

US approvals key to Glenmark's prospects

Operations here and in other countries continue to fare well; earnings growth to pick up in FY15 as new US product launches gain momentum

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Glenmark Pharmaceuticals has seen an increase in news flow in the last few days, leading to the company stock gaining about seven per cent since March-end.

While the company's special economic zone unit in Indore received US Food and Drug Administration (USFDA) approvals, its new chemical entity being developed to treat arthritis is in the human trials stage. Also, the company has received some milestone payments for research. Though these developments bode well for the company's long-term growth, performance in the near to medium term hinges on faster US FDA approvals for launch of new products. Here, too, Glenmark's prospects are seen improving.

The slow approval rate in FY14 had led to the stock underperforming since July 2013, after hitting a 52-week high of ₹612. Analysts expect FY15 to be better, in terms of approvals; they see major upsidelikes in FY16.

Analysts at IIFL believe earnings growth, impacted by accelerated amortisation in FY14, will revert to 18-20 per cent in FY15 and further accelerate in FY16. The share price is, therefore, likely to follow a similar trajectory. The consensus one-year target price of ₹652, according to 20 analysts polled by Bloomberg since February

EARNINGS PICKING UP	FY14E	FY15E	Revenues	Ebitda	Net profit	EPS (₹)	PE (x)
in ₹ crore	15.7	15.6	15.12	1.768	833	1,019	30.6
% chg	15.7	15.6	22.0	22.3	17.1	22.3	37.4
							19.0
							15.6

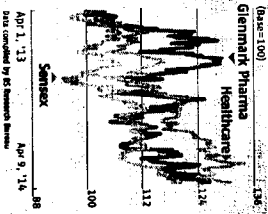
Source: IIFL Research



AT A SLOW PACE The US market, which contributes 35 per cent to Glenmark's overall sales, has seen subdued growth in the last few quarters due to slow approvals during FY14.

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CATCHING UP



Source: IIFL Research

few quarters. This is due to slow approvals during FY14 and the withdrawal of its asthma treatment generic Mometasone (est-product). The withdrawal was due to sharp price erosion and, therefore, lower profitability.

Certain product launches such as those of Varos (dermatology drug; market size of ₹40 million), which was to be launched on a 180-day exclusivity basis in December 2013, had to be postponed to June 2014.

A recent Nomura report suggested Glenmark's sales for the quarter ended February 2014 would stand at \$245 million, up 2.3 per cent sequentially and 13.7 per cent on an annual basis. The Nomura analysts say, lack of approvals and new launches are impacting near-term growth prospects in the US adversely.

However, Glenmark, estimated to secured approvals for only six-eight products in FY14, will see a better run rate. Analysts at IIFL expect 10-13 product launches in FY15 and business growth to pick up 12-14 per cent, on a conservative estimate. They say, "We expect Glenmark's US generics business to recover in FY15 from the backslide growth rate we saw in FY14. For FY14, the business likely ended the year with about just 10 per cent in constant currency growth."

A major upside, however, is likely in FY16. Prathul Bolla at Nirmal Bang, who forecasts subdued launches in FY15, expects the FY16/FY17 product launch pipeline to be reasonably strong, with the likely launch of the generic versions of Tarka (anti-hypertension drug) by the end of FY15. Orthotocyclen 10, an oral contraceptive with a market size of ₹400 million, is likely to be launched in December 2015. The

Other markets see growth

The domestic and rest of the world markets are growing well. The company's specialty business in India (contributing 26 per cent to sales) has grown 18 per cent in the first nine months of FY14; analysts expect this to sustain at 15-18 per cent.

The European business (seven per cent of overall revenue) is growing at a robust 39-40 per cent. Bolla of Nirmal Bang says Europe (a mix of Day-1 launches of approved generics and in-licensed molecules) and Latin America, along with India, will continue to drive growth. In Latin America, strong growth in Venezuela and Mexico is likely to offset the muted growth in Brazil, which will see delay in regulatory approvals, adds Bolla. Glenmark has about 30 products pending approval in Brazil, a market that contributes about 60 per cent to its Latin American revenue. As these products secure approvals, expect growth to pick up in this market, too.

Company