

GlaxoSmithKline Pharmaceuticals

Performance Highlights

Y/E Mar (` cr)	1QFY2018	4QFY2017	% chg (QoQ)	1QFY2017	% chg (YoY)
Net Sales	587	763	(23.1)	685	(14.3)
Other income	34	35	(3.4)	46	(26.1)
Gross profit	316	402	(21.5)	371	(14.8)
Operating profit	-1	116	(100.5)	70	(100.9)
Adj. PAT	18	87	(79.5)	71	(75.0)

Source: Company, Angel Research

GlaxoSmithKline Pharmaceuticals (GSK) posted lower than expected results on sales and OPM fronts for 1QFY2018. The revenues came in at `587cr v/s. `700cr expected, registering a yoy de-growth of 14.3%, mainly on the back of GST implementation. On the OPM front, the EBDITA margins came in at (0.1)% (v/s. 12.6% expected) as compared to 10.2% in 1QFY2017, mainly driven by lower sales during the quarter. The Adj. PAT came in at `18cr v/s. `71cr in 1QFY2017, a yoy dip of 75.0%. **We maintain our Neutral.**

Results lower than expectations: GlaxoSmithKline Pharmaceuticals (GSK) posted lower than expected results on sales and OPM fronts for 1QFY2018. The revenues came in at `587cr v/s. `700cr expected, registering a yoy de-growth of 14.3%, mainly on the back of GST implementation. Adjusted for the GST impact, revenue grew 6% yoy in 1QFY2018. On the OPM front, the EBDITA margins came in at (0.1)% (v/s. 12.6% expected) as compared to 10.2% in 1QFY2017. This was mainly driven by lower sales during the quarter. The Adj. PAT for the quarter came in at `18cr v/s. `71cr in 1QFY2017, a yoy dip of 75.0%.

Outlook and valuation: On the operational front, we expect the company's net sales to post a CAGR of 11.7% to `3,651cr, while the EPS is expected to post a CAGR of 30.6% over FY2017-19E. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y/E Mar (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	2,741	2,927	3,260	3,651
% chg	(16.2)	6.8	11.4	12.0
Net profit	374	291	391	496
% chg	(26.5)	(22.2)	34.3	27.0
EPS (`)	44.2	34.4	46.1	58.6
EBITDA (%)	16.5	11.8	15.0	18.0
P/E (x)	53.8	69.2	51.5	40.6
RoE (%)	18.7	13.9	20.0	26.5
RoCE (%)	19.4	14.0	20.4	28.9
P/BV (x)	9.2	10.0	10.6	10.9
EV/Sales (x)	6.8	6.6	6.0	5.5
EV/EBITDA (x)	41.5	55.6	39.9	30.4

Source: Company, Angel Research; Note: CMP as of August 1, 2017

NEUTRAL

CMP	₹2,377
Target Price	-

Investment Period	12 months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	20,136
Net Debt (₹ cr)	(936)
Beta	0.2
52 Week High / Low	3,343/2,309
Avg. Daily Volume	2,050
Face Value (₹)	10
BSE Sensex	32,575
Nifty	10,115
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	10.9
FII / NRIs / OCBs	2.1
Indian Public / Others	12.0

Abs. (%)	3m	1yr	3yr
Sensex	8.9	16.3	27.8
Glaxo	(12.7)	(26.5)	(4.6)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 – Standalone performance

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (QoQ)	1QFY2017	% chg (YoY)	FY2017	FY2016	% chg
Net Sales	587	763	(23.1)	685	(14.3)	2,921	2,753	6.1
Other income	34	35	(3.4)	46	(26.1)	145	197	(26.3)
Total Income	621	799	(22.3)	731	(15.1)	3,066	2,950	3.9
Gross profit	316	402	(21.5)	371	(14.8)	1,527	1,525	0.1
Gross margin	53.8	52.7		54.1		52.3	55.4	
Operating profit	-1	116	(100.5)	70	(100.9)	346	404	(14.2)
Operating margin (%)	(0.1)	15.2		10.2		11.9	14.7	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortization	8	8	(3.5)	5	40.0	26	25	5.6
PBT & Exceptional Items	26	144	(82.0)	111	(76.7)	465	576	(19.2)
Less : Exceptional Items	13	26	-	1	-	46	2	
Profit before tax	38	170	(77.3)	112	(65.6)	511	577	(11.5)
Provision for taxation	12	57	(79.8)	38	(69.3)	174	201	(13.5)
Reported PAT	26	113	(76.5)	72	(63.4)	337	375	(10.1)
Adj. Net profit	18	87	(79.5)	71	(75.0)	291	373	(22.0)
EPS (`)	2.1	10.2		8.4		34.4	44.0	

Source: Company, Angel Research,

Exhibit 2: 1QFY2018 – Actual v/s. Angel estimates

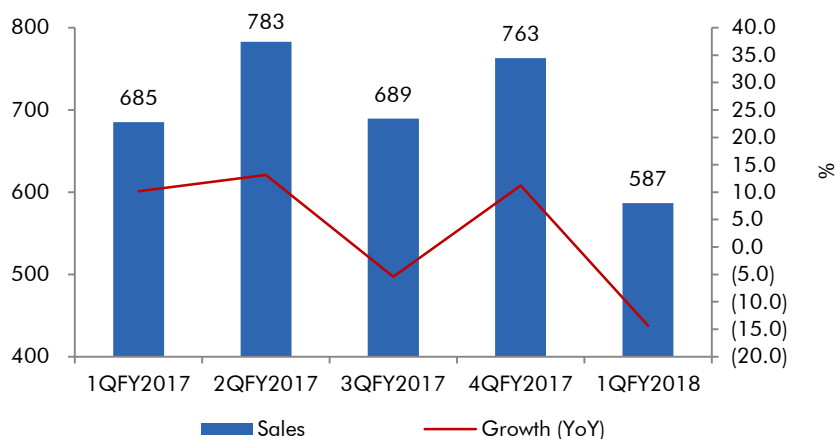
(` cr)	Actual	Estimates	Variation (%)
Net sales	587	700	(16.2)
Other income	34	47	(28.2)
Operating profit	(1)	88	(100.7)
Tax	12	25	(54.2)
Adj. net profit	18	104	(82.9)

Source: Company, Angel Research

Revenue de-grew by 14.3% yoy

GlaxoSmithKline Pharmaceuticals (GSK) posted lower than expected results on sales and OPM fronts for 1QFY2018. The revenues came in at `587cr v/s. `700cr expected, registering a yoy de-growth of 14.3%, mainly on the back of GST implementation. Adjusted for the GST impact, revenue grew 6% yoy in 1QFY2018.

Exhibit 3: Sales trend

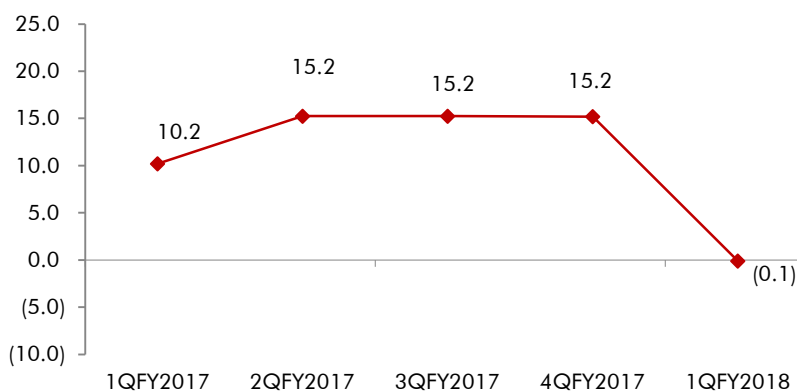


Source: Company, Angel Research

OPM comes lower on the back of lower sales

On the OPM front, the EBDITA margins came in at (0.1)% (v/s. 12.6% expected) as compared to 10.2% in 1QFY2017. This was mainly driven by lower sales during the quarter. The Gross margins were almost flat at 53.0% in 1QFY2017 v/s. 54.1% in 1QFY2018. Employee expenses and other expenses grew by 11.9% and 0.9% respectively.

Exhibit 4: OPM trend

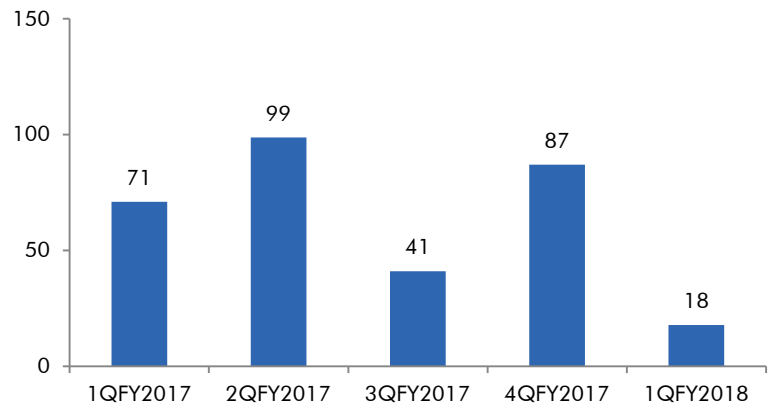


Source: Company, Angel Research

Net profit much lower than estimated

The Adj. PAT during the quarter came in at `18cr v/s. `71cr in 1QFY2017, a yoy dip of 75.0%. The reported profit came in at `26cr v/s. `72cr, a yoy de-growth of 63.4%. Also, during the quarter the company posted other income of `34cr v/s. `46cr in 1QFY2017.

Exhibit 5: Adjusted net profit trend



Source: Company, Angel Research

Recommendation rationale

Renewed focus on the Indian market: GSK is among the top ten players in the Indian pharmaceutical market, having a market share of ~3.7%. Unlike other MNCs, the company has been amongst the few which have taken initiatives to grow their businesses in the Indian market with consistent launch of new products.

Over the last six years, the company has strategically decided to expand its presence in the Specialty segment. The Specialty segment's contribution to sales has reached 23% (as of 2013). Another segment which is strong for the company is the area of vaccines, where GSK Vaccines has become the leading company in the private market for vaccines in India. The recently introduced vaccine for pneumococcal conjugate disease, Synflorix, has become the biggest brand in the vaccine portfolio of the company in the second year of its launch. The efforts of the company in raising awareness about vaccines and preventable diseases continue with increasing fervor. Also, in FY2015, GlaxoSmithKline Plc (Glaxo), London, UK, entered into three inter-conditional agreements with Novartis AG (Novartis), Basel, Switzerland. In one such agreement, Glaxo agreed to acquire Novartis' vaccines business (excluding influenza vaccine) and its manufacturing capabilities and facilities, and in the second agreement, Glaxo agreed to sell the rights of its Marketed Oncology Portfolio, related R&D activities and AKT Inhibitors currently in development to Novartis. Globally, these transactions with Novartis were completed on March 2, 2015.

On the other hand, its other key segments like mass markets and mass specialty, which contribute 60% of its sales, de-grew by 12% in CY2013. This was as a result of a number of products of the company having come under the DPCO 2013 ruling, resulting in reduction in prices of its drugs, which impacted its sales in CY2013. Along with this, the supply constraints, mainly from local supplies during FY2015, have been impacting its performance. FY2017 was another year, where the company's sales got impacted on the back of the government's pricing cuts. Overall, for FY2017-19E, we expect the domestic formulation business of the company to grow at a CAGR of 11.7%.

Significant capex plans ahead indicate revival in growth: Global pharmaceutical major Glaxo announced ₹864cr investment in India to set up a medicine manufacturing unit. The new facility will substantially increase the company's manufacturing base. The drug maker is proactively building capacity in the country as it delivers its portfolio of products in areas such as gastroenterology and anti-inflammatory medicines. When complete, the factory will make pharmaceutical products for the Indian market at a rate of up to 8bn tablets and 1bn capsules a year. The facility, will include a warehouse, site infrastructure, and utilities to support the manufacturing and packing of medicines. It showcases GSK's latest commitment to its manufacturing network in India where the company has invested ₹1,017cr over the last decade. The development is positive and comes after a long lull in terms of investments.

Outlook and valuation

GSK has a strong balance sheet with cash of ~`900cr, which could be used for future acquisitions or higher dividend payouts. The company's parent company Glaxo increased stake in it through a voluntary open offer, after which Glaxo holds 75% stake in the Indian subsidiary. The buy-back of shares is a strong indicator from the Management towards the performance of its listed Indian entity, especially as it comes after the recent ₹864cr investment plan announced by the company to further its growth prospects in the Indian pharmaceuticals market. The said investments are expected to fructify by 2017.

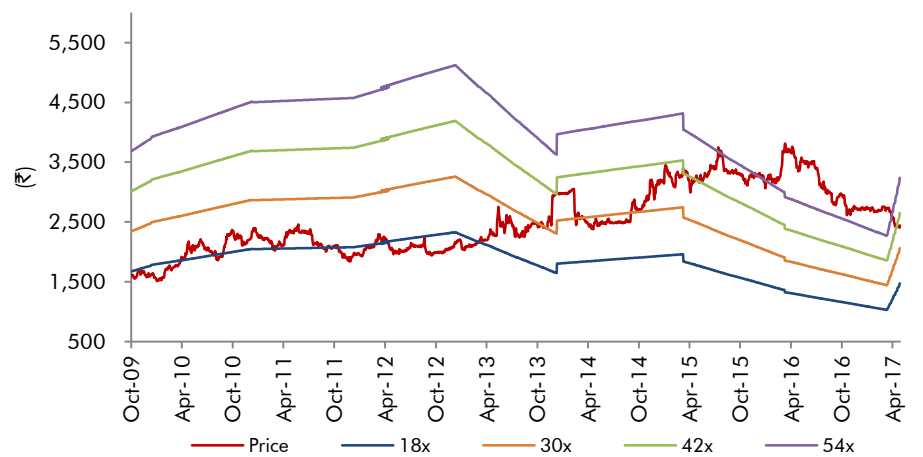
On the operational front, we expect the company's net sales to post a CAGR of 11.7% to ₹3,681cr and EPS to register a CAGR of 30.7% to `58.7 over FY2017–19E. At the current level, the stock is trading at 51.5x and 40.5x its FY2018E and FY2019E earnings respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Sales growth (%)	11.4	12.0
Growth in employee expenses (%)	11.0	9.0
Operating margin (%)	15.0	18.1
Capex (₹ cr)	200	200

Source: Company, Angel Research

Exhibit 7: One-year forward PE



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside		FY2019E		FY17-19E	FY2019E	
				%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	525	600	14.4	19.3	2.2	11.3	12.8	24.3	20.6
Aurobindo Pharma	Accumulate	735	877	12.0	14.3	2.2	10.0	14.2	25.3	22.7
Cadila Healthcare	Sell	542	450	(16.9)	25.5	4.1	20.2	21.0	17.3	22.9
Cipla	Sell	562	465	(18.0)	23.2	2.4	15.0	39.2	11.0	13.2
Dr Reddy's	Neutral	2,427	-	-	21.9	2.4	13.4	23.6	11.2	13.0
Dishman Pharma	Under Review	301	-	-	18.9	1.3	10.1	(6.8)	2.9	2.5
GSK Pharma	Neutral	2,377	-	-	40.6	5.5	30.4	30.6	28.9	26.5
Indoco Remedies	Sell	200	153	(23.5)	15.7	1.5	10.3	23.0	11.2	15.0
Ipca labs	Buy	483	613	28.5	7.9	0.6	4.1	27.9	12.8	11.2
Lupin	Buy	1,018	1,526	49.9	14.7	2.0	8.5	10.4	20.6	17.8
Sanofi India*	Neutral	4,286	-	-	27.9	2.9	17.2	9.2	23.9	25.8
Sun Pharma	Buy	535	712	33.2	16.5	3.1	12.2	1.2	15.1	18.8

Source: Company, Angel Research; Note: * December year ending;

Company Background

GlaxoSmithKline Pharmaceuticals (GSK) is the sixth largest pharmaceutical player in the Indian market with a market share of ~3.7%. The company's product portfolio includes both, prescription medicines and vaccines. GSK sells prescription medicines across therapeutic areas such as anti-infectives, dermatology, gynecology, diabetes, oncology, cardiovascular diseases and respiratory diseases. A large portion of the company's revenue comes from the acute therapeutic portfolio. However, the company is now scouting for opportunities in high-growth therapeutic areas such as CVS, CNS, diabetes and oncology. Further, with a strong parentage, the company plans to increase its product portfolio through patented launches and vaccines. To fructify the same, the company plans to enhance its manufacturing assets with its parent company investing ₹864cr in it; the capacity expansion is expected to fructify in 2017.

Profit & loss statement

Y/E March (` cr)	CY2013	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	2,589	3,328	2,800	2,999	3,357	3,760
Less: Excise duty	51	56	59	72	67	75
Net sales	2,538	3,272	2,741	2,927	3,290	3,685
Other operating income	24	32	27	28	28	28
Total operating income	2,563	3,305	2,768	2,954	3,318	3,713
% chg	(3.3)	28.9	(16.2)	6.7	12.3	11.9
Total expenditure	2,034	2,690	2,289	2,581	2,757	3,016
Net raw materials	1,164	1,510	1,233	1,398	1,481	1,658
Other Mfg costs	89	115	99	107	111	115
Personnel	362	493	443	483	543	590
Other	420	572	514	593	623	654
EBITDA	504	582	452	346	533	669
% chg	(33.6)	15.5	(22.4)	(23.5)	54.3	25.4
(% of Net Sales)	19.9	17.8	16.5	11.8	16.2	18.1
Depreciation & amortization	20	25	25	26	52	60
EBIT	484	557	427	319	481	608
% chg	(34.7)	15.0	(23.3)	(25.2)	50.7	26.5
(% of Net Sales)	19.1	17.0	15.6	10.9	14.6	16.5
Interest & other charges	-	-	-	-	-	1
Other income	177	200	125	119	119	119
(% of PBT)						
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	685	789	579	465	627	754
% chg	(27.5)	15.1	(26.5)	(19.7)	34.8	20.1
Extraordinary expense/(Inc.)	(26)	33	(3)	(46)	-	-
PBT (reported)	711	756	582	511	627	754
Tax	230	279	203	174	207	249
(% of PBT)	32.3	36.9	34.8	31.3	33.0	33.0
PAT (reported)	482	477	377	337	420	505
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items						
PAT after MI (reported)	482	477	377	337	420	505
ADJ. PAT	464	509	374	291	420	505
% chg	(29.4)	9.8	(26.5)	(22.2)	44.4	20.1
(% of Net Sales)	18.3	15.6	13.7	9.9	12.8	13.7
Basic EPS (`)	55	60	44	34	50	60
Fully diluted EPS (`)	55	60	44	34	50	60
% chg	(29.4)	9.8	(26.5)	(22.2)	44.4	20.1

Balance Sheet

Y/E March (₹ cr)	CY2013	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity share capital	85	85	85	85	85	85
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,905	1,744	2,099	1,922	1,847	1,797
Shareholders funds	1,990	1,829	2,183	2,007	1,932	1,881
Minority Interest						
Total loans	4	3	1	2	2	3
Other long-term liabilities	5	5	-	-	-	-
Long-term provisions	242	273	291	276	276	276
Deferred tax liability	(92)	(83)	(101)	(92)	(92)	(92)
Total liabilities	2,148	2,026	2,374	2,193	2,118	2,069
APPLICATION OF FUNDS						
Gross block	323	467	725	1,105	1,305	1,505
Less: Acc. Depreciation	247	272	297	323	375	436
Net block	76	195	428	782	930	1,070
Capital work-in-progress	44	44	44	44	44	44
Goodwill	42	-	-	32	32	32
Other non-current assets	14	-	-	-	-	-
Long-term loans and adv.	238	307	302	374	428	479
Investments	10	0	5	6	6	6
Current assets	2,614	2,587	2,174	1,674	1,489	1,345
Cash	2,042	1,911	1,392	932	655	240
Loans & advances	238	122	123	132	148	166
Other	335	554	658	610	686	940
Current liabilities	889	1,107	579	720	811	908
Net current assets	1,725	1,480	1,595	954	678	438
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	2,148	2,026	2,374	2,193	2,118	2,069

Cash flow statement

Y/E March (₹ cr)	CY2013	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax and exceptional	711	756	582	557	627	754
Depreciation	20	25	25	26	52	60
(Inc)/Dec in working capital	15	114	(633)	181	(2)	(174)
Direct taxes paid	230	279	203	174	207	249
Cash Flow from Operations	517	616	(229)	590	471	391
(Inc.)/Dec.in fixed assets	(49)	(144)	(258)	(381)	(200)	(200)
(Inc.)/Dec. in investments	(45)	(10)	5	1	-	-
Cash Flow from Investing	(93)	(154)	(253)	(380)	(200)	(200)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend paid (Incl. Tax)	(495)	(624)	(495)	(297)	(495)	(555)
Others	47	32	459	-	-	-
Cash Flow from Financing	(448)	(593)	(37)	(297)	(495)	(555)
Inc./(Dec.) in cash	(25)	(131)	(519)	(460)	(277)	(415)
Opening cash balances	2,067	2,042	1,911	1,392	932	655
Closing cash balances	2,042	1,911	1,392	932	655	240

Key ratio

Y/E March	CY2013	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	44.4	40.4	55.0	70.8	49.0	40.8
P/CEPS	41.1	41.0	51.3	50.4	43.6	36.4
P/BV	10.3	11.3	9.4	10.3	10.7	10.9
Dividend yield (%)	2.1	2.1	2.1	1.2	2.1	2.3
EV/Sales	7.3	5.7	7.0	6.7	6.1	5.5
EV/EBITDA	36.8	32.1	42.5	56.9	37.4	30.4
EV / Total Assets	8.6	9.2	8.1	9.0	9.4	9.8
Per Share Data (₹)						
EPS (Basic)	54.8	60.1	44.2	34.4	49.6	59.6
EPS (fully diluted)	54.8	60.1	44.2	34.4	49.6	59.6
Cash EPS	59.2	59.3	47.4	48.3	55.8	66.7
DPS	50.0	50.0	50.0	30.0	50.8	56.8
Book Value	234.9	215.9	257.8	236.9	228.0	222.1
Returns (%)						
RoCE (Pre-tax)	22.4	26.7	19.4	14.0	22.3	29.1
Angel ROIC (Pre-tax)	22.4	26.7	19.4	14.0	22.3	29.1
RoE	23.2	26.7	18.7	13.9	21.3	26.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	8.6	8.4	4.6	3.2	2.8	2.6
Inventory / Sales (days)	48	40	59	52	38	31
Receivables (days)	15	11	15	14	10	8
Payables (days)	54	55	77	43	48	49
WC cycle (ex-cash) (days)	79	69	96	94	87	95
Solvency ratios (x)						
Net debt to equity	(1.0)	(1.0)	(0.6)	(0.5)	(0.3)	(0.1)
Net debt to EBITDA	(4.0)	(3.3)	(3.1)	(2.7)	(1.2)	(0.4)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

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Glaxo Pharma

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)