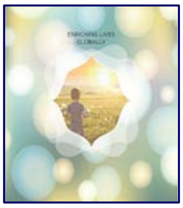
MOTILAL OSWAL

29 September 2015

ANNUAL REPORT THREADBARE

The **ART** of annual report analysis



- Net worth increased by INR0.2b despite PAT post dividend of INR4.1b
- MTM losses on cash at INR1.7b (36% of PAT)
- DTA of INR0.7b (14% of PAT) recognized on subsidiaries reporting losses for last four years

GLENMARK

GNP's FY15 annual report analysis highlights another year of weak conversion of earnings to (a) net worth, and (b) cash flow. Operating performance remained weak, with PAT declining 13% YOY to INR4.7b due to muted revenue growth of 10% (at INR66.3b) and EBITDA margins declining 280bp to 15.43%. Translation loss of INR3.6b on foreign subsidiaries led to a marginal increase of INR0.2b in net worth to INR30b; we highlight that of these translation losses, INR1.7b (36% of PAT) pertains to MTM losses on cash. Functional currency of Russian subsidiary was changed (twice in the last four years) in FY15 from USD to RUB. Effective tax rate for FY15 stood at 20% while the current tax rate is 61%. DTA of INR0.7b (14% of PAT) in FY15 is on subsidiaries that have been making losses for the last four years. Cash as at FY15 end stood at INR7.7b, 26% of net worth yielded 0.2% returns.

- **Translation losses of INR3.6b lead to low accretion (INR0.2b) in net worth** while PAT post-dividend was INR4.1b in FY15; the management ascribed this primarily to depreciation in emerging markets currency v/s the INR. Though GNP's cumulative PAT post dividend for the last five years is INR23.3b, currency translation losses of INR9.2b over the period have resulted in a accretion in net worth by mere INR12.7b.
- **Functional currency of Russian subsidiary changed (twice in the last four years) in FY15 from USD to RUB.** During FY15, Russian Ruble depreciated ~36% against the INR. The impact on earnings due to this change has not been specified.
- **MTM losses on cash at INR1.7b (36% of PAT**); Cumulative MTM losses on cash over the last five years stand at INR5.4b, leading to low conversion of earnings to cash flows.
- **DTA of INR0.7b (14% of PAT) recognized on subsidiaries making losses for the last four years.** GNP reported an effective tax rate of 20% (current tax rate: 61%), primarily on account of DTA being recognized on (a) unused tax losses of foreign subsidiaries, and (b) MAT credit entitlement on the standalone operations. DTA at FY15-end stood at INR9.7b (32% of net worth).
- **Potential write off's on repatriation of funds from Venezuela to India** as Venezuelan government rolled out a third exchange mechanism SIMADI in Feb'15, (prescribing rates much lower than earlier mechanism). Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity; we believe these are represented in the financials using the CENCOEX rates.

ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We believe **ART**'s wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the stock's investment worthiness.

Stock Info

Bloomberg	GNP IN
CMP (INR)	1,007
Equity Shares (m)	271.3
52-Week Range (INR)	1,262/694
1,6,12 Rel. Perf. (%)	-12/37/44
M.Cap. (INR b) / (USD b)	273.2/4.1

Financial summary (INR b)

Y/E March	2015A	2016E	2017E
Sales	66.0	79.4	95.5
EBITDA	11.8	17.2	22.0
Net Profit	4.8	9.5	12.0
Adj. EPS (INR)	17.5	35.1	44.2
EPS Gr. (%)	-37.8	100.4	25.9
BV/Sh. (INR)	110.6	144.5	192.0
RoE (%)	15.8	24.3	23.0
RoCE (%)	14.4	22.0	25.4
Payout (%)	20.0	9.3	6.8
Valuations			
P/E (x)	57.5	28.7	22.8
P/BV (x)	9.1	7.0	5.2
EV/EBITDA (x)	25.8	17.4	13.5
Div. Yield (%)	0.3	0.3	0.3

E: MOSL Estimates (Analyst estimates)

Shareholding pattern (%)

As on	Jun-15	Mar-15	Jun-14
Promoter	46.4	48.3	48.3
DII	6.8	6.1	6.9
FII	35.9	34.7	34.4
Others	10.9	10.9	10.5

Note: FII Includes depository receipts

Auditor's name

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ART #1 ACCOUNTING & KEY FINANCIAL INSIGHTS

Top line growth muted, margins contract

Revenue growth muted at 10% due to weak performance in US & ROW markets

- On consolidated basis, GNP's revenues grew 10% YoY in FY15 to INR66b. The muted revenue growth was primarily on account of (a) US geography—channel consolidation and slowdown in the USFDA approvals, and (b) ROW markets—weak demand and currency depreciation in most emerging markets.
- EBITDA margins dipped from 18.2% in FY14 to 15.4% in FY15, primarily on account of higher (a) employee cost, (b) sales and promotion expenditure (INR3.4b v/s INR1.7b in FY15), and (c) exchange fluctuation loss (INR1.6b v/s INR96m in FY14).
- During FY15, GNP merged two subsidiaries—Glenmark Generics (GGL) and Glenmark Access (GAL)—with the parent; hence, the financials of standalone and aggregate subsidiary (derived) are not comparable.

GGL merger led to one time cost of INR0.7b

- The merger led to a one-time cost of INR0.7b, of which INR0.3b was incurred on product reregistration, 0.3b on legal and professional expenses and the balance toward other expenditure.
- Subsidiaries' performance (excluding GGL and GAL) remained subdued.

Provisioning for legal settlement continued in FY15

- During FY15, GNP settled a USD25m lawsuit with AG of State of Texas. The amount is payable in 16 quarterly installments commencing FY16. As a result, the company has made additional provision of INR1.6b this year.
- During FY14, GNP provided for USD36m (INR2.1b) toward the lost patent-related lawsuit against Sanofi-Aventis Deutschland for generic equivalent to Abbott's TARKA drug product; the same currently forms part of trade payable.

Exhibit 1: Exhibit 1: Earnings declined on margin compression (INR b)

Particulars	Standalone		Subsidiary (Derived)		Consolidated	
	FY14	FY15	FY14	FY15	FY14	FY15
Net Revenue	**23**	**51**	**37**	**15**	**60**	**66**
YoY growth (%)	18.0	121.0	20.9	-58.3	19.8	10.4
Expenses						
Raw material cost	6	17	13	3	19	19
% of sales	27.1	32.8	33.8	17.2	31.2	29.2
Employee Benefits Expense	4	7	6	5	10	12
% of sales	17.2	13.0	17.0	35.0	17.1	18.1
Other Expenses	8	13	12	12	20	25
% of sales	34.2	25.4	33.2	76.4	33.6	37.3
Total Expenses	**19**	**38**	**35**	**23**	**53**	**61**
% of sales	81.1	74.1	93.2	148.1	88.6	91.4
EBITDA	**5**	**15**	**6**	**-4**	**11**	**10**
EBITDA margins (%)	21.6	28.8	16.1	-28.7	18.2	15.4

Source: Company, MOSL

Subsidiaries' performance weak; losses increase in FY15

Performance of subsidiaries (Ex-GGL & GAL) remained subdued with losses increasing to INR4.3b

- GNP has 36 subsidiaries (post the GGL-GAL merger with the parent) as of FY15-end.
- During FY15, subsidiaries' performance (ex- GGL and GAL) remained subdued as revenues (on an aggregate basis) grew only 10% YoY (INR45b) and the losses increased to INR4.3b (v/s INR2.7b in FY14).
- Losses increased in subsidiaries based in Russia, Brazil, Czech Republic and Romania; the losses in subsidiaries based in Argentina, South Africa and Mexico remained almost unchanged.
- Profits increased from Venezuela-based subsidiary, with revenues growing 4.2x to INR4.2b. Losses reduced in Switzerland-based subsidiary.

Exhibit 2: Aggregate losses of subsidiaries increase (INR m)

Particulars	Turnover		PAT		Net worth	
	FY14	FY15	FY14	FY15	FY14	FY15
Glenmark Generics Inc., USA	20,849	21,449	1,858	825	6,447	7,549
Glenmark Pharmaceuticals Venezuela, CA	1,010	4,291	118	1,164	326	2,286
Glenmark Pharmaceuticals Europe Ltd.	2,513	3,255	139	42	1,093	1,061
Glenmark Impex L.L.C	5,222	2,911	977	-871	5,168	2,590
Glenmark Farmaceutica Ltda.	2,228	2,345	-852	-1,119	5,053	3,617
Glenmark Pharmaceuticals SRO	2,355	2,317	-191	-953	1,692	535
Glenmark Distributors SP Z.O.O.	729	870	18	3	70	60
Glenmark Arzneimittel GmbH	154	825	-12	21	16	32
Glenmark Pharmaceuticals S.R.L.	1,323	771	93	-104	362	208
Glenmark Pharmaceuticals SK SRO	580	617	7	5	23	24
Glenmark Pharmaceuticals (Malaysia) SDN. BHD	330	604	7	2	106	102
Glenmark Pharmaceuticals Kenya) Limited	338	522	-9	29	85	112
Glenmark Generics S.A. Argentina	391	521	-326	-317	1,083	1,377
Glenmark Pharmaceuticals SP Z.O.O.	491	496	10	17	211	190
Glenmark Pharmaceuticals South Africa (Pty) Ltd.	503	492	-166	-122	-229	-374
Glenmark Generics Finance S.A.	0	468	-937	-236	3,779	10,636
Glenmark Pharmaceuticals (Europe) R&D Ltd.	375	439	26	36	155	178
Glenmark Pharmaceuticals Mexico, SA DE CV	186	384	-194	-178	237	403
Glenmark Pharmaceuticals S.A., Switzerland	366	324	-2,403	-1,191	1,525	320
Glenmark Pharmaceuticals (Nigeria) Ltd.	226	314	-17	7	123	115
Glenmark Philippines Inc.	283	306	12	13	132	150
Glenmark Pharmaceuticals B.V.	163	214	1	0	4	4
Glenmark Therapeutics Inc., USA	165	138	14	-82	35	-47
Glenmark Pharmaceuticals F.Z.E.	22	111	31	19	72	93
Glenmark Pharmaceuticals Peru S.A.C	99	102	-78	-32	191	148
Glenmark Pharmaceuticals Egypt S.A.E.	37	58	-61	-92	67	20
Glenmark Pharmaceuticals Colombia SAS	5	12	-12	-8	2	2
Glenmark Holding S.A.	0	0	-793	-1,191	6,381	6,392
Others	0	0	-3	-27	2,266	1,299
Total (Exl. GGL and GAL)	**40,941**	**45,155**	**-2,743**	**-4,339**	**13,330**	**39,082**
Glenmark Access Ltd. (Formerly Glenmark Exports Ltd.)	0	0	0	0	25	0
Glenmark Generics Limited	19,134	0	3,950	0	23,119	0
Total	**60,075**	**45,155**	**1,207**	**-4,339**	**36,474**	**39,082**

Source: Company, MOSL

Net worth accretion remains subdued on translation losses

Net worth increased by INR0.2b despite PAT (post dividend) of INR4.1b due to translation losses of INR3.6b

- During FY15, GNP reported a profit (post dividend) of INR4.1b. However, net worth increased a meager INR0.2b—primarily on account of foreign currency translation losses of INR3.6b (~76% of PAT), one of the highest amongst the peer group.
- Management attributes translation losses primarily to depreciation of emerging market currencies v/s the INR.
- We highlight that of the translation losses of INR3.6b, INR1.7b (36% of PAT) is on account MTM losses on cash, INR0.4b on account of intangible assets and INR0.2b against tangible assets; the balance INR1.2b pertains to other net assets.

MTM losses on cash at INR1.7b (36% of PAT)

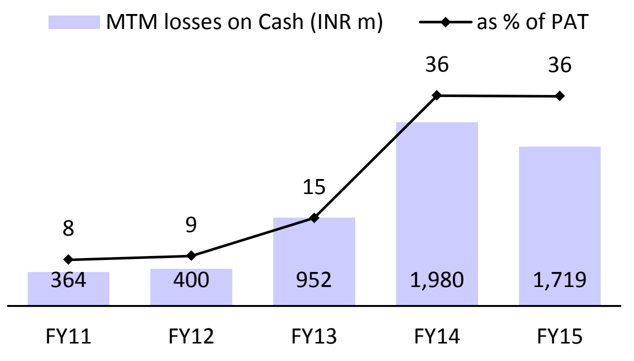
- MTM losses on cash as a % of PAT have been increasing over the last five years.
- Cumulatively over the last five years, GNP has reported translation losses of INR9.2b which has led to increase in net worth by mere INR12.7b despite reporting a PAT post dividend of INR23.3b. MTM losses on cash over the same period stand at INR5.4b.

Exhibit 3: Net worth accretion remains subdued on account of foreign currency translation losses (INR m)

Particulars	FY11	FY12	FY13	FY14	FY15	Cumulative (FY11-15)
Opening Net Worth	**17,257**	**20,372**	**24,016**	**27,630**	**29,833**	**17,257**
Add: Profit for the year	4,532	4,603	6,200	5,423	4,753	25,512
Less: Dividend (including tax)	-126	-126	-643	-634	-635	-2,164
Add/(Less): Other adjustments	144	87	-77	91	-60	184
Less: Foreign exchange translation losses	-1,249	-684	-1,492	-2,244	-3,615	-9,284
Less: Acquisition of non-controlling interest	-185	-236	-375	-433	-273	-1,503
Closing Net Worth	**20,372**	**24,016**	**27,630**	**29,833**	**30,003**	**30,003**

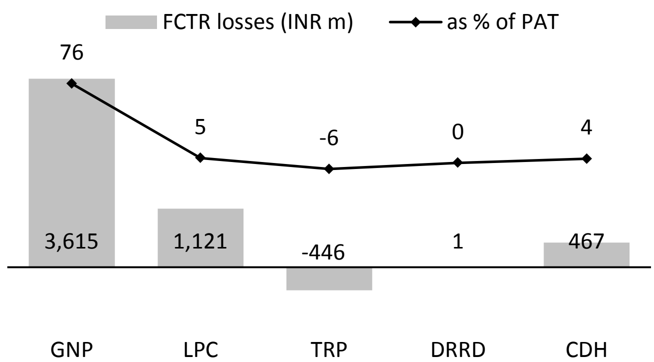
Source: Company, MOSL

Exhibit 4: GNP's translation losses on cash as a % of PAT continue to increase



Source: Company, MOSL

Exhibit 5: GNP's FCTR losses highest among peers



Source: Company, MOSL

Exhibit 6: Significant translation losses are on cash

Particulars	FY11	FY12	FY13	FY14	FY15	Cumulative
Tangible assets	40	95	-16	-74	-210	-165
Intangible Assets	729	964	1	-206	-424	1,064
Goodwill	-55	3	-5	-2	-22	-81
Cash	-364	-400	-940	-1,980	-1,719	-5,403
other net assets	-1,600	-1,345	-533	18	-1,239	-4,699
Total	-1,249	-684	-1,492	-2,244	-3,615	-9,284
Proportion adjusted in Cash (%)	29	59	63	88	48	58

Source: Company, MOSL

Frequent change in functional currency of Russian subsidiary

- GNP changed the functional currency of Russian subsidiary (twice in the last four years) from USD to RUB in FY15. However, the impact on earnings due to the change has not been specified. We highlight that during FY15, the Russian Ruble depreciated ~ 36% v/s the INR.

Functional currency of Russian subsidiary changed twice in last four years

Exhibit 7: Functional currency of Glenmark Impex (Russian subsidiary) changed to RUB

Particulars	FY12	FY13	FY14	FY15
Functional Currency	RUB	USD	USD	RUB
Turnover	2,812	4,893	5,222	2,911
PAT	**719**	**1,217**	**977**	**-871**

Source: Company, MOSL

64% of the foreign subsidiary exposure in USD, which appreciated 4%YoY

- Currencies of emerging markets have witnessed a steep decline v/s the INR (BRL depreciated 28% and RUB 36%) in FY15.
- At FY15-end, GNP's exposure to net worth of subsidiaries having functional currency BRL and RUB stood at 9% and 7% respectively; for USD, the exposure stood at 64% and for VEF at 6%—both the currencies appreciated 4% YoY.
- GNP has reported translation losses in the last five years.

Exhibit 8: Foreign subsidiaries' net worth exposure skewed toward USD

Particulars	FY12		FY13		FY14		FY15	
	INR m	%	INR m	%	INR m	%	INR m	%
USD	1,789	4	21,772	66	23,340	64	24,853	64
RUB	3,191	7	0	0	0	0	2,590	7
BRL	5,545	12	5,096	15	5,053	14	3,617	9
MYR	27	0	33	0	106	0	102	0
EURO	30	0	40	0	44	0	59	0
CZK	845	2	891	3	1,692	5	535	1
RON	474	1	228	1	362	1	208	1
VEF	101	0	162	0	326	1	2,286	6
GBP	736	2	899	3	1,248	3	1,239	3
MXN	68	0	183	1	237	1	403	1
CHF	28,730	64	-	-	-	-	-	-
Others	3,186	7	3,737	11	4,066	11	3,189	8

Source: Company, MOSL

Exhibit 9: Emerging market currencies depreciated against INR (%)

Particulars	FY12	FY13	FY14	FY15
USD	12	7	11	4
RUB	11	-1	-5	-36
BRL	4	-5	-2	-28
MYR	14	4	3	-8
EURO	9	1	18	-18
CZK	8	-3	10	-18
RON	2	0	16	-17
VEF	15	0	-22	4
GBP	15	4	16	-7
MXN	7	9	3	-10
CHF	17	0	18	-3

Source: Company, MOSL

Earnings to cash conversion remains low

- GNP's earnings to cash conversion remained low, primarily on account of (a) higher cash taxes paid while the effective tax rate remains low, (b) higher exchange fluctuation losses on cash (as discussed above), and (c) high working capital requirements.

Exhibit 10: Earnings to cash conversion remains low

Particulars	FY11	FY12	FY13	FY14	FY15
PAT	4,578	4,643	6,283	5,456	4,752
Add: Interest expense	1,605	1,466	1,600	1,886	1,902
Less: Interest income	39	89	43	66	14
Less other Non- operating Income	1,405	93	65	48	205
Add: Depreciation	947	979	1,270	2,168	2,600
Cash operating profit post tax - (A)	**5,686**	**6,906**	**9,046**	**9,395**	**9,035**
CFO	**9,306**	**8,044**	**6,479**	**8,537**	**4,816**
Less: MTM losses on cash	364	400	940	1,980	1,719
Adjusted CFO - (B)	**8,942**	**7,644**	**5,539**	**6,557**	**3,097**
(A)/(B) (%)	**157**	**111**	**61**	**70**	**34**

Source: Company, MOSL

Effective tax rate lower due to recognition of deferred tax asset

Deferred tax assets stood at INR9.7b, of which INR4.3b pertains to unused tax losses and INR4.2b to MAT credit

- GNP's current tax (at 61%) has remained significantly higher than the effective tax rate (20%), primarily on account of deferred tax recognized on account of (a) MAT credit entitlements and (b) tax credit on loss-making subsidiaries.
- During FY15, GNP recognized a net deferred tax asset of INR2.5b. The DTA accretion is primarily on account of unused tax losses of foreign subsidiaries.
- Our calculations suggest that in FY15, INR687m worth of deferred tax (14% of PAT) was recognized on subsidiaries that have been making losses for at least the last four years. GNP's annual report highlights that its subsidiaries can carry forward losses for future utilization for 3-7 years.
- Deferred tax assets as of FY15 end stood at INR9.7b (32% of net worth), of which INR4.3b pertains to unused tax losses and INR4.2b to MAT credit entitlement.

Exhibit 11: Huge difference between current and effective tax rates (INR m)

Particulars	FY11	FY12	FY13	FY14	FY15
PBT (A)	4,815	4,881	7,390	6,969	5,943
Current tax (B)	505	1,346	3,128	2,990	3,650
Current tax rate (B/A)%	10	28	42	43	61
Deferred Tax Asset (C)	-268	-1,108	-2,021	-1,477	-2,460
Tax expense D= (B+C)	237	238	1,107	1,513	1,190
Effective tax rate (D/A) %	**4.9**	**4.9**	**15.0**	**21.7**	**20.0**

Source: Company, MOSL

Effective tax rate of 20% as against current tax rate of 61%

DTA at 32% of net worth

Exhibit 12: Deferred tax assets remain a significant proportion of net worth (INR m)

Particulars	FY11	FY12	FY13	FY14	FY15
Deferred Tax Assets					
Unused Tax losses	1,358	2,365	2,269	2,810	4,263
MAT credit entitlement	1,057	1,586	3,086	3,622	4,183
Others	142	223	217	781	1,285
Subtotal (A)	2,557	4,174	5,572	7,213	9,731
Deferred tax asset as % of net worth	**13%**	**17%**	**20%**	**24%**	**32%**
Deferred Tax Liabilities					
Depreciation on fixed assets	1,451	1,457	1,673	1,895	2,205
Other current assets	25	43	96	176	593
Sub Total (B)	1,476	1,500	1,769	2,071	2,798
Net deferred Tax Asset (A-B)	1,081	2,674	3,803	5,142	6,933
Net deferred tax asset as % of net worth	**5%**	**11%**	**14%**	**17%**	**23%**

Source: Company, MOSL

INR687m (14% of PAT) of DTA recognized on subsidiaries increased losses for last four years

Exhibit 13: DTA recognized on subsidiaries incurring losses for last four years (INRm)

Particulars	FY12	FY13	FY14	FY15
Glenmark Farmaceutica Ltda.	181	214	256	315
Glenmark Pharmaceuticals SRO	0	1	522	174
Glenmark Generics S.A. Argentina	76	107	112	122
Glenmark Pharmaceuticals Mexico, SA DE CV	22	29	33	25
Glenmark Pharmaceuticals South Africa	11	8	64	31
Glenmark Pharmaceuticals Peru S.A.C	30	7	21	20
Total (A)	320	364	1,008	687
PAT (B)	4,643	6,283	5,456	4,752
DTA recognized as % of PAT (A/B)	**6.9**	**5.8**	**18.5**	**14.4**

Source: Company, MOSL

Exhibit 14: Subsidiaries incurring losses for last four years (INR m)

	Turnover				PBT				PAT			
Particulars	**FY12**	**FY13**	**FY14**	**FY15**	**FY12**	**FY13**	**FY14**	**FY15**	**FY12**	**FY13**	**FY14**	**FY15**
Glenmark Farmaceutica Ltda.	2,272	2,051	2,228	2,345	-647	-973	-1,108	-1,434	-466	-759	-852	-1119
Glenmark Pharmaceuticals SRO	1,459	1,543	2,355	2,317	-723	-800	-713	-1,127	-723	-800	-191	-953
Glenmark Generics S.A. Argentina	353	340	391	521	-217	-396	-437	-439	-141	-289	-326	-317
Glenmark Pharmaceuticals Mexico	52	90	186	384	-146	-165	-227	-202	-124	-136	-194	-178
Glenmark Pharmaceuticals South Africa (Pty) Ltd.	493	725	503	492	-42	-28	-231	-153	-31	-20	-166	-122
Glenmark Pharmaceuticals Peru S.A.C	51	120	99	102	-55	-24	-100	-51	-25	-17	-78	-32

Source: Company, MOSL

Cash flows decline on weak performance and high working capital requirements

- Adjusted operating cash flow post interest declined 72% YoY to INR1.3b (FY14: INR4.6b), primarily on account of weak operating performance and continued increased in working capital requirements.
- Inventories increased steeply—from INR9.3b (16% of revenue) in FY14 to INR12.7b (19% of revenue) in FY15; this was primary on account of increase in finished goods (from INR4.1b in FY14 to INR6.1b in FY15)—the management has highlighted that this was primarily due to merger of GGL (subsidiary) with the parent wherein the company was provided a transition period during Feb'15 to use the packing material of GGL before migrating to the new operating entity.
- Receivables increased from INR21.5b (36% of revenue) in FY14 to INR25.1b (38% of revenue) in FY15. Receivables outstanding for more than six months stood at INR2.7b (10.7% of the overall receivables).
- Trade payables and current liability increased INR4.0b. This was primarily on account of provision of INR1.6b of liabilities toward Texas lawsuit and increase in trade payable in line with the inventory.

Adjusted operating cash flow post interest declined 72%YoY to INR1.3b

Exhibit 15: Operating cash declines (INR m)

Particulars	FY14	FY15
PBT	6,969	5,943
Add		
Non Cash adjustments	5,276	2,781
Non-operating adjustments	1,822	1,944
Less		
Tax Paid	-2,629	-3,178
Operating profit before working capital changes	**11,438**	**7,490**
(Increase)/ decrease in trade receivable	-4,595	-4,010
(Increase)/decrease in inventory	-512	-3,544
(Increase)/decrease in other assets	-2,190	858
Increase /(decrease) in trade payable and other current liabilities	4,396	4,023
Cash flow from operations	**8,537**	**4,817**
Less		
Effect of exchange rate on cash	-1,980	-1,719
Interest Paid	-1,943	-1,792
Adjusted operating cash flow from operations post interest	**4,615**	**1,306**

Source: Company, MOSL

Exhibit 16: Core working capital requirements remains high (INR b)

Particulars	FY14	FY15
Current assets		
Inventories	9.3	12.7
Trade Receivables	21.6	25.1
Other Current Assets	8.6	7.6
Subtotal (A)	**39.5**	**45.4**
Current Liabilities		
Trade Payables	13.6	20.5
Other Current Liabilities	2.1	3.2
Short-Term Provisions	2.8	0.6
Subtotal (B)	**18.5**	**24.3**
Net Working capital (A-B)	**20.9**	**21.2**
Adjustments for :		
Tarka Liability dues	2.1	2.1
Amount payable for Texas Law suite		1.6
Adjusted net working capital	**23.0**	**24.9**
Revenue	60.1	66.3
Adjusted working capital Turnover	**2.6**	**2.7**

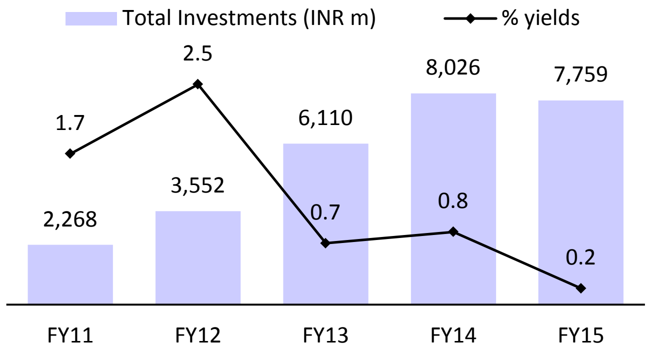
Source: Company, MOSL

Investment yield remains lowest among peers

Yield on investments have remained low—in the range of 0.2-2.5% over FY11-15

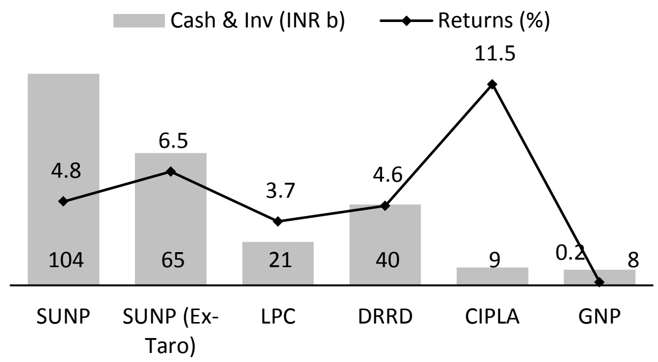
- In FY15, cash and investments stood at INR7.8b (26% of net worth). Yield on investments have remained low at 0.2%.
- The management has highlighted that at FY15-end, ~USD30m is kept for meeting the Tarka product legal liabilities and ~USD40m is stuck in Venezuela pending repatriation (valued at government's official rates).
- GNP's debt has increased from INR32.6b in FY14 to INR37.9b in FY15, primarily attributed to forex fluctuation and spike in working capital. However, debt refinancing has reduced the overall borrowing cost over the last five years.

Exhibit 17: GNP's investment yields low



Source: Company, MOSL

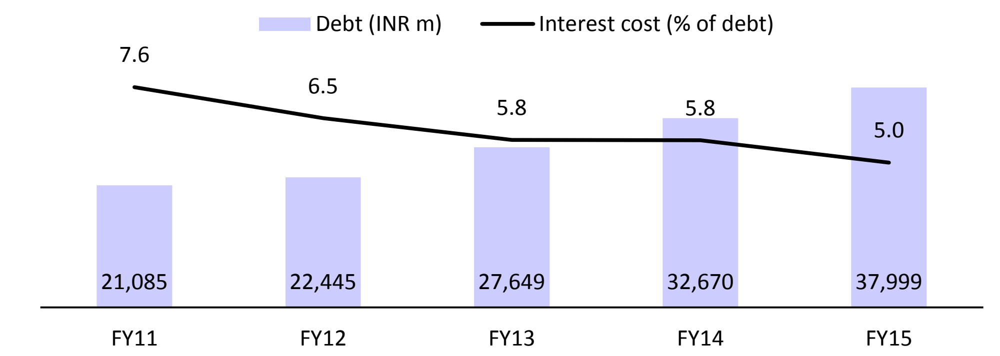
Exhibit 18: GNP generates lowest yield among peers



*SUNP: FY14 annual report

Source: Company, MOSL

Exhibit 19: Re-financing led to lower interest cost



Source: Company, MOSL

Exchange rate change in Venezuela may lead to write-offs

Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity

- GNP's revenue in Venezuelan subsidiary increased from INR1.0b in FY14 to INR4.3b in FY15 and PAT from INR0.1b in FY14 to INR1.2b in FY15.
- Venezuelan economy was severely impacted by the decline in crude prices in FY15, leading to hyperinflation, decline in forex reserves and delay in import payments.
- In Feb'15, the Venezuelan government introduced the third exchange mechanism SIMADI (with lesser restriction than the earlier prevalent mechanism of CENCOEX and SICAD) to overhaul the rate mechanism. SIMADI prescribed rates much lower than the earlier mechanisms.
- Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity; we believe these are represented using the CENCOEX rates, and repatriation of funds from Venezuela to India may lead to a write-off.

Exhibit 20: Wide disparity in exchange rates of different mechanisms in Venezuelan at FY15-end

SIMADI prescribed rates much lower than the earlier mechanisms

	VEF/USD
CENCOEX	6.3
SICAD	12.0
SIMADI	193.0

Source: MOSL, Company

Intangibles constitute 40% of the net worth

- GNP's Intangibles, primarily comprising product development/brands, stood at INR12.1b—40% of net worth (FY14: INR12.7b, 43% of net worth)

Exhibit 21: Total Intangibles in FY15 amounts to 40% of net worth

Particulars	FY11	FY12	FY13	FY14	FY15
Computer software	147	166	506	266	237
Product development/Brands	9,252	10,942	13,084	12,410	11,564
Intangibles under development	324	145	62	53	333
Total	**9,723**	**11,253**	**13,652**	**12,729**	**12,135**
As % of Net worth	**48**	**47**	**49**	**43**	**40**

Source: Company, MOSL

Contingent liabilities increase to 14% of net worth

- Sharp increase in indemnity bonds, from INR394m to INR2.7b, led to higher contingent liabilities in FY15 (INR4.1b, 14% of the total net worth).

Exhibit 22: Contingent liabilities increase on indemnity bonds (INR m)

Particulars	FY11	FY12	FY13	FY14	FY15
Bank Guarantees	69	39	66	72	74
Letters of Credit issued by Bankers	323	764	524	661	838
Guarantees given to third party for Office rentals	9	11	11	13	13
Indemnity Bond	260	288	375	394	2,775
Corporate Guarantees	1,206	0			
Disputed Income tax/Excise duty/Sales tax	47	212	203	155	224
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	296	289			145
Others	0	0	0	0	0
Total	**2,210**	**1,602**	**1,179**	**1,294**	**4,069**
As % of net worth	**10.8%**	**6.7%**	**4.3%**	**4.3%**	**13.6%**

Source: Company, MOSL

ART #2 MANAGEMENT SPEAK / KEY PLANS

USA (31% of sales): US business remained flat at INR20.4b in FY15, primarily led by slowdown in ANDA approvals during the period. IN FY15, GNP filed 18 ANDAs with the US FDA and launched 6 products in the market. Overall, GNP is authorized to sell 95 generic products in the US market. The company has a rich ANDA pipeline with 74 pending approvals with the US FDA, of which 33 are Paragraph IV applications. FY15 product launches include Eszopiclone Tablets, Telmisartan Tablets, Fluocinonide Cream USP, Omeprazole Delayed-Release Capsules, AshlynaTM, Trandolapril and Verapamil Hydrochloride Extended-Release Tablets.

India (26% of sales): India sales grew 16% YoY to INR17.5b in FY15, led by high-growth specialty therapies like Derma, Respiratory and Anti Diabetic. The company is currently ranked 17th in India and has 8 brands in the top-300.

SRM (12% of sales): SRM (Semi-regulated market) sales declined 18% YoY to INR8.1b due to sharp currency depreciation in Russia/CIS region. During Fy15, GNP entered respiratory markets in the Philippines and Sri Lanka with the launch of inhalers. Combiwave SF, an inhaled respiratory product, was approved in Malaysia.

LatAm (11% of sales): LatAm sales grew 89% YoY to INR7.6b in FY15, led by extraordinary volume push in Venezuela. However, GNP is yet to repatriate USD25m-30m sales from this region.

Europe (10% of sales): GNP's western European business unit successfully launched Escitalopram in the UK, the Netherlands and Germany. In Germany, GNP has become the fastest growing generic company among the top-50 companies and is ranked 16th amongst the generic groups in this market. The key launches include Linezolid bags, Memantine, Cilostazol and Amlodipine+Ramipril in Central Eastern Europe. The other products launched successfully in this region: Artaxin, Dilizolen, Magnesium B complex, Telmark Plus, Fayton RFU, Hemoroeasy gel, Radioxar, Bicalutamid and Cital60 tabs.

Novel molecules: GNP has a pipeline of 3 NCE and 4 NBE molecules in clinical trials or ready-to-enter clinical trials, including the in-licensed molecule 'Crofelemer'.

Capex: GNP is setting up a new manufacturing facility at Monroe, North Carolina (USA) to serve the growing business in the country. The company will manufacture oral solids and injectables at the facility. GNP is expected to spend INR6b on capex requirements in FY16.

ART #3 GOVERNANCE MATTERS

Directors regular in attending board meetings

- GNP's board comprises 11 members—three executives, one non-executive promoter director and seven independent directors.
- GNP is regular in calling board meetings as per the prescribed laws. Four board meetings were held in FY15.
- All directors attended more than 50% of the meetings in FY15.
- Three of the Independent directors have been on the company's board for more than 10 years

Exhibit 23: Directors regular in attending board meetings

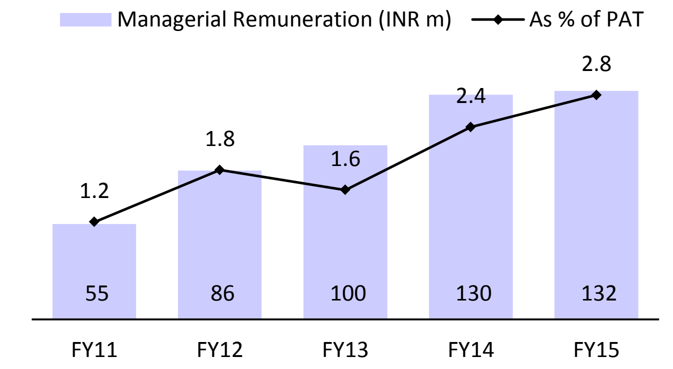
Name of the director	Position	No of board meetings attended	Appointed on
Mr. Glenn Saldanha	Executive, CMD	4	-
Mrs. Cherylann Pinto	Executive	4	-
Mr. Rajesh Desai	Executive	4	9th Nov 2011
Mrs. B. E. Saldanha	Non-Executive	3	
Mr. D. R. Mehta	Non-Executive, Independent	4	14th Aug 2009
Mr. Bernard Munos	Non-Executive, Independent	4	30th Jan 2012
Mr. J. F. Ribeiro	Non-Executive, Independent	4	Prior to 2006
Dr. Brian W. Tempest	Non-Executive, Independent	3	30th Jan 2012
Mr. Sridhar Gorthi	Non-Executive, Independent	3	Prior to 2006
Mr. N.B. Desai	Non-Executive, Independent	4	Prior to 2006
Mr. Hocine Sidi Said	Non-Executive, Independent	2	29th Oct 2009

Source: Company, MOSL

Managerial remuneration highest among peers

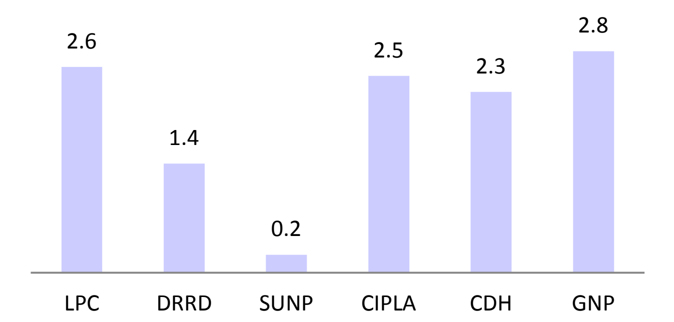
- Managerial remuneration remained flat at INR132m in FY15 as against INR130m in FY14.
- GNP's managerial remuneration at 2.8% of PAT (in FY15) is highest amongst the peers.

Exhibit 24: GNP's managerial remuneration flat YoY



Source: Company, MOSL

Exhibit 25: GNP's managerial remuneration as a % PAT highest amongst peers

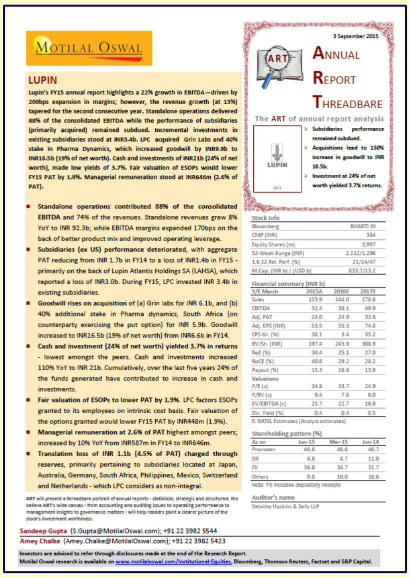


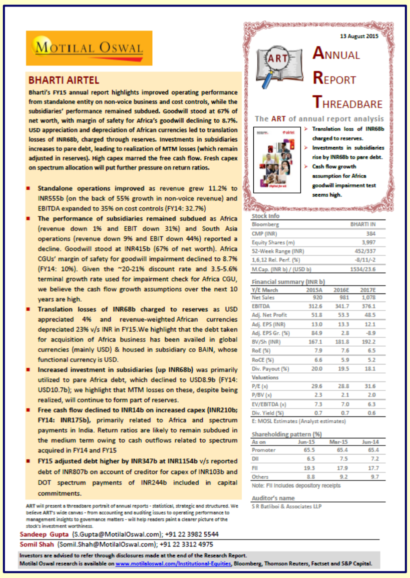
*SUNP: FY14 Annual report

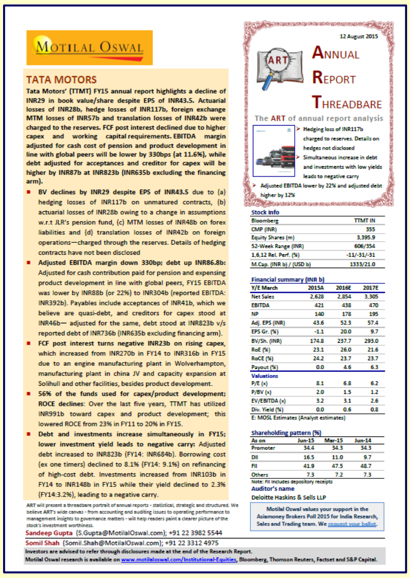
Source: Company, MOSL

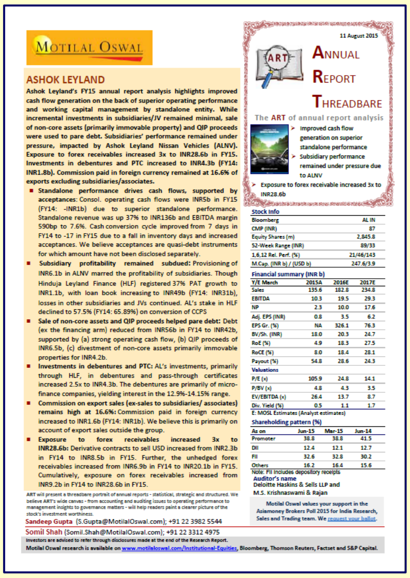
ART GALLERY

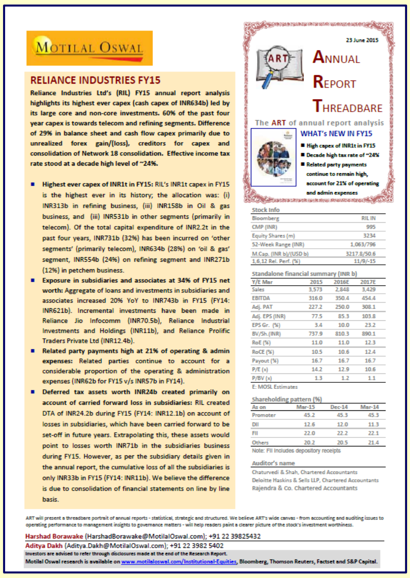
ART COMPANIES

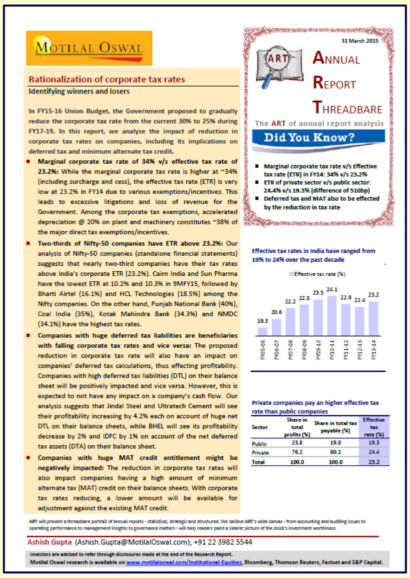












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