

GlaxoSmithKline Pharma

Performance Highlights

Y/E Mar (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)
Net Sales	692	622	11.3	739	(6.4)
Other income	40	46	(14.7)	43	(9.1)
Gross profit	390	342	14.2	395	(1.3)
Operating profit	121	104	16.5	157	(23.2)
Adj. PAT	101	95	6.7	129	(21.4)

Source: Company, Angel Research

For 2QFY2016, Glaxo Smithkline Pharma (GSK Pharma) reported a disappointing set of numbers, due to lower- than-expected sales. Sales came in at ₹692cr (V/s ₹720cr expected), a dip of 6.4% yoy, which was due to supply constraints. On the operating front, the company's gross margins for the quarter came in at 56.4% V/s 53.5% in 2QFY2015. In spite of the rise in gross margins, the OPM came in lower at 17.4% V/s an expected 20.2% and V/s 21.3% in 2QFY2015, mainly owing to lower sales during the quarter. Thus, the reported net profit came in at ₹96cr V/s ₹129cr in 2QFY2015. However, the Adj. net profit came in at ₹101cr V/s ₹129cr in 2QFY2015, a yoy dip of 21.4%. **We remain Neutral on the stock.**

Results below our expectations: For 2QFY2016, GSK Pharma reported a disappointing set of numbers, due to lower- than-expected sales. Sales came in at ₹692cr (V/s ₹720cr expected), a dip of 6.4% yoy, which was due to supply constraints. On the operating front, the company's gross margins for the quarter came in at 56.4% V/s 53.5% in 2QFY2015. In spite of the rise in gross margins, the OPM came in lower at 17.4% V/s an expected 20.2% and V/s 21.3% in 2QFY2015, mainly owing to lower sales during the quarter. Thus, the reported net profit came in at ₹96cr V/s ₹129cr in 2QFY2015. However, the Adj. net profit came in at ₹101cr V/s ₹129cr in 2QFY2015, a yoy dip of 21.4%.

Outlook and valuation: The company has a strong balance sheet with cash of ~₹2,000cr, 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 9.8% to ₹3,158cr and EPS to register a mere CAGR of 6.6% to ₹68.3 over FY2015–17E. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y/E Mar (₹ cr)	CY2013	FY2015*	FY2016E	FY2017E
Net sales	2,538	3,272	2,870	3,158
% chg	(3.2)	28.9	(12.3)	10.0
Net profit	464	509	504	579
% chg	(29.4)	9.8	(1.1)	14.9
EPS (₹)	54.8	60.1	59.5	68.3
EBITDA (%)	19.9	17.8	20.0	22.1
P/E (x)	60.2	54.8	55.4	48.2
RoE (%)	23.2	26.7	28.5	34.3
RoCE (%)	22.4	26.7	26.8	33.7
P/BV (x)	14.0	15.3	16.3	16.8
EV/Sales (x)	10.2	7.9	9.1	8.3
EV/EBITDA (x)	51.3	44.7	45.6	37.8

Source: Company, Angel Research; Note: CMP as of October 30, 2015, *- 15 months numbers

NEUTRAL

CMP	₹3,295
Target Price	-

Investment Period	-
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Stock Info

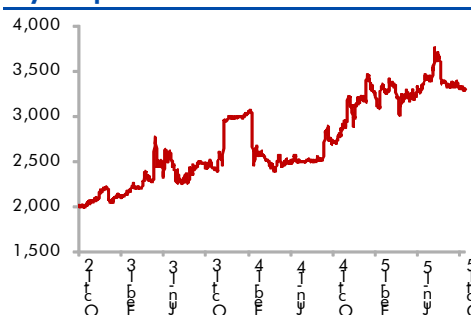
Sector	Pharmaceutical
Market Cap (₹ cr)	27,907
Net Debt (₹ cr)	(1,631)
Beta	0.31
52 Week High / Low	3,825/2,676
Avg. Daily Volume	3,531
Face Value (₹)	10
BSE Sensex	26,657
Nifty	8,066
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian FIIs	10.3
FII / NRIs / OCBs	2.5
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	(3.8)	(2.5)	44.6
Glaxo	(6.5)	22.2	64.9

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 – Standalone performance

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)	1HFY2016	1HFY2015	% chg
Net Sales	692	622	11.3	739	(6.4)	1,314	1,255	4.7
Other income	40	46	(14.7)	43	(9.1)	86	100	(13.8)
Total Income	731	668	9.5	782	(6.5)	1,400	1,354	3.3
Gross profit	390	342	14.2	395	(1.3)	732	643	13.9
Gross margin	56.4	55.0		53.5		55.7	51.2	
Operating profit	121	104	16.5	157	(23.2)	224	207	8.3
Operating margin (%)	17.4	16.7		21.3		17.1	16.5	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortisation	5	5	8.3	5	(2.9)	10	9	10.7
PBT & Exceptional Items	155	145	6.8	195	(20.6)	300	297	0.9
Less : Exceptional Items	(8)	(2)	-	0	-	(10)	0	
Profit before tax	147	143	3.1	195	(24.7)	290	297	(2.6)
Provision for taxation	51	49	3.4	66	(23.3)	100	102	(2.1)
Reported PAT	96	93	3.0	129	(25.4)	189	195	(2.8)
Adj. Net profit	101	95	6.7	129	(21.4)	196	195	0.6
EPS (₹)	11.9	11.2		15.2		23.1	23.0	

Source: Company, Angel Research, Note- 1HFY2015 are 2QCY2015 and 3QCY2015

Exhibit 2: 2QFY2016 – Actual vs Angel estimates

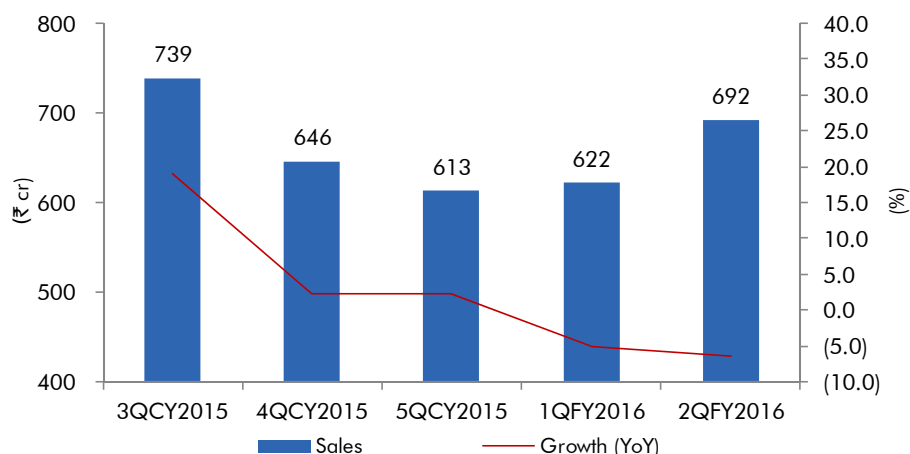
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	692	720	(3.9)
Other income	40	43	(9.1)
Operating profit	121	146	(17.2)
Tax	51	66	(23.3)
Adj. net profit	101	117	(13.7)

Source: Company, Angel Research

Revenue de-grew by 6.4% yoy

For 2QFY2016, GSK Pharma reported a disappointing set of numbers, due to lower- than-expected sales. Sales came in at ₹692cr (V/s ₹720cr expected), a dip of 6.4% yoy, which was due to supply constraints.

Exhibit 3: Sales trend

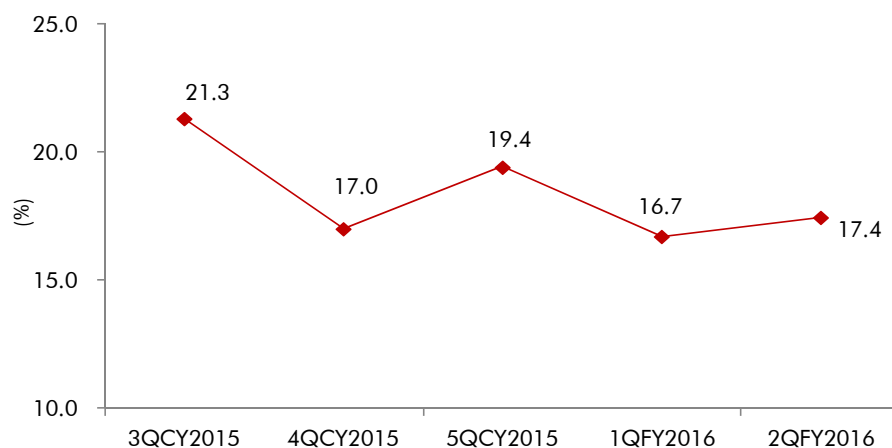


Source: Company, Angel Research

OPM comes in lower at 17.4%

On the operating front, the company's gross margins for the quarter came in at 56.4% V/s 53.5% in 2QFY2015. In spite of the rise in gross margins, the OPM came in lower at 17.4% V/s an expected 20.2% and V/s 21.3% in 2QFY2015, mainly owing to lower sales during the quarter

Exhibit 4: OPM trend

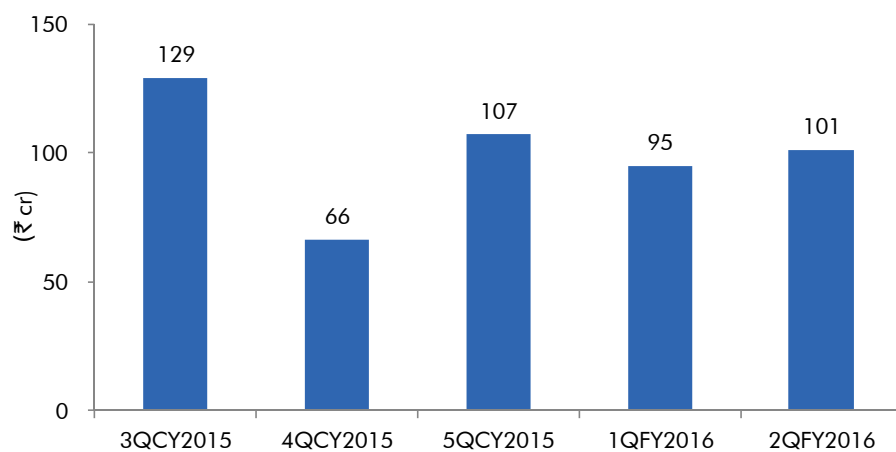


Source: Company, Angel Research

Net profit lower than estimated

Thus the reported net profit came in at ₹96cr V/s ₹129cr in 2QFY2015. However, the Adj. net profit came in at ₹101cr V/s ₹129cr in 2QFY2015, a yoy dip of 21.4%.

Exhibit 5: Adjusted net profit trend



Source: Company, Angel Research

Recommendation rationale

Renewed focus on the Indian market; CY2013 & FY2015 muted on back of DPCO 2013: GSK Pharma 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 business in the Indian markets; the company has been consistently launching new products in the Indian market.

Over the last six years, the company has strategically decided to expand its presence in the Specialty segment. Specialty segment's contribution to sales has reached 23% (as of 2013). The segment grew by 9.0% yoy in CY2013. Another segment which is strong for the company is the area of vaccine, 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 (GSK), London, UK, entered into three inter-conditional agreements with Novartis AG (Novartis), Basel, Switzerland. In one such agreement GSK agreed to acquire Novartis's vaccines business (excluding influenza vaccine), manufacturing capabilities and facilities, and in the second agreement, GSK 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. However, going forward, with the company's own facilities coming on stream in FY2017, we expect the volatility in sales to end. Overall, for FY2015-17E, we expect the domestic formulation business of the company to grow at a CAGR of 8.0%.

Significant capex plans ahead indicate revival in growth: Global pharmaceutical major GSK announced an ₹864cr investment in India to set up a medicine manufacturing unit. The new facility will substantially increase GSK'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 Pharma has a strong balance sheet with cash of ~₹2,000cr, which could be used for future acquisitions or higher dividend payouts. The company's parent had announced to increase stake in it through a voluntary open offer, after which the parent company would hold 75.0% stake in its 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 9.8% to ₹3,158cr and EPS to register a mere CAGR of 6.6% to ₹68.3 over FY2015–17E. At current levels, the stock is trading at 55.4x and 48.2x FY2016E and FY2017E earnings, respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2016E	FY2017E
Sales growth (%)	9.6	10.0
Growth in employee expenses (%)	10.0	10.0
Operating margin (%)	20.0	22.1
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		FY2017E		FY15-17E	FY2017E	
		(₹)	(₹)	%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	678	-	-	28.4	4.1	20.1	26.2	31.5	31.8
Aurobindo Pharma	Neutral	835	-		19.1	3.1	13.4	16.3	23.4	30.2
Cadila Healthcare	Neutral	416	-	-	23.7	3.6	16.2	24.6	25.2	29.0
Cipla	Neutral	690	-	-	22.6	3.2	16.2	24.6	18.0	17.5
Dr Reddy's	Neutral	4,270	-	-	22.2	3.3	14.7	21.6	20.6	22.0
Dishman Pharma	Neutral	362	-	-	16.8	1.6	7.8	20.4	11.7	11.7
GSK Pharma*	Neutral	3,295	-	-	48.2	8.4	37.8	6.6	33.7	34.3
Indoco Remedies	Neutral	326	-	-	21.0	2.4	13.4	31.4	20.1	21.1
Ipca labs	Neutral	782	-	-	27.9	2.8	14.9	26.1	13.0	14.9
Lupin	Neutral	1,926	-	-	27.1	4.7	17.3	9.7	27.9	23.4
Sanofi India*	Neutral	4,545	-	-	30.0	3.9	18.8	33.1	27.9	25.5
Sun Pharma	Neutral	889	950	-	33.0	5.9	19.2	8.4	15.8	16.6

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

Company Background

GlaxoSmithKline Pharmaceuticals 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 Pharma sells prescription medicines across therapeutic areas such as anti-infectives, dermatology, gynaecology, 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)	CY2011	CY2012	CY2013	FY2015	FY2016E	FY2017E
Gross sales	2,433	2,692	2,589	3,328	2,929	3,222
Less: Excise duty	55	71	51	56	59	64
Net sales	2,378	2,621	2,538	3,272	2,870	3,158
Other operating income	1	29	24	32	6	7
Total operating income	2,379	2,651	2,563	3,305	2,876	3,165
% chg	10.3	11.4	(3.3)	28.9	(13.0)	10.0
Total expenditure	1,635	1,862	2,034	2,690	2,297	2,461
Net raw materials	919	1,104	1,164	1,510	1,263	1,389
Other Mfg costs	122	94	89	115	99	107
Personnel	279	296	362	493	432	476
Other	314	369	420	572	502	489
EBITDA	743	759	504	582	574	696
% chg	(2.0)	2.1	(33.6)	15.5	(1.4)	21.3
(% of Net Sales)	31.2	29.0	19.9	17.8	20.0	22.1
Depreciation & amortisation	20	18	20	25	47	61
EBIT	723	741	484	557	527	636
% chg	(2.5)	2.6	(34.7)	15.0	(5.3)	20.6
(% of Net Sales)	30.4	28.3	19.1	17.0	18.4	20.1
Interest & other charges	0	-	-	-	-	-
Other income	182	175	177	200	200	200
(% of PBT)						
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	905	945	685	789	733	843
% chg	3.9	4.4	(27.5)	15.1	(7.0)	14.9
Extraordinary expense/(Inc.)	301	101	(26)	33	-	-
PBT (reported)	605	844	711	756	733	843
Tax	176	318	230	279	229	264
(% of PBT)	29.1	37.7	32.3	36.9	31.3	31.3
PAT (reported)	429	526	482	477	504	579
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items	-	-	-	-	-	-
PAT after MI (reported)	429	526	482	477	504	579
ADJ. PAT	587	657	464	509	504	579
% chg	1.6	12.0	(29.4)	9.8	(1.1)	14.9
(% of Net Sales)	24.7	25.1	18.3	15.6	17.5	18.3
Basic EPS (₹)	69	78	55	60	59	68
Fully diluted EPS (₹)	69	78	55	60	59	68
% chg	1.6	12.0	(29.4)	9.8	(1.1)	14.9

Note-FY2015 is 15 months

Balance Sheet

Y/E March (₹ cr)	CY2011	CY2012	CY2013	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	85	85	85	85	85	85
Preference Capital	-	-	-	-	-	-
Reserves& surplus	1,851	1,922	1,905	1,744	1,624	1,578
Shareholders funds	1,936	2,007	1,990	1,829	1,708	1,663
Minority Interest	-	-	-	-	-	-
Total loans	5	4	4	3	6	7
Other long-term liabilities	5	5	5	5	5	5
Long-term provisions	225	236	242	273	273	273
Deferred tax liability	(62)	(87)	(92)	(83)	(83)	(83)
Total liabilities	2,108	2,165	2,148	2,026	1,909	1,864
APPLICATION OF FUNDS						
Gross block	274	274	323	467	667	867
Less: Acc. depreciation	217	227	247	272	319	379
Net block	57	47	76	195	348	487
Capital work-in-progress	16	44	44	44	44	44
Goodwill	42	42	42	-	-	-
Other non-current assets	36	17	14	-	-	-
Long-term loans and adv.	157	195	238	307	270	297
Investments	112	55	10	0	0	0
Current assets	2,548	2,602	2,614	2,587	2,596	2,520
Cash	2,014	2,067	2,042	1,911	1,735	1,573
Loans & advances	85	134	238	122	287	316
Other	448	401	335	554	574	632
Current liabilities	860	836	889	1,107	1,349	1,484
Net current assets	1,688	1,765	1,725	1,480	1,247	1,036
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	2,108	2,165	2,148	2,026	1,909	1,864

Note-FY2015 is 15 months

Cash flow statement

Y/E March (₹ cr)	CY2011	CY2012	CY2013	FY2015	FY2016E	FY2017E
Profit before tax and exceptionals	605	844	711	756	733	843
Depreciation	20	18	20	25	47	61
(Inc)/Dec in working capital	(205)	(25)	15	114	58	49
Direct taxes paid	188	318	230	279	229	264
Cash Flow from Operations	232	519	517	616	608	688
(Inc.)/Dec.in fixed assets	39	(28)	(49)	(144)	(200)	(200)
(Inc.)/Dec. in investments	(6)	(57)	(45)	(10)	-	-
Cash Flow from Investing	34	(85)	(93)	(154)	(200)	(200)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(1)	-	-	-	-	-
Dividend paid (Incl. Tax)	(444)	(491)	(495)	(624)	(624)	(624)
Others	191	110	47	32	41	(26)
Cash Flow from Financing	(254)	(381)	(448)	(593)	(584)	(650)
Inc./(Dec.) in cash	11	52	(25)	(131)	(176)	(162)
Opening cash balances	2,003	2,014	2,067	2,042	1,911	1,735
Closing cash balances	2,014	2,067	2,042	1,911	1,735	1,573

Note-FY2015 is 15 months

Key ratio

Y/E March	CY2011	CY2012	CY2013	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	47.6	42.5	60.2	54.8	55.4	48.2
P/CEPS	62.2	51.3	55.6	55.6	50.7	43.6
P/BV	14.4	13.9	14.0	15.3	16.3	16.8
Dividend yield (%)	1.4	1.5	1.5	1.5	1.5	1.5
EV/Sales	10.9	9.9	10.2	7.9	9.1	8.3
EV/EBITDA	34.8	34.0	51.3	44.7	45.6	37.8
EV / Total Assets	12.3	11.9	12.0	12.8	13.7	14.1
Per Share Data (₹)						
EPS (Basic)	69.3	77.6	54.8	60.1	59.5	68.3
EPS (fully diluted)	69.3	77.6	54.8	60.1	59.5	68.3
Cash EPS	53.0	64.2	59.2	59.3	65.0	75.5
DPS	45.0	50.0	50.0	50.0	50.0	51.0
Book Value	228.5	236.9	234.9	215.9	201.7	196.3
Returns (%)						
RoCE (Pre-tax)	36.1	34.7	22.4	26.7	26.8	33.7
Angel ROIC (Pre-tax)	-	-	-	-	-	-
RoE	30.2	33.3	23.2	26.7	28.5	34.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	8.0	9.7	8.6	8.4	5.1	4.1
Inventory / Sales (days)	47	43	48	40	43	38
Receivables (days)	10	14	15	11	13	12
Payables (days)	69	58	54	55	68	74
WC cycle (ex-cash) (days)	80	74	79	69	98	104
Solvency ratios (x)						
Net debt to equity	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)
Net debt to EBITDA	(2.7)	(2.7)	(4.0)	(3.3)	(3.0)	(2.2)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

Note-FY2015 is 15 months

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Glaxo Pharma

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)