

RESEARCH
[Initiation] Glenmark Life Sciences | Target: Rs 620 | +40% | BUY

Niche API player with superior margins – initiate with BUY

V-Mart Retail | Target: Rs 3,620 | +41% | BUY

Near-term pain gets accentuated

SUMMARY
[Initiation] Glenmark Life Sciences

- Pure-play API company with robust market share in key high-value, low-volume chronic therapies, alongside budding CDMO business
- Superior EBITDA margin profile (~30%) vs. peers; ongoing brownfield and greenfield expansion targeted to double sales by FY25
- Initiate with BUY and DCF-based TP of Rs 620, implying 12.5x FY24E P/E and 8.2x EV/EBITDA

[Click here for the full report.](#)
V-Mart Retail

- Due to disruptions in UP and Bihar, which form 65-70% of the top-line, the sale is expected to be adversely impacted in Q1FY23
- ~20% price hike in Q1 to mitigate the cost inflation will increase the ASP, but will likely result in lower volumes
- We revise down TP to Rs 3,620 (vs. Rs 3,950) as we cut FY23/FY24 EBITDA by 7%/9%, respectively. Retain BUY

[Click here for the full report.](#)
Daily macro indicators

Indicator	16-Jun	17-Jun	Chg (%)
US 10Y yield (%)	3.20	3.23	3bps
India 10Y yield (%)	7.62	7.54	(7bps)
USD/INR	78.08	78.08	0.0
Brent Crude (US\$/bbl)	119.8	113.1	(5.6)
Dow	29,927	29,889	(0.1)
Hang Seng	20,845	21,075	1.1
Sensex	51,496	51,360	(0.3)
India FII (US\$ mn)	14-Jun	15-Jun	Chg (\$ mn)
FII-D	14.1	12.2	(1.9)
FII-E	(430.1)	(399.9)	30.2

Source: Bank of Baroda Economics Research



BUY

TP: Rs 620 | ▲ 40%

**GLENMARK LIFE
SCIENCES**

| Pharmaceuticals

| 20 June 2022

Niche API player with superior margins – initiate with BUY

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Niche API player focused on lucrative chronic therapies: GLS is a generic API manufacturer (90% of revenue) that focuses on high-value, low-volume products and draws a significant portion of revenue from chronic therapies (63%). Focus therapy areas include CVS (38% of revenue), CNS (14%), diabetes (7%) and pain management (4%). The company also manufactures and sells APIs in gastrointestinal, anti-infective and other therapeutic areas.

Sizeable market share in key products: As of FY21, GLS had global market share in excess of 30% in its key products of Atovaquone, Perindopril, Adapalene and Zonisamide, 20-30% share in Desloratadine, Riluzole and Cilazapril, and 10-20% in Telmisartan, Etoricoxib and Teneligliptin.

Better realisations and CDMO contribution drive superior margins: GLS earns EBITDA margins of ~30% vs. 19% for API peers on average (FY20-FY22) backed by its portfolio of high-value products in chronic therapy areas which has superior realisations, as well as tight controls over employee cost and other expenses. Margins are further supported by the ~8% revenue contribution from its higher-margin CDMO business where peers such as ARTD and NLL have little to no presence in.

Capacity expansion targeted to double sales by FY25: Management has guided for investments of Rs 6bn-6.5bn toward manufacturing capacities to meet demand from the expanding API portfolio and CDMO clientele over FY20-FY25. Given that Rs 3.2bn of this capex drive has been implemented till FY22 and internal accruals are intended as a major source of funding, we believe the investment plan will be back-ended in nature while retaining the spotlight on profitable growth.

Initiate with BUY: GLS is trading at attractive valuations of 10.6x/8.9x P/E and 7.0x/5.6x EV/EBITDA on FY23E/FY24E. We value the stock using a two-stage DCF model which yields a TP of Rs 620 and implies an FY24E P/E of 12.5x – which is ~35% discount to the peers as we take a conservative approach and find comfort in valuation. In light of the company's solid market positioning in APIs, attractive margins and ongoing CDMO expansion, we commence coverage with BUY.

Key changes

	Target	Rating
	▲	▲

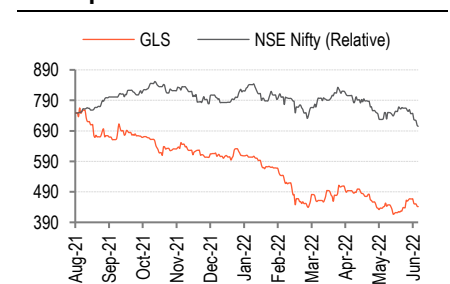
Ticker/Price	GLS IN/Rs 442
Market cap	US\$ 692.8mn
Free float	17%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 799/Rs 410
Promoter/FPI/DII	83%/8%/0%

Source: NSE | Price as of 17 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	21,232	24,227	28,257
EBITDA (Rs mn)	6,160	7,122	8,453
Adj. net profit (Rs mn)	4,180	5,106	6,079
Adj. EPS (Rs)	34.1	41.7	49.6
Consensus EPS (Rs)	34.1	38.6	44.6
Adj. ROAE (%)	31.0	24.3	24.4
Adj. P/E (x)	12.9	10.6	8.9
EV/EBITDA (x)	10.3	7.9	5.9
Adj. EPS growth (%)	4.6	22.2	19.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance

Source: NSE



BUY
 TP: Rs 3,620 | ▲ 41%

V-MART RETAIL

| Retail

| 20 June 2022

Near-term pain gets accentuated

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- ~20% price hike in Q1 to mitigate the cost inflation will increase the ASP, but will likely result in lower volumes
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We interacted with VMART Promoter, Lalit Agarwal to gain a perspective on the company’s growth prospects and sector outlook. Key takeaways:

Q1FY23 sales to slow down: UP and Bihar has the largest concentration of stores (~47%) and contributes 65-70% of the top-line. As per management, during Q1, these two states have been witnessing major unrest and communal disputes which have resulted into sale loss. However, UP is facing partial disturbance due to strong BJP government. But Bihar is witnessing a major unrest, which has forced 80% of the stores to get impacted about 60% of the time.

55-60 store addition targets on track: VMART plans to add 55-60 stores in total in FY23, of which 20% will be Unlimited stores in South and 80% will be VMART spread across 5 zones namely North, UP, Bihar, East and South. The company will have major store concentration in Andhra and Telangana in South apart from UP & Bihar. The capex per store will be about Rs 13-14mn, totaling Rs 800-850mn. The capex will be largely funded through internal accruals.

~20% price hikes in Q1: Due to an increase in cotton prices, VMART has taken a ~20% cumulative price hike in Q1 and has passed on every cost inflation to the consumers. The significant rise in yarn prices would pose a further challenge in keeping MRPs competitive, which will adversely impact volumes. Further, the consumer spending on fashionwear has overall taken a hit due to rising interest rate, which is a significant part of overall business.

Near-term headwinds to persist: Due to a combination of the rising competition from national conglomerates in tier-2/3 cities, muted near-term demand outlook in smaller towns as overall inflation rises, UP & Bihar witnessing major dip in sales owing to disruptions and VMART’s price hikes, we cut FY23/FY24 EBITDA estimates by 7%/9%, respectively. Further, due to operating leverage and higher depreciation cost, our PAT cut is steeper at 32%/23%. We continue to value VMART at 21x FY24E EV/EBITDA, versus its 5Y median of 24x, which translates to a revised TP of Rs 3,620 (vs. Rs 3,950). Retain BUY.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VMART IN/Rs 2,571
Market cap	US\$ 648.9mn
Free float	54%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 4,849/Rs 2,550
Promoter/FPI/DII	46%/20%/34%

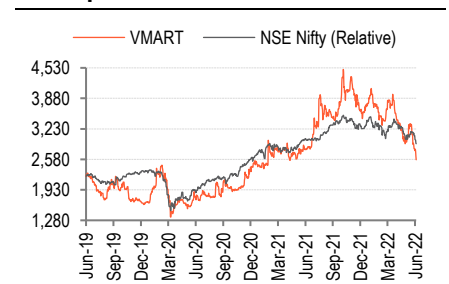
Source: NSE | Price as of 17 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	16,662	19,490	24,768
EBITDA (Rs mn)	2,043	2,437	3,379
Adj. net profit (Rs mn)	116	281	706
Adj. EPS (Rs)	5.9	14.2	35.8
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	3.3	7.8
Adj. P/E (x)	435.3	180.6	71.7
EV/EBITDA (x)	23.7	19.6	14.4
Adj. EPS growth (%)	(134.3)	141.0	151.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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