exhibit 15: R&D expenses reduced by 15.1% YoY**

Source: Company data, I-Sec research

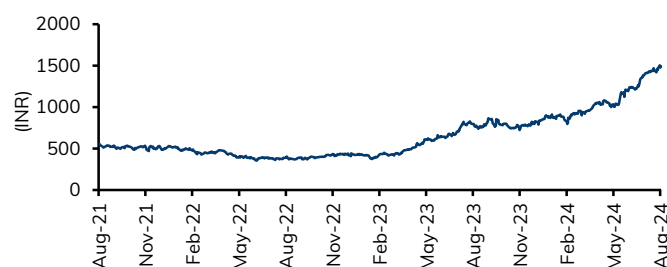
**Exhibit 16: R&D spend likely to remain between 7-7.5% going ahead**

Source: Company data, I-Sec research

**Exhibit 17: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	46.7	46.6	46.7
Institutional investors	34.6	34.7	35.0
MFs and others	8.6	10.6	10.9
FIs/Banks	0.2	0.1	0.1
Insurance	1.7	2.3	2.0
FIIIs	24.1	21.8	22.0
Others	18.7	18.6	18.3

Source: Bloomberg

**Exhibit 18: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,15,832	1,18,131	1,37,597	1,51,573
<b>Operating Expenses</b>	<b>99,482</b>	<b>1,06,178</b>	<b>1,12,315</b>	<b>1,22,208</b>
EBITDA	16,350	11,953	25,282	29,365
<b>EBITDA Margin (%)</b>	<b>14.1</b>	<b>10.1</b>	<b>18.4</b>	<b>19.4</b>
Depreciation & Amortization	5,692	5,819	4,477	4,779
EBIT	10,658	6,134	20,805	24,586
Interest expenditure	3,490	5,160	1,288	1,090
Other Non-operating Income	2,889	8,400	1,300	1,898
Recurring PBT	10,057	9,375	20,817	25,395
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>3,294</b>	<b>18,673</b>	<b>5,412</b>	<b>6,603</b>
PAT	(896)	(18,309)	15,405	18,792
Less: Minority Interest	802	681	2	3
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(1,697)	(18,990)	15,403	18,789
<b>Net Income (Adjusted)</b>	<b>6,537</b>	<b>6,093</b>	<b>15,403</b>	<b>18,789</b>

Source Company data, I-Sec research

### Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,07,255	74,281	92,846	1,12,736
of which cash & cash eqv.	11,603	16,595	12,622	24,365
Total Current Liabilities & Provisions	46,095	48,280	54,700	59,309
<b>Net Current Assets</b>	<b>61,161</b>	<b>26,001</b>	<b>38,146</b>	<b>53,427</b>
Investments	446	7,897	7,897	7,897
Net Fixed Assets	29,127	29,191	22,104	23,010
ROU Assets	2,166	1,991	1,967	2,066
Capital Work-in-Progress	11,896	6,619	6,619	6,619
Total Intangible Assets	22,925	10,920	20,554	21,770
Other assets	1,843	2,191	2,552	2,811
Deferred Tax Assets	18,059	10,497	10,497	10,497
<b>Total Assets</b>	<b>1,47,622</b>	<b>95,306</b>	<b>1,10,335</b>	<b>1,28,097</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>43,477</b>	<b>9,906</b>	<b>9,906</b>	<b>9,906</b>
<b>Deferred Tax Liability</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>3</b>
provisions	-	-	-	-
other Liabilities	5,747	6,922	8,063	8,882
Equity Share Capital	282	282	282	282
Reserves & Surplus	94,457	78,197	92,084	1,09,023
<b>Total Net Worth</b>	<b>94,739</b>	<b>78,479</b>	<b>92,366</b>	<b>1,09,305</b>
Minority Interest	3,653	(4)	(2)	1
<b>Total Liabilities</b>	<b>1,47,622</b>	<b>95,306</b>	<b>1,10,335</b>	<b>1,28,097</b>

Source Company data, I-Sec research

### Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(2,510)</b>	<b>41,776</b>	<b>4,532</b>	<b>19,783</b>
Working Capital Changes	14,697	(40,978)	15,338	2,980
Capital Commitments	2,835	(11,575)	7,000	7,000
<b>Free Cashflow</b>	<b>(5,345)</b>	<b>53,350</b>	<b>(2,468)</b>	<b>12,783</b>
<b>Other investing cashflow</b>	<b>(51)</b>	<b>7,451</b>	-	-
Cashflow from Investing Activities	(2,784)	4,124	(7,000)	(7,000)
Issue of Share Capital	-	0	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	6,774	(33,571)	-	-
Dividend paid	(1,366)	(1,178)	(1,516)	(1,849)
Others	5,033	2,851	12	808
Cash flow from Financing Activities	10,441	(31,898)	(1,504)	(1,041)
<b>Chg. in Cash &amp; Bank balance</b>	<b>5,146</b>	<b>14,001</b>	<b>(3,972)</b>	<b>11,742</b>
Closing cash & balance	19,262	25,604	12,622	24,365

Source Company data, I-Sec research

\*Capex for FY24E is netted against proceeds from divestment of Glenmark Lifesciences

### Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	(6.0)	(67.3)	54.6	66.6
Adjusted EPS (Diluted)	23.2	21.6	54.6	66.6
Cash EPS	43.3	42.2	70.4	83.5
Dividend per share (DPS)	4.8	4.2	5.4	6.6
Book Value per share (BV)	335.8	278.1	327.3	387.3
Dividend Payout (%)	(80.5)	(6.2)	9.8	9.8
<b>Growth (%)</b>				
Net Sales	(5.9)	2.0	16.5	10.2
EBITDA	(29.5)	(26.9)	111.5	16.2
EPS (INR)	(41.7)	(6.8)	152.8	22.0
<b>Valuation Ratios (x)</b>				
P/E	(260.3)	(23.3)	28.7	23.5
P/CEPS	36.1	37.1	22.2	18.7
P/BV	4.7	5.6	4.8	4.0
EV / EBITDA	28.9	35.7	17.1	14.3
P / Sales	3.8	3.7	3.2	2.9
Dividend Yield (%)	0.3	0.3	0.3	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	63.2	62.6	64.9	65.5
EBITDA Margins (%)	14.1	10.1	18.4	19.4
Effective Tax Rate (%)	137.3	5,116.7	26.0	26.0
Net Profit Margins (%)	5.6	5.2	11.2	12.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.3	(0.2)	(0.1)	(0.2)
Net Debt / EBITDA (x)	1.9	(1.2)	(0.4)	(0.8)
<b>Profitability Ratios</b>				
RoCE (%)	(4.2)	(723.0)	19.3	19.6
RoE (%)	7.0	7.0	18.0	18.6
RoIC (%)	5.2	9.0	27.9	31.4
Fixed Asset Turnover (x)	3.6	4.1	5.4	6.7
Inventory Turnover Days	73	78	84	81
Receivables Days	112	58	99	96
Payables Days	61	79	84	82

Source Company data, I-Sec research



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