

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

Team Enigma-IIMB (2019-20)

Ashish Anja

ashish.anja19@iimb.ac.in

Anurag Doshi

anurag.doshi19@iimb.ac.in

Atul Mishra

atul.mishra19@iimb.ac.in

Jayanta Bisoyi

jayanta.bisoyi19@iimb.ac.in

Sai Pranav

m.pranav19@iimb.ac.in



Faculty Guide

Venkatesh Panchapagesan (venky@iimb.ac.in)

DETAILED RESEARCH REPORT

Glenmark Pharmaceuticals Ltd. | GNP:IN | Recommendation: Long



Indian Institute of Management – Bangalore

Team Enigma-IIMB (2019-20) Global Network Investment Competition by GNAM

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

INDIAN PHARMACEUTICAL INDUSTRY ANALYSIS

India has come a long way in the path of healing; from introducing Ayurveda through formal texts of Charaka Samhita and Shushruta Samhita around 400CE, to adoption of the Unani system of healing which was brought to India by the Arabs and Persians in the Eighth century, to the introduction of Homeopathy medicines in the early 19th century and the current adoption of Allopathic treatment system – a journey where thoughts of bad spirits causing diseases has been replaced by bad diets! And the human quest to become immortal has only increased the pace of innovation in the field of medicine, but the limitations of our understanding of the long-term effects of such innovation has left deep questions – the impact of superbugs is a case in point here. However, the importance of medicine in healing cannot be ignored. And, for a country to be economically self-reliant and grow it requires its people to be healthy. A strong pharma industry can provide that support through affordable medicines and a deeper reach. A large market for the products gives the industry players an opportunity to grow and improve their offerings; a win-win for both the consumer and the producers.

Industry Attractiveness

The industry analysis on a 7-point scale has shown some specific indicators on how the industry is positioned.

Factor	Rating	Weight	Reasoning
<i>Rivalry among competitors</i>	5.00	15%	This is markedly low because we see that each major player targets a certain category of medicine and aspires to be the major player. This categorization has led to reduction in rivalry and a head-on competition and a resultant price-war among the major players and thus attractive for the industry
<i>Barriers to exit</i>	1.30	5%	Significant Government restrictions make the industry less attractive
<i>Barriers to entry</i>	5.30	25%	A relatively high barrier to entry in the branded generic drugs. Although a new entrant may find it hard to crack the break into established segments the Industry provides a gateway to enter whenever there are new drug discoveries. This window of opportunity can be utilized provided the incumbent or the new entrant puts the needed resources to succeed.
<i>Threat of substitutes</i>	2.50	25%	This is becoming a marked threat for the industry as consumers are opting for alternate medicines
<i>Power of buyers</i>	3.00	15%	Buyers have a sizeable influence on the decisions and profitability of the manufacturers.
<i>Power of suppliers</i>	4.00	5%	Significantly low because of high number of suppliers and the varied kinds of raw materials demanded.
<i>Government action</i>	3.00	10%	Recent regulations have made it challenging for the industry to call its shots
Overall attractiveness	3.72	100%	It stands at a decent score of 3.4 and there are some specific actions that the incumbents can take to make the industry attractive

While parameters such as high barriers to entry, low rivalry and low threat of suppliers has given a boost to the industry attractiveness there are other factors such as substitutes, buyers and protectionist actions of the governments across geographies which are acting as dampeners to the growth of the industry. However, as mentioned in the Power of Buyers section, there are apparent technological trends that show an increased access to information and thus better power of choice in the hands of end consumers, which can lead to a need for the branded generic manufacturers to be able to influence the end consumers and sensitize them about the importance of quality and improve the brand perception. Thus, marketing and distribution channels will play a major role in deciding the winners and losers of the industry in the coming years.

External Environment

The Pharmaceutical industry is thriving in powerful atmosphere. It gets affected by social fashion, consumer spending actions, changes in the regulations for environment, federal decisions, technical modifications, and legal challenges due to evolving system.

Political: Objectives and nature of the policies are heavily dependent on government structure and its policies. For market entry along with regional expansion, pharmaceutical companies need to be aware of several regulations and develop the capabilities to handle them. The taxation policy is generally comfortable resulting in increased profits and greater R&D spending. Despite the new federal policies giving this industry a benefit, the timescale of delivery is more than the mandated phrase of the current India Government along with a new Government will bring in its very own improvements. Non-government organizations, protest & activist organizations have a crucial part in policy making in India.

Economic: Various economic factors such as Inflation, interest rate, taxation, currency fluctuations, labour markets, disposable income and economic performance play crucial role. Pharma industry has expanded globally over last 2 years, by utilizing skilled labour and globalization effectively. The expansion in last 2 years is built upon maximizing globalization and leveraging skilled community resources to go with worldwide markets. The Indian Government has elevated investment in getting core infrastructure to enhance the simplicity of doing business. Easy liquidity within the equity sector of India will also help expanding worldwide.

Social: Social elements can assist in understanding the consumer tastes grounded on cultural norms. Societal norms and roles, culture, traditions, gender roles, demographics, wellness & safety attitudes are included by social factors. As India is a state & growing hence various sections of the population need being catered to. The attitude towards acquiring Foreign nationals to control high positions is not so good in India hence better to obtain Indian Managers to control businesses in the nation. It's crucial that income inequality as well as gender roles be resolved.

Technological: Technological things such as speed of engineering driven alter, innovation in processes and product, supply chain disruption, electronic disruption, entry to technology etc. greatly affects the Pharmaceutical industry. Innovations is essential as it allows higher market share. Pharmaceutical companies are unwilling to transfer technology & licenses as a result of the anxiety about losing out on competitors and therefore tend to protect the IPRs of theirs and patents. The newest technology is quick lowering production and maintaining expense as well as restructuring the supply chain is crucial to make much more flexibility to meet consumer needs and also price structures.

Environmental: Environmental factors and sustainability are becoming vital for businesses. Pressure groups and Govt. are driving businesses to stick to green standards. Several of the green factors are safe water treatment, improving target on sustainability, safe disposal of hazardous material, laws regulating pollution, secure waste management, restricting carbon footprints, insurance policies, climate change etc. Environmental norms are changing the priorities of product development. Regular scrutiny by environmental companies is also contributing to the price of operations. The strain on the Pharmaceutical companies is significant over synchronization between green needs. The community and both governments are pressing the market to invest much more in environmental concerns.

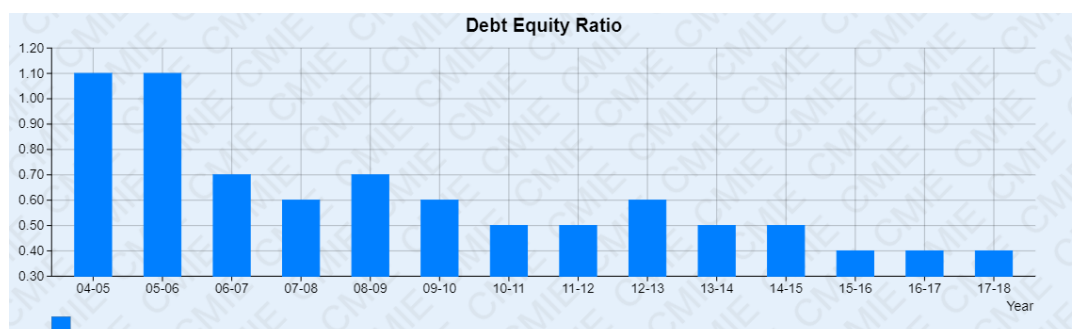
Legal: Legal pressures are among the biggest problems prior to the pharmaceutical industry. Legal things such as time taken to deliver justice, intellectual property rights safety, information safety laws, biasedness toward home players, copyrights law, method of justice, discrimination laws etc. needs to be considered. The degree of legal oversight and scrutiny has increased. Companies must identify their opportunities and risks proactively and develop policies which can mitigate these risks.

Indian Institute of Management – Bangalore

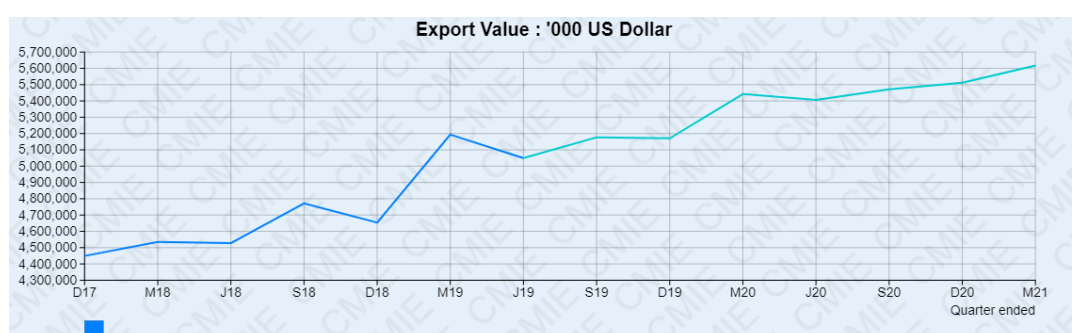
One-year full time Master of Business Administration (MBA)

Industry Performance (Source: CMIE)

Falling Debt to Equity Ratio: Favourable



Export Value Projections: Favourable



Operating Profit Margins of Top 10 Players (by Size)

Company	Rank	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Sun Pharmaceutical Inds. Ltd.	1	8.29	-4	0.25	9.95	19.75	28.58
Lupin Ltd.	2	31.91	33.19	33.92	34.87	19.9	24.52
Mylan Laboratories Ltd.	3	16.93	13.16	13.31	16.21	19.62	
Cipla Ltd.	4	20.79	18.64	17.34	17.42	19.61	21.06
Sun Pharma Laboratories Ltd.	5	46.31	42	44.38	47.07	49.16	40.96
Dr. Reddy's Laboratories Ltd.	6	29.52	24.1	23.82	18.16	13.25	21.21
Aurobindo Pharma Ltd.	7	27.46	27.86	27.06	24.25	25.84	19.6
Glenmark Pharmaceuticals Ltd.	8	21.54	28.34	28.65	36.65	19.98	21.5
Serum Institute of India Pvt. Ltd.	9	57.55	57.59	59.61	56.24	52.16	51.72
Cadila Healthcare Ltd.	10	6.66	20.03	29.74	9.47	29.11	27.07

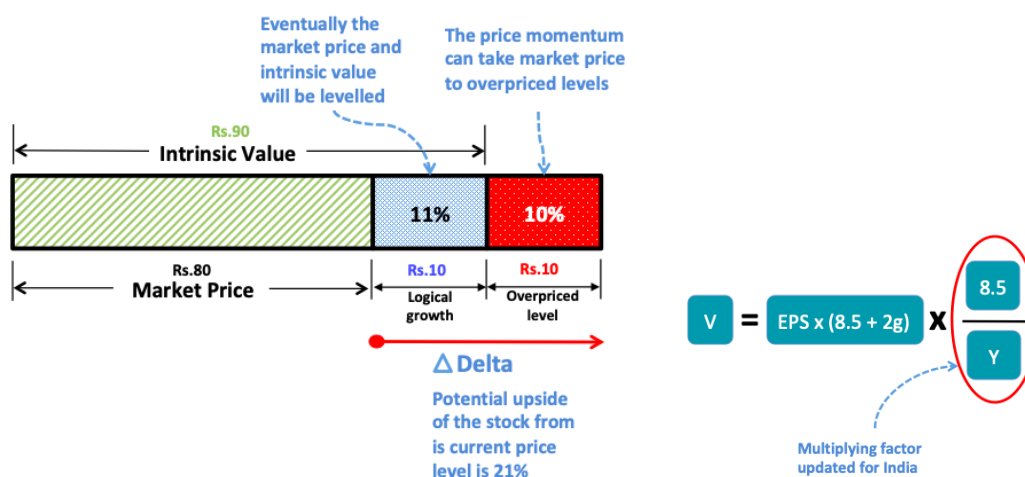
Firms with minimum "AA" Credit Rating & minimum amount of Rs 7500 Million

Company Name	Rating	Instrument	Amount (Rs. Million)
Aurobindo Pharma Ltd.	AA+(ind)	Working capital loan	50,000.00
Torrent Pharmaceuticals Ltd.	AA (ind)	Term loans	23,500.00
Glenmark Pharmaceuticals Ltd.	AA-(ind)	Fund based financial facility/instrument	7,500.00
Natco Pharma Ltd.	AA	Fund based financial facility/instrument	8,765.00
Mylan Laboratories Ltd.	AA-	Non-convertible unsecured debentures/bonds/notes/bills	24,803.40
Cadila Healthcare Ltd.	AA+	Long term Loans	17,426.00
Serum Institute of India Pvt. Ltd.	AAA/A1+	Non-government debt	19,805.00

INVESTMENT THESIS

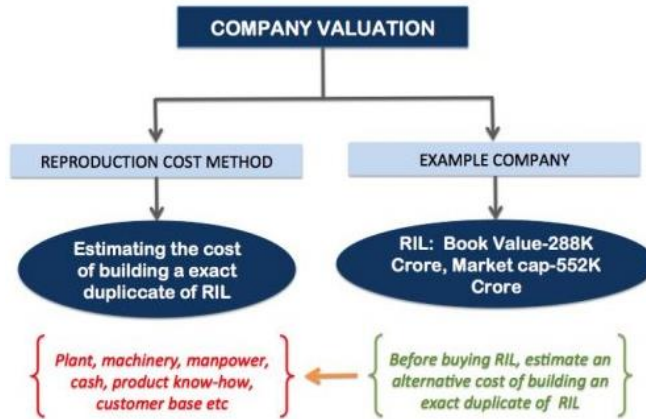
Our investment model is based on the overall score of the following six parameters that indicate the potential shareholder value creation by the selected equity stock.

1. **Current Stock Price:** Over/Under Valued is determined by calculating intrinsic value:
 - a. **By NCAPS Method:** Net Current Asset strategy is a very traditional means to appreciate a stock. The kind of bargain problem which may be most easily identified is a typical stock which is sold for under company's net working capital by yourself, after deducting all previous obligations. A business whose market price is much less than its NCA/share, it implies its trading at a very discounted price level.
 - b. **By Residual Income Model:** It's a very strict approach to calculation. Its value stocks by including a 'factor' to its book worth (net worth). A business with higher residual income needs to be the ideal choice of investors.
 - c. **By Ben Graham's Formula (TTM):** Benjamin Graham's intrinsic value method is just a kick off point of stock valuation. It can just create a rough concept of the intrinsic worth of inventory. But one mustn't base the decision of theirs on this particular formula alone.

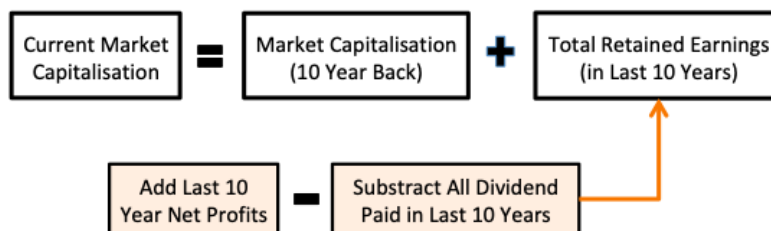


- d. **By Earning Power Value (EPV):** Intrinsic value estimation utilizing EPV is done strictly on foundation of the capability of company to produce reliable income (EBIT) from its activities. These figures happen to be existing in companies' financial accounts, thus demand of guess work is practically eliminated.
- e. **By Absolute PE Method:** It encompasses following business parameters to arrive at a near accurate intrinsic value:
 - i. Base PE (applicable for all stocks).
 - ii. Points Earned due to:
 1. Future earnings growth potential of stock.
 2. Historic dividend yield power of stock.
 - iii. Multiplying Factor due to:
 1. Business risk regarding the underlying business.
 2. Financial risk associated with the underlying business.
 3. Future profit predictability of the underlying business.
- f. **By Discounted Cash Flow Model:** The general performance measurement which DCF utilizes for its system is widely known as Free Cash Flow. Free cash flow will be that extra cash and that companies are competent to utilize to enhance shareholders value. The utilization of the free funds flow tactic makes DCF dependable and special.

- g. **By Reproduction Cost Method:** The reasoning is this way, imagine you are looking to purchase a complete business named Reliance Industries Ltd (RIL). Before you use Mr Mukesh Ambani (Chairman) and provide the offer of yours for Reliance Industries, you have to do the homework of yours. You are going to have to answer a small issue to yourself first. "If rather than purchasing Reliance Industries, what in case you attempt to make a similar business of size that is similar by yourself from scratch."



- h. **By Current Price Trends:** Self Explanatory (Taking into consideration the expected price growth and current stock prices)
- i. **By Current P/E Trends:** Self Explanatory (Taking into consideration the expected P/E growth and current stock prices)
2. **Future Growth Potential:** <Refer the Stock Analysis>
3. **Management:** We will mainly judge managers of a company based on their steps taken to enhance shareholders value by checking:
- Rational use of Capital: Reinvesting vs Dividends based on the growth stage of the firm
 - Frank Reporting of Results: We will become sceptical when the reports of companies display too much optimism.
 - Not imitating competitors: We will compare the reports of stock in consideration and stock of the competition.
4. **Profitability:** <Refer the Stock Analysis>
5. **Financial Health & Bankruptcy Threat:** We prefer to see five-year averages than yearly results. In addition, we tend to look at those numbers which are hard to fake in the company's financial reports:
- Return on Equity:** High ROE and Low D/E ratio
 - Owner Earnings:** Owner Earnings = [Net Profit + Depreciation] – [Capital Expenditure + Increase in Working Capital]
 - Profit Margins:** For a given business, every dollar of sales has an appropriate level of expense.
 - Minimum Market Value:** A “good company” run by able “managers” will eventually be complemented by a proportional increase in its market value.



- e. **Fair Price (Value):** The stronger are the qualities, the higher will be the resultant fair value.

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

STOCK ANALYSIS

Company

Overview

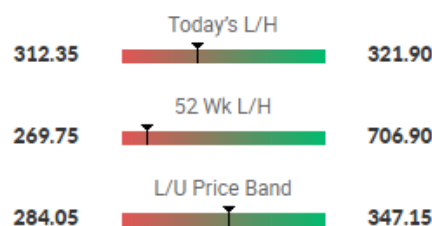
Glenmark was created with a vision to come through as a top integrated research based, global pharmaceutical company. Over the years, it's become a prominent player in the finding of completely new molecules equally NCEs (New Chemical Entity) and NBEs (New Biological Entity). It's numerous molecules in different phases of clinical and pre-clinical growth and it is largely focused in the aspects of Oncology, Dermatology and Respiratory.

Its branded generics industry has a tremendous presence in markets across emerging economies like India. The generics company services the demands of advanced markets like US and Western Europe. Its API business offers items in more than eighty nations like the US, different places in the EU, South India and America.

BSE LIVE
Nov 1, 16:00 **315.65** ▲ 0.05

Prev. Close
315.60

Open Price
312.35



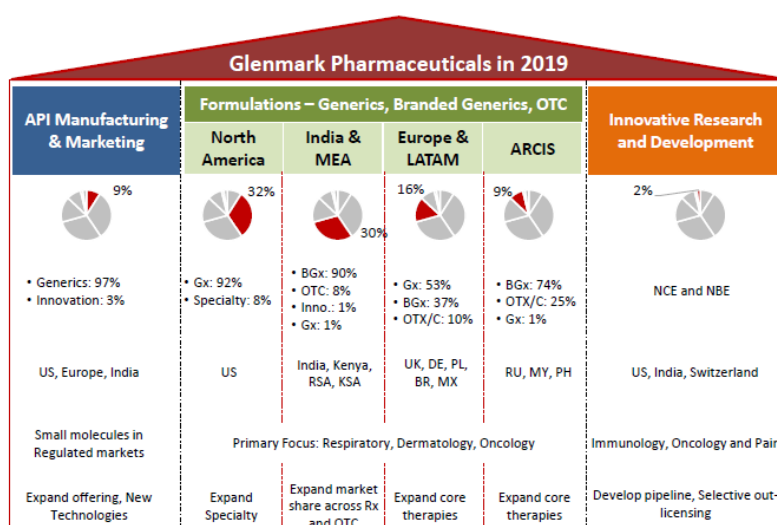
Current Positioning

- Annual revenue of ~\$1.5 bn in FY19E with CAGR of ~12% over last 5 years
 - EBITDA pre-R&D expenses at ~30% in FY19E
 - Consolidated R&D expense: 12-13% of revenue
- Commercial infrastructure in the US, India, Europe, Russia and other emerging markets
- Global manufacturing footprint with 16 facilities and capability to manufacture small molecules and biologics
- Balanced portfolio of NCEs and NBEs with 9 assets in the pipeline

Market Cap (Rs Cr.) 8,906.64

P/E	6.13
Book Value (Rs)	423.23
Dividend (%)	200
Market Lot	1
Industry P/E	29.22
EPS (TTM)	51.48
P/C	5.71
Price/Book	0.75
Dividend Yield.(%)	0.63
Face Value (RS)	1
Deliverables (%)	37.06

Business Overview



37th Annual J.P. Morgan
Healthcare Conference
Presentation

Note: Revenue numbers are based on estimated sales in FY1920; Also includes other income of 1.5%
MEA – Middle East and Africa, LATAM – Latin America, ARCIS – Asia, Russia and other Commonwealth of Independent States

Indian Institute of Management – Bangalore

Team Enigma-IIMB (2019-20) Global Network Investment Competition by GNAM

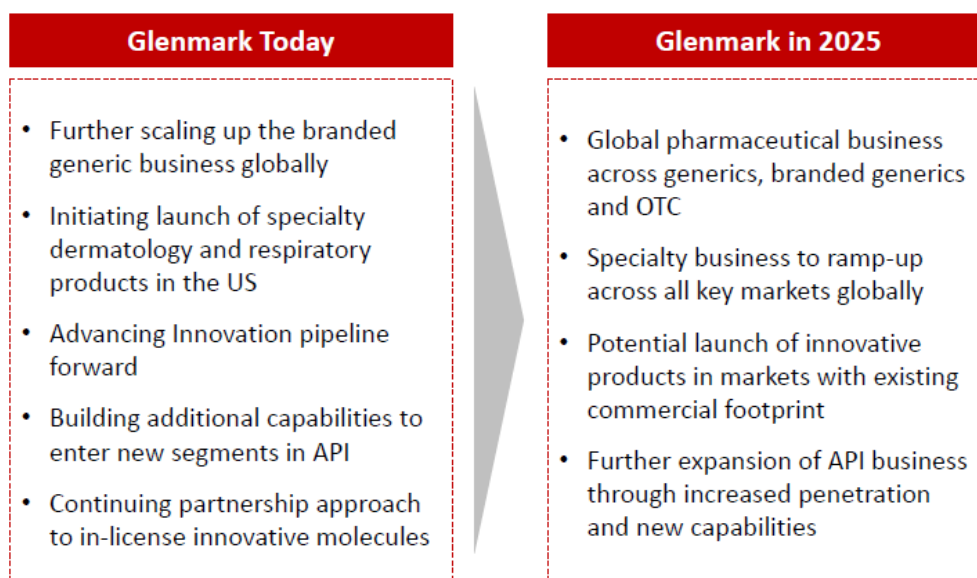
Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

Financial Objectives

- Target consolidated revenue growth of 12-15% over the next 3-5 years
- R&D expense to continue at 12-13% of revenue
- Continue to focus on margin expansion
- Ensure that business is free cash flow generating
- Net debt to EBITDA ratio to progressively reduce going forward
- Continue to focus on out-licensing of NME assets

Summary



Intrinsic Value Calculation

By NCAPS Method

Net Current Asset Value Per Share (NCAPS)	Mar 19	Mar 18	31 Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
Current Asset	5141.2	5875.3	5950.8	4627.9	3598.0	1609.6	1039.4	736.1	482.4	1533.7
Total Debt	3134.5	2981.1	2776.5	787.4	347.6	353.3	308.9	476.4	1072.0	754.4
Shares in Issue (Lakhs)	2821.7	2821.7	2821.7	2821.6	2713.0	2712.2	2708.5	2705.4	2702.7	2698.4
NCA	2006.7	2894.2	3,174.3	3840.5	3250.4	1256.3	730.6	259.6	-589.6	779.3
NCAPS	71.12	102.57	112.50	136.11	119.81	46.32	26.97	9.60	-21.81	28.88
NCAPS (Discounted to 99%)	70.40	101.54	111.37	134.75	118.61	45.86	26.70	9.50	-21.60	28.59
NCAPS (Discounted to 99%) - adjusted	70.40	101.54	111.37	134.75	118.61	45.86	26.70	9.50	0.00	28.59
NCAPS - adjusted	70.40	101.54	111.37	134.75	118.61	45.86	26.70	9.50	0.00	28.59
NCAPS_Growth	-0.31	-0.09	-0.17	0.14	1.59	0.72	1.81	0.00	-1.00	
NCAPS_Growth_TrendinLast3Y	-0.21									
FCFE_Growth_Rate	0.05									
NCAPS_Growth_to_be_used	-0.18									
NCAPS_Next_Year	58.08									

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

By Residual Income Model

Expected Return (Req. Equity Return)

Risk Free Rate (Rf)	6.67%
Stock Beta (b)	0.83
Expected Market Return for period of say 5Y (Rm)	12.00%
Expected Returns [Rf + b*(Rm - Rf)]	11.09%

Cost of Equity	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
<i>Equity Capital (Past)</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital	28.22	28.22	28.22	28.22	28.22	27.13	27.12	27.09	27.05	27.03	26.98
Reserves & Surplus	11914	11914	10363	9408	7338	4925	2879	2496	2159	1953	1746
Net Worth (Book Value)	11942	11942	10391	9437	7366	4952	2906	2523	2186	1980	1773
Net Worth (Book Value)-adjusted	11942	11942	10391	9437	7366	4952	2906	2523	2186	1980	1773
Shares in Issue (Lakhs)	2822	2822	2822	2822	2822	2713	2712	2709	2705	2703	2698
Equity Capital / Share (BV.PS)	423	423	368	334	261	183	107	93	81	73	66
BV.PS_Growth	0.00	0.15	0.10	0.28	0.43	0.70	0.15	0.15	0.10	0.11	
BV.PS_GrowthTrendLast3Y	0.07										
<i>Equity Capital / Share (Future)</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Equity Capital / Share (BV.PS)	447.2	472.45	499.17	527.40	557.23	588.75	622.05	657.23	694.40	733.67	
Cost of Equity (C. Eq)	49.61	52.41	55.38	58.51	61.82	65.32	69.01	72.91	77.04	81.39	

Net Profit (per share - EPS)	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
Net Profit	1453	1619	1014	2138	1481	1008	434	386	265	212	128
Shares in Issue (Lakhs)	2822	2822	2822	2822	2822	2713	2712	2709	2705	2703	2698
EPS (TTM Included)	51.48	57.36	35.92	75.78	52.48	37.14	15.99	14.26	9.81	7.85	4.76
EPS (TTM Included) - ADJUSTED	51.48	57.36	35.92	75.78	52.48	37.14	15.99	14.26	9.81	7.85	4.76
EPS_Growth	-0.10	0.60	-0.53	0.44	0.41	1.32	0.12	0.45	0.25		
EPS_Growth_Adjusted	-0.10	0.50	-0.53	0.44	0.41	0.50	0.12	0.45	0.25		
EPS_Growth_TrendinLast3Y	-0.01										
<i>EPS (Future)</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
EPS (10Y Ahead)	52.55	53.64	54.76	55.90	57.06	58.25	59.46	60.70	61.97	63.26	

Residual Income (future)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Residual Income (EPS-C. Eq)	2.94	1.23	-0.62	-2.61	-4.75	-7.06	-9.54	-12.21	-15.07	-18.14
Years Ahead in Future	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Present Value of Residual Income	2.65	1.00	-0.45	-1.71	-2.81	-3.76	-4.57	-5.26	-5.85	-6.33
Total PV of All Residual Income (5Y)	-27.1	-0.07								
Equity Capital (per share - BV.PS)	423.2									
Intrinsic Value / Share	396.1									
Intrinsic Value / Share	396.1									
Intrinsic Value / Share - adjusted	396.1									
Market Price	312.0									

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

By Ben Graham's Formula (TTM)

Ben Graham's Formula	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
EPS	52.55	53.64	54.76	55.90	57.06	58.25	59.46	60.70	61.97	63.26	65.79
EPS - ADJUSTED	52.55	53.64	54.76	55.90	57.06	58.25	59.46	60.70	61.97	63.26	65.79
Expected Growth Rate	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11.09 %
Average Risk-Free Rate_Future10Years	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Fair Price	638.7	651.9	665.5	679.4	693.5	708.0	722.7	737.7	753.1	768.8	799.5
Fair Price - adjusted	638.7	651.9	665.5	679.4	693.5	708.0	722.7	737.7	753.1	768.8	799.5
Fair Price - adjusted 2	638.7	651.9	665.5	679.4	693.5	708.0	722.7	737.7	753.1	768.8	799.5
		100%	644.5								
Mean	710.8	2%	14.2								
Median	700.7	2%	14.0								
MAX	799.5	2%	16.0								
MIN	638.7	2%	12.8								
Last Year FCF	638.7	92%	587.6								
Market Price	312.1										

By Earning Power Value (EPV)

Earnings Power Value (EPV)	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
EBDIT		2279	1527	2808	1879	1381	563	449	366	358	242
EBDIT- ADJUSTED	2753	2279	1527	2808	1879	1381	563	449	366	358	242
EBDIT_Growth		0.5	-0.5	0.5	0.4	1.5	0.3	0.2	0.0	0.5	
EBDIT_Growth_TrendinLast3Y	0.2										
Depreciation	111	106	118	105	100	119	30	25	21	21	21
EBIT	2641	2172	1409	2703	1779	1262	533	424	345	337	221
Net Sales	6226	6305	6432	8096	6115	5086	2301	1949	1565	1163	1030
Net Sales- ADJUSTED	6226	6305	6432	8096	6115	5086	2301	1949	1565	1163	1030
EBIT Margin	42%	34%	22%	33%	29%	25%	23%	22%	22%	29%	21%
EBIT Margin - adjusted	42%	34%	22%	33%	29%	25%	23%	22%	22%	29%	21%
EBIT Margin - adjusted2	42%	34%	22%	33%	29%	25%	23%	22%	22%	29%	21%
Avg. EBIT Margin-AEBITM_Last3YTrend	35.93 %										
Total Income	6398	6784	6560	8089	6302	5071	2373	2069	1633	1221	988
Average Income (5Y)	6827										
Selling and Admin Expenses		358	0	0	0	0	0	0	0	0	280
Selling and Admin Expenses adjusted	402	358	0	0	0	0	0	0	0	0	280
S&AExo_Growth		0	0	0	0	0	0	0	0	-1	
S&AExp_Growth_TrendinLast3Y	0.1										
Administrative Expense (A)	0	0	0	0	0	0	0	0	0	0	0
SG&A Expense	402	358	0	0	0	0	0	0	0	0	280
Average SG&A Exp (5Y)	152										
Average SG&A Exp (5Y) - 50%	76										
Normalized EBIT (N. EBIT)	2529										
Effective Tax Rate	18.5%										
After Tax N. EBIT	2061										
Depreciation	111	106	118	105	100	119	30	25	21	21	21
Average Depreciation (A. Dep)	71										
(0.5 x Eff. Tax Rate) x A. Dep	7										
Normalized Profit (NP)	2068										
Tangible Assets	-	1308	1577	1471	1322	1152	439	267	216	216	139
Tangible Assets - ADJUSTED	-	1308	1577	1471	1322	1152	439	267	216	216	139
Capex	-	-268	106	149	169	713	172	51	0	77	35

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

Capex - adjusted - effective	-	0	106	149	169	713	172	51	0	77	35
Total Income	6398	6784	6560	8089	6302	5071	2373	2069	1633	1221	988
Total Income - ADJUSTED	6398	6784	6560	8089	6302	5071	2373	2069	1633	1221	988
Income Growth	-386	224	-1529	1786	1231	2698	304	437	412	233	203
% Income Growth	-5.7%	3.4%	-18.9%	28.3%	24.3%	113.7%	14.7%	26.7%	33.7%	23.6%	25.9%
Growth Capex	-	0	-20	42	41	811	25	14	0	18	9
Growth Capex (Adjusted)	-	0	0	42	41	811	25	14	0	18	9
Maintenance Capex	-	0	106	106	128	-98	147	37	0	59	26
Avg Maint. Capex (AM. CAPEX)	51										
Avg Maint. Capex (Adjusted)	51										
Earning Power	2017										
WACC = E/(E+D) * Ce + D/(E+D) * Cd]		9.9%	9.8%	9.8%	10.4%	10.5%	10.3%	10.3%	10.0%	9.2%	9.5%
GROSS EPV		20431									
Cash		256	177	252	74	49	108	168	48	31	5
Debt		3134	2981	2777	787	348	353	309	476	1072	754
EPV (Rs.Cr.)		17553	17627	17906	19717	20132	20186	20290	20002	19390	19681
Shares in Issue (Lakhs)		2822	2822	2822	2822	2713	2712	2709	2705	2703	2698
EPV / Share (Rs.)		622	625	635	699	742	744	749	739	717	729
EPV / Share (Rs.) - adjusted		622	625	635	699	742	744	749	739	717	729
EPV / Share (Rs.) - adjusted 2		622	625	635	699	742	744	618	413	378	358
EPV_Growth		0.00	-0.02	-0.09	-0.06	0.00	0.21	0.50	0.09	0.06	
EPV_Growth_TrendinLast3Y		-0.03									
EPV_NextYear	606										
		100%	607	608							
		Weighta	Calcu_F								
		ge	CF								
Mean	583.3	20%	116.7								
Median	624.7	20%	124.9								
MAX	744.2	5%	37.2								
MIN	358.2	5%	17.9								
Last Year FCF	622.1	50%	311.0								
Market Price	312.1	647.2	526.3	852.1	795.1	786.2	565.2	462.9	309.4	283.7	268.6

Summary

Intrinsic Value

457.8

UNDERVALUED

- Current Market Price	Rs.	312.1
- By NCAPS Method	Rs.	59
- By Residual Income Model	Rs.	396.1
- By Ben Graham's Formula (TTM)	Rs.	644.6
- By Earning Power Value (EPV)	Rs.	606.6
- By Absolute PE Method	Rs.	129.9
- By Discounted Cash Flow Model	Rs.	1,086.6
- By Reproduction Cost Method	Rs.	129.2
- By Current Price Trends	Rs.	372.6
- By Current P/E Trends	Rs.	317.6

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

Growth Rating Score

		100.00%	16.21%	ROE1 5.0%	ROE2 10.0%	ROE3 15.0%	ROE4 20.0%
Growth Rating				16.21%	16.21%	11.35%	12.97%
Expected Price Growth	19.40%	25.00%	4.85%	Price Growth			
Expected P/E Growth	1.77%	22.50%	0.40%				
FCF Growth (Next 10 Yr.)	4.81%	8.00%	0.38%				
FCF Growth (Beyond 10th Yr.)	4.00%	2.00%	0.08%				
Reserves Growth (Last 5 Yr.)	25.00%	10.00%	2.50%				
Income Growth (Last 5 Yr.)	20.54%	10.00%	2.05%				
EBITDA Growth (Last 5 Yr.)	25.14%	5.00%	1.26%				
PAT Growth (Last 5 Yr.)	27.45%	5.00%	1.37%				
Dividend Growth (Last 5 Yr.)	25.00%	2.50%	0.63%				
EPS Growth (Last 5 Yr.)	26.88%	10.00%	2.69%	ROE 12.2%			
AVG	18.00%						
10Y Govt Bond+Risk Premium 3%	9.67%						
	5.87	0.45					
	5.00	5.00					

Management Score

	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
PAT	1453	1619	1014	2138	1481	1008	434	386	265	212	128
Dividend	68	68	68	68	54	54	54	54	11	11	0
Reinvestment	1385	1551	946	2070	1426	953	380	332	254	201	128
ROE	12%	14%	10%	23%	20%	20%	15%	15%	12%	11%	7%
WACC	10%	10%	10%	10%	11%	10%	10%	10%	9%	9%	0%
Start Rating (Yes, No)	1	1	1	1	1	1	1	1	1	1	1
ROE > WACC	1	1	0	1	1	1	1	1	1	1	1
Total	2	2	1	2	2	2	2	2	2	2	2
Reinvestment, When ROE>WACC	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Score	1	1	0	1	1	1	1	1	1	1	1
Star Rating (5Y Average)	4										
	4.00	35%									
Price	312	647	526	852	795	786	565	463	309	284	269
Shareoutstanding (Lakhs)	2822	2822	2822	2822	2822	2713	2712	2709	2705	2703	2698
Mcap (Rs. Crore)	8805	18262	14851	24044	22433	21328	15330	12538	8370	7668	7246
Reinvestment (Rs. Crore)	1385	1551	946	2070	1426	953	380	332	254	201	128
Minimum M. Cap	1674										
	5										
Star Rating	3										
	2.63	35%									
Management Rating	4.38	30%									
Weighted Rating	3.63										

Profitability Score

	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
- RoCE (above average?)	15.11 %	15.27%	11.60%	27.47%	24.36%	26.03%	17.52%	14.96%	11.24%	13.08%	13.64%
- RoCE (5Y Average)	19.97 %										
Start Rating1											
	3.99	30%									
Owners Earning Growth	4.81%										
Start Rating2											
	3.14	50%									
Profitability Rating	4.80	20%									
Weighted Rating	3.73										

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

Financial Health

	TTM	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
ROE	12%	14%	10%	23%	20%	20%	15%	15%	12%	11%	7%
A.ROE (5Y)	16%										
Star Rating	5.687										
	5.00	30%									
D/E	0.26	0.25	0.27	0.08	0.05	0.07	0.11	0.19	0.49	0.38	0.00
A.DE (5Y)	0.16										
Star Rating	4.188										
	4.19	30%									
Owners Earning	1768	2969	1411	2591	679	-365					
A. Owner Earning (5Y)	1	1	1	1	1	0					
Star Rating	5										
	5.00	20%									
PBT	1694	1948	1218	2551	1743	1232	502	380	284	251	121
PBT_Adjusted	1694	1948	1218	2551	1743	1232	502	380	284	251	121
Sales	6305	6305	6432	8096	6203	5168	2346	1972	1578	1174	1037
Sales Adjusted	6305	6305	6432	8096	6203	5168	2346	1972	1578	1174	1037
Profit Margin (PM)	27%	31%	19%	32%	28%	24%	21%	19%	18%	21%	12%
A.PM (5Y)	27%										
Star Rating	6.673										
	5.00	20%									
Weighted Rating	4.76										

Bankruptcy Threat

ALTMAN Z SCORE	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 09	Mar 08
Current Asset	5,141.2	5,875.3	5,950.8	4,627.9	3,598.0	1,609.6	1,039.4	736.1	482.4	1,533.7
Current Liability	2,280.7	2,184.8	1,972.2	2,742.4	2,444.5	1,235.3	1,248.8	627.4	1,093.8	350.0
Working Capital (WC)	2,860.5	3,690.5	3,978.7	1,885.6	1,153.5	374.4	-209.4	108.7	-611.5	1,183.8
Total Asset (TA)	15,076.6	13,372.5	12,213.2	8,153.4	5,299.7	3,259.3	2,832.0	2,662.2	3,051.7	2,527.8
	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 09	Mar 08
A = WC/TA	0.19	0.28	0.33	0.23	0.22	0.11	-0.07	0.04	-0.20	0.47
Retained Earnings (RE)	1,550.55	945.74	2,070.39	1,412.80	941.90	370.32	322.71	202.39	199.50	115.86
B = RE/TA	0.10	0.07	0.17	0.17	0.18	0.11	0.11	0.08	0.07	0.05
PBDIT	2,278.6	1,527.2	2,808.2	1,879.0	1,381.2	563.1	448.7	366.1	357.5	242.0
Depreciation	106.3	118.2	104.9	99.8	119.5	30.2	25.0	21.1	21.0	21.3
EBIT	2,172.3	1,409.0	2,703.2	1,779.2	1,261.7	532.9	423.7	345.0	336.5	220.7
C = EBIT/TA	0.14	0.11	0.22	0.22	0.24	0.16	0.15	0.13	0.11	0.09
Market Price	526.3	852.1	795.05	786.15	565.2	462.9	309.4	283.7	268.55	268.55
Shares in Issue (Lakhs)	2,821.7	2,821.7	2,821.7	2,821.7	2,821.6	2,713.0	2,712.2	2,708.5	2,705.4	2,702.7
Market Cap (Mcap)	14,850.5	24,043.5	22,433.8	22,182.6	15,947.6	12,558.2	8,391.7	7,684.1	7,265.2	7,258.2
Total Liability (TL)	15,076.6	13,372.5	12,213.2	8,153.4	5,299.7	3,259.3	2,832.0	2,662.2	3,051.7	2,527.8
D = Mcap/TL	1.0	1.8	1.8	2.7	3.0	3.9	3.0	2.9	2.4	2.9
Sales	6,304.9	6,431.9	8,095.5	6,203.1	5,167.7	2,345.8	1,971.8	1,578.4	1,173.8	1,037.2
E = S/TA	0.42	0.48	0.66	0.76	0.98	0.72	0.70	0.59	0.38	0.41
Z Score (Mfg companies)	1.86	2.34	3.12	3.63	4.08	3.87	3.04	2.91	2.03	3.05
Z Score (non-Mfg companies)	3.57	4.62	6.09	6.39	6.75	6.26	4.01	4.41	2.15	6.79

Z > 2.99 are considered in 'Safe' Zones

1.81 < Z < 2.99 are considered in 'Grey' Zones

Z < 1.81 are considered in the 'Distress' Zones

$Z = 6.56T1 + 3.26T2 + 6.72T3 + 1.05T4$

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

CONCLUSION

The pharmaceutical industry is ever changing and as depicted in the report, is affected by a multitude of external factors. With an overall industry attractiveness of 3.72, Glenmark can play to its strengths of high incumbency advantages and large investments in R&D for generic drugs. In addition to this, the firm shows favourable indicators such as a low debt-to-equity ratio of 0.4, credit rating of “AA” and increasing exports over the last few years.

Intrinsic Value

457.8

- Current Market Price	Rs.	312.1
- By NCAPS Method	Rs.	59
- By Residual Income Model	Rs.	396.1
- By Ben Graham's Formula (TIM)	Rs.	644.6
- By Earning Power Value (EPV)	Rs.	606.6
- By Absolute PE Method	Rs.	129.9
- By Discounted Cash Flow Model	Rs.	1,086.6
- By Reproduction Cost Method	Rs.	129.2
- By Current Price Trends	Rs.	372.6
- By Current P/E Trends	Rs.	317.6

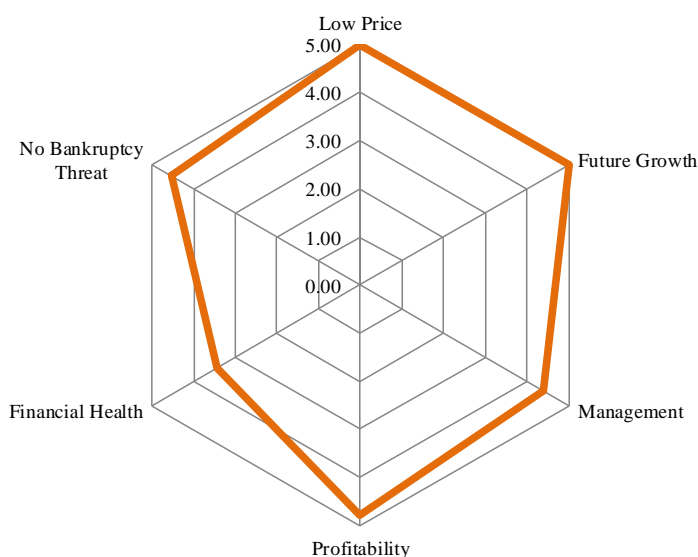
Overall Score

Parameters	Earned Grade	Max. Grade	Score
- Low Price	5.0	5.0	100%
- Future Growth	5.0	5.0	100%
- Management	3.6	5.0	73%
- Profitability	3.7	5.0	75%
- Financial Health	4.8	5.0	95%
- No Bankruptcy Threat	4.5	5.0	91%

Good Score : 85%+, and also undervalued 90.8%

When we evaluate the market price of Glenmark at 312.1, it is grossly undervalued when compared with intrinsic values computed by using even highly stringent models like Residual Income Model and popular traditional methods like Discounted Cash Flows (DCF). With a net average computed of 457.8, we see significant growth potential for the firm in the next 12 months.

Glenmark Pharmaceuticals seems to project good scores in all the 6 parameters that we have analysed in this report. With this we are estimating its share price to increase from the current market price of INR 315.66 to a target price of INR 460 in the next 12 months at a 50% growth rate.



Growth Rates

- Average Inflation (Assumed)	%	6.00%
Higher the better		
- Price Growth (Next 1 Yr.)	%	19.40%
- P/E Growth (Next 1 Yr.)	%	1.77%
- FCF Growth (Next 10 Yr.)	%	4.81%
- FCF Growth (Beyond 10th Yr.)	%	4.00%
- Reserves Growth (Last 10 Yr.)	%	25.00%
- Income Growth (Last 10 Yr.)	%	20.54%
- EBITDA Growth (Last 10 Yr.)	%	25.14%
- PAT Growth (Last 10 Yr.)	%	27.45%
- Dividend Growth (Last 10 Yr.)	%	25.00%
- EPS Growth (Last 10 Yr.)	%	26.88%
Lower the better		
- Debt Growth (Last 10 Yr.)	%	15.31%
- Expense Growth (Last 10 Yr.)	%	19.71%

Indian Institute of Management – Bangalore

One-year full time Master of Business Administration (MBA)

REFERENCES

- <http://www.valueresearchonline.com/>
- <https://www.moneycontrol.com/>
- <http://www.getmoneyrich.com/>
- <http://ir.momentapharma.com/>
- <https://www.simplywall.st/>

THANK YOU