



PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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Making its mark in pharma research

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<http://www.in.com/news/business/fullstory-making-its-mark-in-pharma-research-13847151-7ce9de1050dfb69aff73ddde9193dbc88ddd7c19-1.html>

Glenmark has announced that it has granted a licence to Sanofi Aventis to develop and commercialise novel agents e.g. TRPV3 (Vanilloid receptor antagonist molecules) to treat chronic pain. This includes a first in class clinical compound, GRC 15300, which is currently in Phase I clinical development. As part of this deal Glenmark will get \$20 m upfront licensing fee and several milestone-linked payments, which may add up to \$325 m.

In another development, Glenmark has licensed the rights to sell generic Zetia (Ezetimibe), \$1.4-bn drug, where it has potential FTF (first-to-file) status with 30-month stay expiring in October 2010, in the US market to Par Pharma. Par Pharma has paid Glenmark an upfront licensing fee for these exclusive rights and will share the profits as well as the litigation costs.

These two developments are very positive for Glenmark as the NCE (new chemical entities) outlicensing deal once again highlights Glenmark's ability to create significant value from its NCE R&D efforts, which the market had begun to overlook in the wake of recent disappointments.

Secondly, the Zetia deal with Par will likely enable an earlier than anticipated monetisation of this significant opportunity while limiting the risk to Glenmark. We are upgrading FY11 earnings per share (EPS) estimates by 17% to account for licensing income from Sanofi while maintaining FY12 EPS estimates at Rs 21.1 (6% ahead of Bloomberg consensus estimates). The payment from Par is not built in our estimates yet. At 13.4x FY12, excluding any value for the NCE portfolio, the stock looks attractive given the growth outlook in the core business and proven ability to generate significant value in NCE research. Maintain Outperformer with a price target of Rs 336 (16x FY12E).?

Positive development for Glenmark: This outlicensing deal, coming after a gap of almost two years, is a fairly positive one for Glenmark. Even though the clinical development programme is in fairly early stages and entails significant risk of failure during the development process, this development yet again underlines Glenmark's numero uno status in NCE research in Indian pharma industry and as one of the most effective R&D entities globally.

Valuations and view: Glenmark's recent deals with Sanofi and Par have further upped the momentum generated by the positive news flow related to Malarone Para IV settlement with GSK and FDA approvals for niche products like Oxycodone and Calcipotriene. While the NCE outlicensing deal has once again brought into focus Glenmark's extremely impressive, but increasingly overlooked of late, NCE R&D capabilities, the deals with Par, Malarone settlement and FDA approvals for niche products highlight Glenmark's ability to create value in its US franchise through smart product selection strategy and focus on highly lucrative product opportunities.

Key financials					
	FY08	FY09	FY10	FY11	FY12E
Net sales (Rs m)	19,783	21,160	24,638	29,953	34,066
Adj. net profit (Rs m)	6,3033,104	3,253	5,208	5,703	
Shares in issue (m)	252	252	271	271	271
Adj. EPS (Rs)	25.0	12.3	12.0	19.2	21.1
% change	103.3	(50.8)	(2.4)	60.1	9.5
PE (x)	11.2	22.8	23.4	14.6	13.4
Price/ Book (x)	4.7	4.4	3.3	2.8	2.4
EV/EBITDA (x)	9.9	20.0	14.1	10.3	9.4
RoE (%)	57.1	19.9	16.7	20.6	19.1
RoCE (%)	33.8	11.0	12.8	16.7	16.5