

GlaxoSmithKline Pharmaceuticals

Performance Highlights

Y/E Mar (₹ cr)	2QFY2017	1QFY2017	% chg (QoQ)	2QFY2016	% chg (YoY)
Net Sales	783	685	14.3	700	11.8
Other income	34	44	(22.2)	40	(14.2)
Gross profit	421	371	13.6	390	8.0
Operating profit	124	70	77.2bp	121	3.3bp
Adj. PAT	98	71	37.6	101	(2.9)

Source: Company, Angel Research

For 2QFY2017, sales stood at ₹783cr vs. ₹700cr expected and vs. ₹700cr in 2QFY2016, a yoy growth of 11.8%. On the operating front, the OPM came in at 15.9% vs. 17.2% in 2QFY2016 and vs. 17.0% expected. The company's OPM was impacted by other expenses, which grew by 40.5% yoy. Thus, the company posted an Adj. net profit of ₹98cr vs. ₹101cr in 2QFY2016, a yoy de-growth of 2.9%. **We maintain our Neutral rating on the stock.**

Results below expectations: For 2QFY2017, sales stood at ₹783cr vs. ₹700cr expected and vs. ₹700cr in 2QFY2016, a yoy growth of 11.8%. On the operating front, the OPM came in at 15.9% vs. 17.2% in 2QFY2016 and vs. 17.0% expected. The company's OPM was impacted by other expenses, which grew by 40.5% yoy. Thus, the company posted an Adj. net profit of ₹98cr vs. ₹101cr in 2QFY2016, a yoy de-growth of 2.9%.

Outlook and valuation: Company has a strong balance sheet with cash of ~₹2,000cr, which could be used for future acquisitions or higher dividend pay outs. On the operational front, we expect the company's net sales to post a CAGR of 9.9% to ₹3,312cr and EPS to register a mere CAGR of 17.3% to ₹60.8 over FY2016–18E. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y/E Mar (₹ cr)	FY2015*	FY2016	FY2017E	FY2018E
Net sales	3,272	2,741	3,000	3,312
% chg	28.9	(16.2)	9.4	10.4
Net profit	509	374	394	515
% chg	9.8	(26.5)	5.2	30.9
EPS (₹)	60.1	44.2	46.5	60.8
EBITDA (%)	17.8	16.5	15.4	20.6
P/E (x)	45.2	61.5	58.5	44.7
RoE (%)	26.7	21.2	23.9	32.1
RoCE (%)	26.7	21.7	22.8	34.6
P/BV (x)	12.6	13.6	14.4	14.3
EV/Sales (x)	6.5	7.9	7.3	6.7
EV/EBITDA (x)	36.3	48.0	47.4	32.4

Source: Company, Angel Research; Note: CMP as of November 8, 2016; * 15 months numbers

NEUTRAL

CMP	₹2,719
Target Price	-

Investment Period	-
-------------------	---

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	23,030
Net Debt (₹ cr)	(1,055)
Beta	0.43
52 Week High / Low	3,850/2,710
Avg. Daily Volume	1,838
Face Value (₹)	10
BSE Sensex	27,591
Nifty	8,544
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	10.5
FII / NRIs / OCBs	2.4
Indian Public / Others	12.1

Abs. (%)	3m	1yr	3yr
Sensex	(2.1)	5.0	33.5
Glaxo	(12.7)	(14.8)	9.6

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91 22 39357800 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QFY2017 – Standalone performance

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (QoQ)	2QFY2016	% chg (YoY)	1HFY2017	1HFY2016	% chg
Net Sales	783	685	14.3	700	11.8	1,468	1,334	10.0
Other income	34	44	(22.2)	40	(14.2)	78	86	(8.7)
Total Income	817	729	12.0	740	10.4	1,547	1,420	8.9
Gross profit	421	371	13.6	390	8.0	792	732	8.2
Gross margin	53.8	54.1		55.7		54.0	54.9	
Operating profit	124	70	77.2	121	3.3	195	224	(13.1)
Operating margin (%)	15.9	10.2		17.2		13.3	16.8	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortization	7	5	22.5	5	22.5	12	10	19.5
PBT & Exceptional Items	152	109	39.7	155	(1.9)	261	300	(12.9)
Less : Exceptional Items	2	2	-	(8)	-	3	(10)	
Profit before tax	154	111	38.8	147	4.6	265	290	(8.7)
Provision for taxation	54	39	38.9	51	5.0	92	100	(7.9)
Reported PAT	99	72	36.8	96	3.5	171	190	(9.7)
Adj. Net profit	98	71	37.6	101	(2.9)	170	196	(13.5)
EPS (₹)	11.5	8.4		11.9		20.1	23.2	

Source: Company, Angel Research, Note- Full year numbers are consolidated numbers

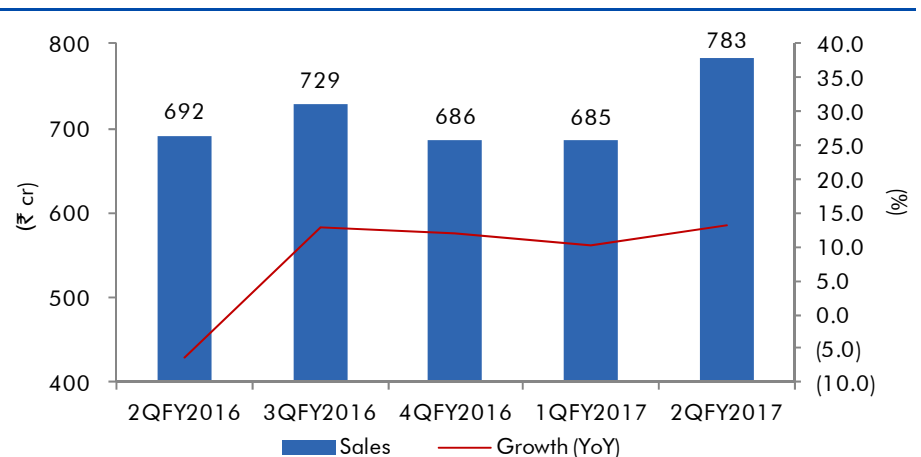
Exhibit 2: 2QFY2017 – Actual Vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	783	700	11.8
Other income	34	44	(22.2)
Operating profit	124	119	4.6
Tax	54	54	(0.2)
Adj. net profit	98	102	(4.3)

Source: Company, Angel Research

Revenue grew by 11.8%

Sales grew 11.8% yoy to ₹783cr (vs. ₹700cr expected). The growth was primarily driven by 16% volume increase. The volume growth was partially moderated due to the impact of NLEM related mandatory price cuts.

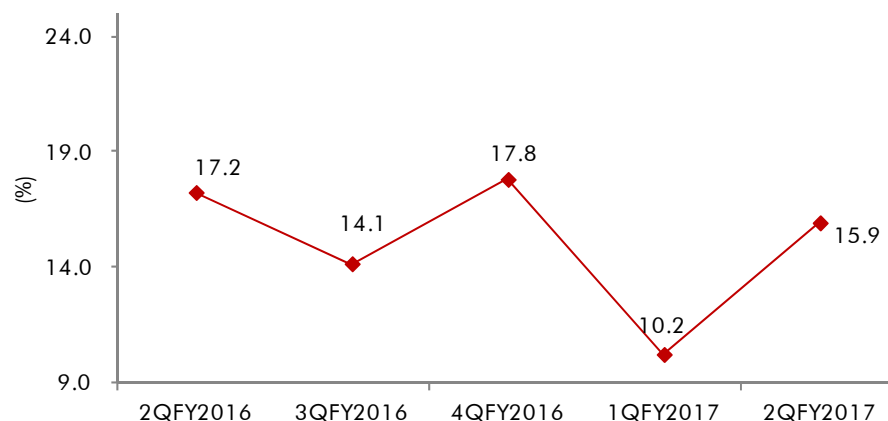
Exhibit 3: Sales trend


Source: Company, Angel Research

OPM comes in lower on a yoy basis at 15.9%

On the operating front, the gross margin came in at 53.8% vs. 55.7% in 2QFY2016. The OPM came in lower at 15.9% vs. 17.2% in 2QFY2016 and vs. our expectation of 17.0%.

Exhibit 4: OPM trend

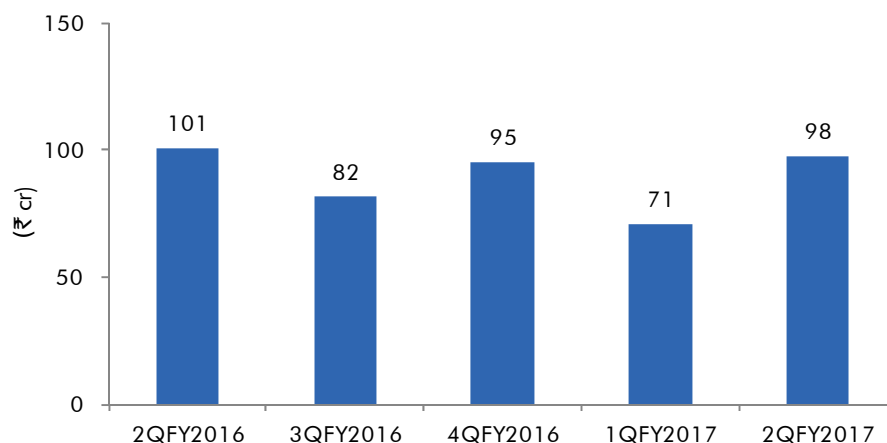


Source: Company, Angel Research

Net profit lower than estimated

The reported net profit came in at ₹99cr vs. ₹96cr in 2QFY2017. The Adj. net profit came in at ₹98cr vs. ₹101cr in 2QFY2017, a yoy de-growth of 2.9% and lower than our expectation of ₹102cr.

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 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 (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. However, going forward, with company's own facilities coming on stream in FY2017, we expect the volatility in sales to end. Overall, for FY2016-18E, we expect the domestic formulation business of the company to grow at a CAGR of 10.0%.

Significant capex plans ahead indicate revival in growth: Global pharmaceutical major Glaxo announced an ₹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 ~₹2,000cr, 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.

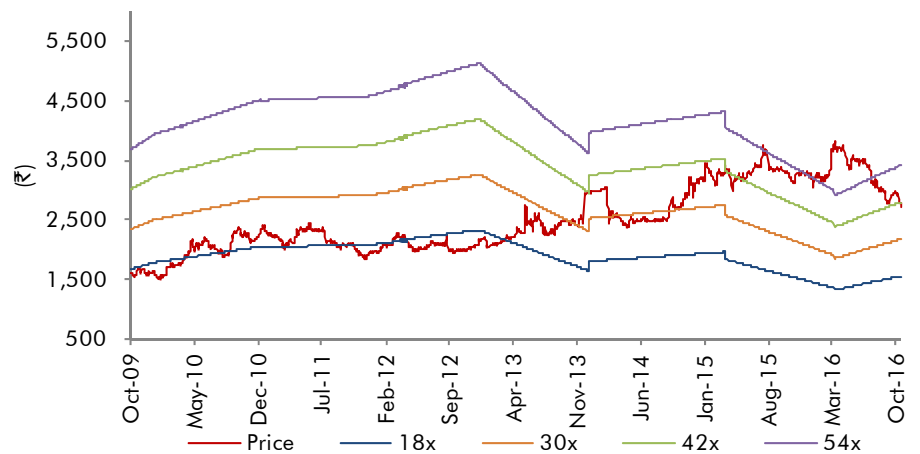
On the operational front, we expect the company's net sales to post a CAGR of 9.9% to ₹3,312cr and EPS to register a CAGR of 17.3% to ₹60.8 over FY2016–18E. At current level, the stock is trading at 58.5x and 44.7x its FY2017E and FY2018E earnings, respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2017E	FY2018E
Sales growth (%)	9.4	10.2
Growth in employee expenses (%)	16.2	10.0
Operating margin (%)	15.4	20.6
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	Neutral	655	-	-	21.6	2.9	13.5	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	757	877	15.9	16.0	2.6	11.1	18.1	22.5	26.1
Cadila Healthcare	Buy	375	-	-	19.5	3.0	13.7	13.4	22.7	25.7
Cipla	Neutral	536	-	-	19.7	2.5	13.6	20.4	13.5	15.2
Dr Reddy's	Neutral	3,115	-	-	21.8	2.8	12.5	1.7	16.2	15.9
Dishman Pharma	Neutral	237	-	-	21.0	2.3	10.3	3.1	10.3	10.9
GSK Pharma*	Neutral	2,719	-	-	44.7	6.8	32.8	17.3	35.3	32.1
Indoco Remedies	Neutral	277	-	-	17.7	2.1	11.4	31.5	19.1	19.2
Ipca labs	Accumulate	572	613	7.2	29.0	2.0	13.1	36.5	8.8	9.4
Lupin	Buy	1,509	1,809	19.9	21.8	3.6	13.4	17.2	24.4	20.9
Sanofi India	Neutral	4,277	-	-	24.9	3.3	17.8	22.2	24.9	28.8
Sun Pharma	Buy	635	944	48.6	19.4	3.8	12.2	22.0	33.1	18.9

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, 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)	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Gross sales	2,692	2,589	3,328	2,800	3,072	3,379
Less: Excise duty	71	51	56	59	72	68
Net sales	2,621	2,538	3,272	2,741	3,000	3,312
Other operating income	29	24	32	27	27	27
Total operating income	2,651	2,563	3,305	2,768	3,027	3,339
% chg	11.4	(3.3)	28.9	(16.2)	9.4	10.3
Total expenditure	1,862	2,034	2,690	2,289	2,537	2,629
Net raw materials	1,104	1,164	1,510	1,233	1,530	1,490
Other Mfg costs	94	89	115	99	107	115
Personnel	296	362	493	443	450	533
Other	369	420	572	514	450	491
EBITDA	759	504	582	452	463	682
% chg	2.1	(33.6)	15.5	(22.4)	2.5	47.3
(% of Net Sales)	29.0	19.9	17.8	16.5	15.4	20.6
Depreciation & amortization	18	20	25	25	37	45
EBIT	741	484	557	427	426	637
% chg	2.6	(34.7)	15.0	(23.3)	(0.2)	49.6
(% of Net Sales)	28.3	19.1	17.0	15.6	14.2	19.2
Interest & other charges	-	-	-	-	-	-
Other income	175	177	200	125	125	125
(% of PBT)						
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	945	685	789	579	579	790
% chg	4.4	(27.5)	15.1	(26.5)	(0.1)	36.5
Extraordinary expense/(Inc.)	101	(26)	33	(3)	-	-
PBT (reported)	844	711	756	582	579	790
Tax	318	230	279	203	185	275
(% of PBT)	37.7	32.3	36.9	34.8	32.0	34.8
PAT (reported)	526	482	477	377	394	515
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items						
PAT after MI (reported)	526	482	477	377	394	515
ADJ. PAT	657	464	509	374	394	515
% chg	12.0	(29.4)	9.8	(26.5)	5.2	30.9
(% of Net Sales)	25.1	18.3	15.6	13.7	13.1	15.6
Basic EPS (₹)	78	55	60	44	46	61
Fully diluted EPS (₹)	78	55	60	44	46	61
% chg	12.0	(29.4)	9.8	(26.5)	5.2	30.9

Balance Sheet

Y/E March (₹ cr)	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	85	85	85	85	85	85
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,922	1,905	1,744	1,611	1,509	1,529
Shareholders funds	2,007	1,990	1,829	1,696	1,594	1,614
Minority Interest						
Total loans	4	4	3	2	2	2
Other long-term liabilities	5	5	5	-	-	-
Long-term provisions	236	242	273	291	291	291
Deferred tax liability	(87)	(92)	(83)	(89)	(89)	(89)
Total liabilities	2,165	2,148	2,026	1,900	1,798	1,818
APPLICATION OF FUNDS						
Gross block	274	323	467	725	925	1,125
Less: Acc. depreciation	227	247	272	297	334	379
Net block	47	76	195	428	591	746
Capital work-in-progress	44	44	44	44	44	44
Goodwill	42	42	-	-	-	-
Other non-current assets	17	14	-	-	-	-
Long-term loans and adv.	195	238	307	313	343	379
Investments	55	10	0	0	0	0
Current assets	2,602	2,614	2,587	2,172	1,960	1,907
Cash	2,067	2,042	1,911	1,348	1,060	914
Loans & advances	134	238	122	123	135	149
Other	401	335	554	701	765	844
Current liabilities	836	889	1,107	1,058	1,140	1,258
Net current assets	1,765	1,725	1,480	1,115	820	649
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	2,165	2,148	2,026	1,900	1,798	1,818

Cash flow statement

Y/E March (₹ cr)	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Profit before tax and exceptional	844	711	756	582	579	790
Depreciation	18	20	25	25	37	45
(Inc)/Dec in working capital	(25)	15	114	(197)	7	25
Direct taxes paid	318	230	279	203	185	275
Cash Flow from Operations	519	517	616	207	438	585
(Inc.)/Dec.in fixed assets	(28)	(49)	(144)	(258)	(200)	(200)
(Inc.)/Dec. in investments	(57)	(45)	(10)	-	-	-
Cash Flow from Investing	(85)	(93)	(154)	(258)	(200)	(200)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend paid (Incl. Tax)	(491)	(495)	(624)	(495)	(495)	(495)
Others	110	47	32	(16)	(30)	(35)
Cash Flow from Financing	(381)	(448)	(593)	(512)	(525)	(531)
Inc./(Dec.) in cash	52	(25)	(131)	(563)	(288)	(146)
Opening cash balances	2,014	2,067	2,042	1,911	1,348	1,060
Closing cash balances	2,067	2,042	1,911	1,348	1,060	914

Key ratio

Y/E March	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	35.0	49.6	45.2	61.5	58.5	44.7
P/CEPS	42.3	45.9	45.9	57.3	53.5	41.1
P/BV	11.5	11.6	12.6	13.6	14.4	14.3
Dividend yield (%)	1.8	1.8	1.8	1.8	1.8	1.8
EV/Sales	8.0	8.3	6.5	7.9	7.3	6.7
EV/EBITDA	27.6	41.7	36.3	48.0	47.4	32.4
EV / Total Assets	9.7	9.8	10.4	11.4	12.2	12.2
Per Share Data (₹)						
EPS (Basic)	77.6	54.8	60.1	44.2	46.5	60.8
EPS (fully diluted)	77.6	54.8	60.1	44.2	46.5	60.8
Cash EPS	64.2	59.2	59.3	47.4	50.8	66.1
DPS	50.0	50.0	50.0	50.0	50.0	50.0
Book Value	236.9	234.9	215.9	200.2	188.2	190.5
Returns (%)						
RoCE (Pre-tax)	34.7	22.4	26.7	21.7	23.1	35.3
Angel ROIC (Pre-tax)	-	-	-	-	-	-
RoE	33.3	23.2	26.7	21.2	23.9	32.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	9.7	8.6	8.4	4.6	3.7	3.3
Inventory / Sales (days)	43	48	40	59	55	47
Receivables (days)	14	15	11	15	15	13
Payables (days)	58	54	55	77	74	78
WC cycle (ex-cash) (days)	74	79	69	99	104	103
Solvency ratios (x)						
Net debt to equity	(1.0)	(1.0)	(1.0)	(0.8)	(0.7)	(0.6)
Net debt to EBITDA	(2.7)	(4.0)	(3.3)	(3.0)	(2.3)	(1.3)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement

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)