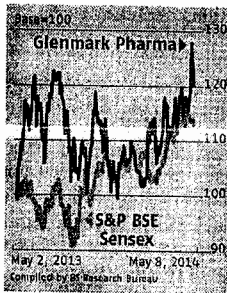


THE COMPASS

Glenmark Pharma's growth trajectory to weaken in FY15

Operating margin unlikely to expand from current levels as rupee set to appreciate in FY15



Given the slow pace of approvals in the US and weak growth prospects in India, analysts believe the stock has run its course for now and it lacks triggers in the current year

Glenmark Pharmaceuticals disappointed the Street with its March quarter numbers. Even as the company's revenues for the quarter grew 27.5 per cent year-on-year (y-o-y) to ₹1,703 crore, the bottom line has taken a hit on account of a one-time provision of ₹217 crore made towards the claims of Abbott Laboratories in the patent litigation. While the one-time hit was expected, the provision has come in higher than the Street's expectation. For the full financial year, Glenmark's consolidated revenues expanded 20 per cent to ₹6,006 crore. Due to the provision, the net profit is not strictly comparable with the year-ago period.

The Street isn't impressed with the company's performance in the March quarter either, as its growth trajectory is visibly slowing. In FY15, analysts expect the firm to grow 15-16 per cent, below the 20 per cent growth the company has clocked in the past three years. Also, the product pipeline is expected to be weak in the coming year, which would cap growth. Analysts on the 'buy side' claim that for premium valuations, a pharmaceutical company has to grow at the rate of 20 per cent or above. Glenmark's growth is unlikely to get there in FY15. The company is currently trading at 16x one-year forward earnings.

On the margin front, too, while gross margins have risen to 74 per cent from the 66-67 per cent band, operating margins have remained stagnant at 22-23 per cent levels. The company is unlikely to manage margin expansion in the coming quarters either, as the rupee is expected to appreciate. Most of the rupee related gains are done with now, which will impact the company's profitability in FY15.

The growth trajectory is apparent from Glenmark's fourth-quarter numbers. The company has grown by 16.7 per cent in the US market and 20 per cent for the full year. The India business has grown by an anaemic eight per cent in the March quarter, while for the full-year, it has grown 15 per cent. India as a market has not grown well for most of the Indian pharmaceuticals companies. Given the slow pace of approvals in the US and weak growth prospects in India, analysts believe the stock has run its course for now and it lacks triggers in the current year.

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Company