

GlaxoSmithKline Pharmaceuticals

Performance Highlights

Y/E Mar (` cr)	4QFY2017	3QFY2017	% chg (QoQ)	4QFY2016	% chg (YoY)
Net Sales	763	689	10.8	688	10.9
Other income	35	38	(6.6)	58	(39.5)
Gross profit	402	332	21.1	381	5.7
Operating profit	116	35	232.2	111	5.0
Adj. PAT	87	41	112.3	95	(9.2)

Source: Company, Angel Research

GlaxoSmithKline Pharmaceuticals (GSK) posted better than expected results on sales and OPM fronts for 4QFY2017. The revenues came in at `763cr v/s `690cr expected, registering a yoy growth of 10.9%. On the OPM front, the EBDITA margins came in at 15.2% (v/s 11.3% expected) as compared to 16.1% in 4QFY2016. The Adj. PAT for the quarter came in at `86.7cr v/s `95.4cr in 4QFY2016, a yoy dip of 9.2%. **Given the valuations we maintain our Neutral.**

Results better than expectations: The revenues came in at `763cr v/s `690cr expected, registering a yoy growth of 10.9%. On the OPM front, the EBDITA margins came in at 15.2% (v/s 11.3% expected) as compared to 16.1% in 4QFY2016. The expansion in margin was on the back of lower than expected employee and other expenses, which grew by 8.0% and 4.6% yoy respectively. The Adj. PAT during the quarter came in at `86.7cr v/s `95.4cr in 4QFY2016, a yoy dip of 9.2%.

Outlook and valuation: Company has a strong balance sheet with cash of ~`900cr, which could be used for future acquisitions or higher dividend payouts. On the operational front, we expect the company's net sales to post a CAGR of 12.2% to `3,685cr, while the EPS is expected to post a CAGR of 31.7% 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	3,290	3,685
% chg	(16.2)	6.8	12.4	12.0
Net profit	374	291	420	505
% chg	(26.5)	(22.2)	44.4	20.1
EPS (`)	44.2	34.4	49.6	59.6
EBITDA (%)	16.5	11.8	16.2	18.1
P/E (x)	55.0	70.7	48.9	40.7
RoE (%)	18.7	13.9	21.3	26.5
RoCE (%)	19.4	14.0	22.3	29.1
P/BV (x)	9.4	10.2	10.6	10.9
EV/Sales (x)	7.0	6.7	6.1	5.5
EV/EBITDA (x)	42.5	56.8	37.3	30.4

Source: Company, Angel Research; Note: CMP as of May 22, 2016;

NEUTRAL

CMP	₹2,428
Target Price	-
Investment Period	-

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	20,566
Net Debt (₹ cr)	(936)
Beta	0.20
52 Week High / Low	3,850/2,397
Avg. Daily Volume	1,118
Face Value (₹)	10
BSE Sensex	30,465
Nifty	9,428
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	10.8
FII / NRIs / OCBs	2.1
Indian Public / Others	12.1

Abs. (%)	3m	1yr	3yr
Sensex	5.9	21.2	25.4
Glaxo	(9.2)	(27.7)	(5.3)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2017 – Standalone performance

Y/E March (` cr)	4QFY2017	3QFY2017	% chg (QoQ)	4QFY2016	% chg (YoY)	FY2017	FY2016	% chg
Net Sales	763	689	10.8	688	10.9	2,921	2,753	6.1
Other income	35	38	(6.6)	58	(39.5)	145	197	(26.3)
Total Income	799	727	9.9	746	7.0	3,066	2,950	3.9
Gross profit	402	332	21.1	381	5.7	1,527	1,525	0.1
Gross margin	52.7	48.2		55.3		52.3	55.4	
Operating profit	116	35	232.2	111	5.0	346	404	(14.2)
Operating margin (%)	15.2	5.1		16.1		11.9	14.7	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortization	8	7	17.9	7	15.9	26	25	5.6
PBT & Exceptional Items	144	66	117.6	162	(11.4)	465	576	(19.2)
Less : Exceptional Items	26	12	-	10	-	46	2	
Profit before tax	170	78	116.9	173	(1.7)	511	577	(11.5)
Provision for taxation	57	25	126.1	56	1.1	174	201	(13.5)
Reported PAT	113	53	112.6	79	42.7	337	375	(10.1)
Adj. Net profit	87	41	112.3	95	(9.2)	291	373	(22.0)
EPS (`)	10.2	4.8		11.3		34.4	44.0	

Source: Company, Angel Research,

Exhibit 2: 4QFY2017 – Actual Vs Angel estimates

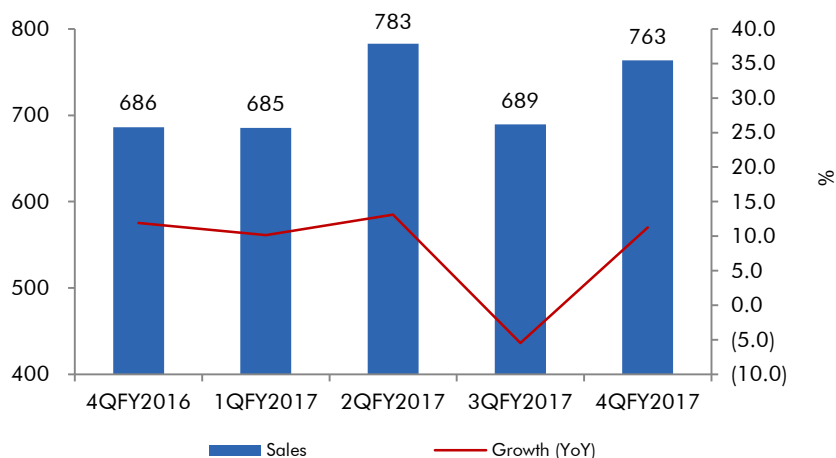
(` cr)	Actual	Estimates	Variation (%)
Net sales	763	690	10.6
Other income	35	50	(29.4)
Operating profit	116	78	48.9
Tax	57	25	126.1
Adj. net profit	87	96	(9.8)

Source: Company, Angel Research

Revenue grew by 10.9% yoy

The revenues came in at `763cr v/s `690cr expected, registering a yoy growth of 10.9%. For FY'2017, the sales grew by 6.1% yoy to end the period at `2,921cr. The sales during the year were impacted on the back of the mandatory price cuts. The current quarter saw a bit of bounce back, with company posting sales growth in-line with the Industry.

Exhibit 3: Sales trend

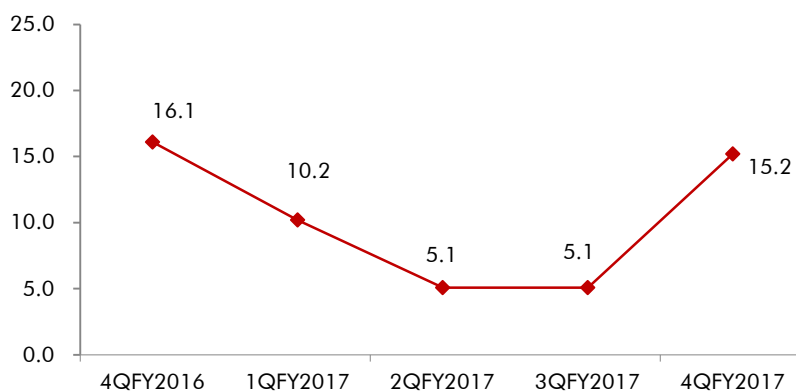


Source: Company, Angel Research

OPM comes higher than expected at 15.2%

On the OPM front, the EBDITA margins came in at 15.2% (v/s 11.3% expected) as compared to 16.1% in 4QFY2016. The margin expansion happened on back of lower than expected employee and other expenses, which grew by 8.0% and 4.6% yoy respectively. The higher than expected margin expansion was on the back of the low growth in other expenses and employee expenses.

Exhibit 4: OPM trend

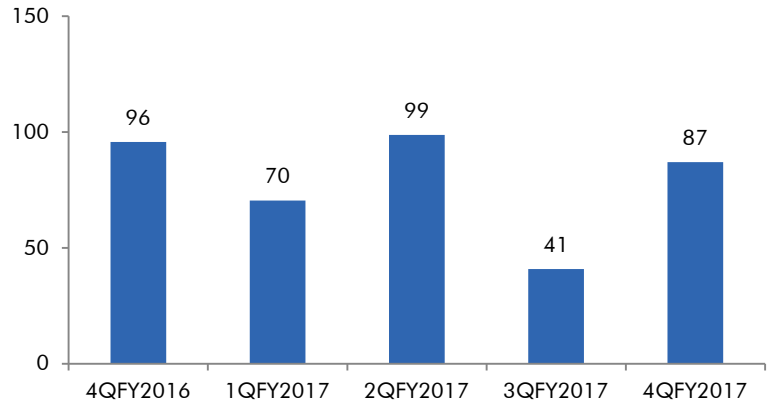


Source: Company, Angel Research

Net profit lower than estimated

The Adj. PAT during the quarter came in at `86.7cr v/s `95.4cr in 4QFY2016, a yoy dip of 9.2%. The reported profit came in at `112.6cr v/s `105.8cr, a yoy growth of 6.4%. Also, during the quarter the company posted an exceptional net gain of `25.9cr, which was related to the sale of properties and proceeds from sale of the non-core brands.

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 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 12.2%.

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, expected to be operational by 2017, 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.

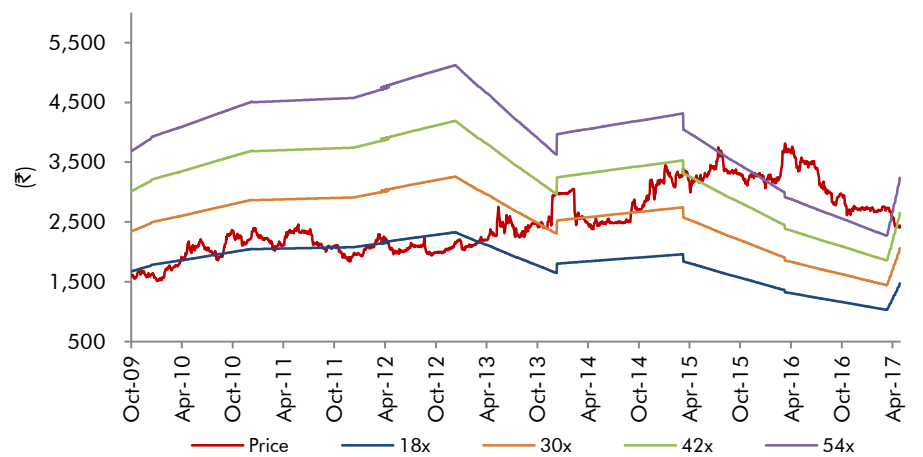
On the operational front, we expect the company's net sales to post a CAGR of 12.2% to ₹3,685cr and EPS to register a CAGR of 31.7% to `59.6 over FY2017–19E. At current level, the stock is trading at 48.9x and 40.7x its FY2018E and FY2019E earnings respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Sales growth (%)	12.4	12.0
Growth in employee expenses (%)	12.4	8.6
Operating margin (%)	16.2	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 %	PE (x)	FY2018E		FY16-18E	FY2018E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	600	648	8.0	23.5	2.7	13.1	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	576	877	52.2	12.2	2.0	8.6	18.1	22.5	26.1
Cadila Healthcare	Neutral	456	-	-	23.8	3.7	17.3	13.5	23.6	27.1
Cipla	Sell	561	465	(17.0)	22.9	2.6	15.4	14.2	12.2	13.9
Dr Reddy's	Neutral	2,608	-	-	21.8	2.8	12.5	(13.7)	10.8	13.6
Dishman Pharma	Sell	291	143	(50.9)	25.7	2.8	12.3	16.3	13.0	13.5
GSK Pharma*	Neutral	2,428	-	-	48.9	6.1	37.3	6.0	22.3	21.3
Indoco Remedies	Buy	203	240	18.2	12.7	1.5	8.2	33.2	19.1	20.1
Ipca labs	Buy	520	613	17.9	27.1	1.9	12.1	34.8	8.6	9.5
Lupin	Buy	1,263	1,809	43.2	18.2	3.0	11.2	17.2	24.4	20.9
Sanofi India	Neutral	4,102	-	-	29.3	3.4	20.1	16.8	22.5	26.4
Sun Pharma	Buy	640	847	32.3	18.1	3.8	11.5	26.5	18.9	20.1

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	FY2017E	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	FY2017E	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	2,068

Cash flow statement

Y/E March (₹ cr)	CY2013	FY2015	FY2016	FY2017E	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	FY2017E	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	44.3	40.4	55.0	70.7	48.9	40.7
P/CEPS	41.0	41.0	51.2	50.3	43.5	36.4
P/BV	10.3	11.2	9.4	10.2	10.6	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	56.8	37.3	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)