

GlaxoSmithKline Pharmaceuticals

Performance Highlights

Y/E Mar (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)
Net Sales	686	729	(5.9)	613	11.8
Other income	31	33	(5.9)	47	(34.0)
Gross profit	377	387	(2.6)	350	7.7
Operating profit	122	103	18.4	119	2.5
Adj. PAT	95	82	16.4	107	(10.6)

Source: Company, Angel Research

For 4QFY2016, GlaxoSmithKline Pharmaceuticals (GSK)'s sales rose by ₹686cr, up 11.8% yoy. On the operating front, the gross margin and the EBITDA margin came in at 55.0% and 17.8% respectively V/s 57.1% and 19.4% during the corresponding period of the previous year. The reported net profit for the quarter thus came in at ₹106cr V/s ₹103cr in 4QFY2015, ie a yoy growth of 3.0%. The Adj. net profit for the quarter came in at ₹95cr V/s ₹107cr in 4QFY2015, a dip of 10.6% yoy. **We remain Neutral on the stock.**

Results below our expectations: The company posted an unimpressive performance for 4QFY2016. The company posted sales of ₹686cr (V/s ₹828cr expected), a growth of 11.8% yoy. On the operating front, the gross margin and the EBITDA margin came in at 55.0% and 17.8% respectively V/s 57.1% and 19.4% during the corresponding period of the previous year. The OPM came lower than our expectations of 19.6%, weighed down by a lower gross margin on a yoy basis. The reported net profit for the quarter thus came in at ₹106cr V/s ₹103cr in 4QFY2015, ie a yoy growth of 3.0%. The Adj. net profit for the quarter came in at ₹95cr V/s ₹107cr in 4QFY2015, a dip of 10.6% yoy.

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 19.0% to ₹3,881cr and EPS to register a mere CAGR of 21.6% to ₹65.3 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	3,528	3,881
% chg	28.9	(16.2)	28.7	10.0
Net profit	509	374	509	553
% chg	9.8	(26.5)	36.1	8.5
EPS (₹)	60.1	44.2	60.1	65.3
EBITDA (%)	17.8	16.5	18.9	19.1
P/E (x)	58.5	79.6	58.4	53.8
RoE (%)	26.7	21.2	29.9	31.8
RoCE (%)	26.7	21.7	33.0	35.8
P/BV (x)	16.3	17.6	17.4	16.8
EV/Sales (x)	8.5	10.4	8.1	7.4
EV/EBITDA (x)	47.9	62.9	43.0	38.8

Source: Company, Angel Research; Note: CMP as of June 6, 2016, * 15 months numbers

NEUTRAL

CMP	₹3,515
Target Price	-

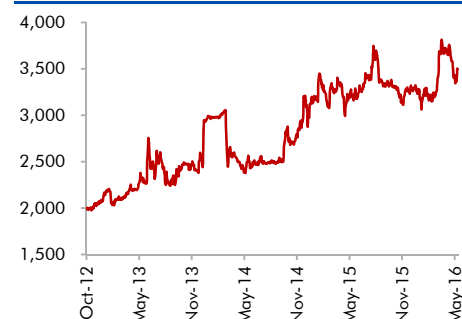
Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	29,775
Net Debt (₹ cr)	4,320
Beta	0.43
52 Week High / Low	3,850/3,036
Avg. Daily Volume	2,013
Face Value (₹)	10
BSE Sensex	27,010
Nifty	8,266
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)	
Promoters	75.0
MF / Banks / Indian Fls	10.4
FII / NRIs / OCBs	2.5
Indian Public / Others	12.1

Abs. (%)	3m	1yr	3yr
Sensex	9.6	0.9	39.0
Glaxo	8.4	10.1	33.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 – Standalone performance

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (QoQ)	4QFY2015	% chg (YoY)	FY2016	FY2015	% chg
Net Sales	686	729	(5.9)	613	11.8	2,741	3,272	(16.2)
Other income	31	33	(5.9)	47	(34.0)	153	233	(34.5)
Total Income	717	762	(5.9)	660	8.6	2,894	3,505	(17.4)
Gross profit	377	387	(2.6)	350	7.7	1,503	1,748	(14.0)
Gross margin	55.0	53.1		57.1		54.8	53.4	
Operating profit	122	103	18.4	119	2.5	452	599	(24.6)
Operating margin (%)	17.8	14.1		19.4		16.5	18.3	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortisation	7	8	(16.0)	5	34.4	25	25	(0.9)
PBT & Exceptional Items	146	128	14.3	161	(9.1)	579	806	(28.1)
Less : Exceptional Items	16	(3)	-	(6)	-	3	(52)	
Profit before tax	162	125	30.0	156	4.1	582	754	(22.8)
Provision for taxation	56	45	25.5	53	6.6	203	277	(26.8)
Reported PAT	106	80	32.6	103	3.0	377	476	(20.9)
Adj. Net profit	95	82	16.4	107	(10.6)	375	509	(26.3)
EPS (₹)	11.3	9.7		12.6		44.3	60.1	

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

Exhibit 2: 4QFY2016 – Actual Vs Angel estimates

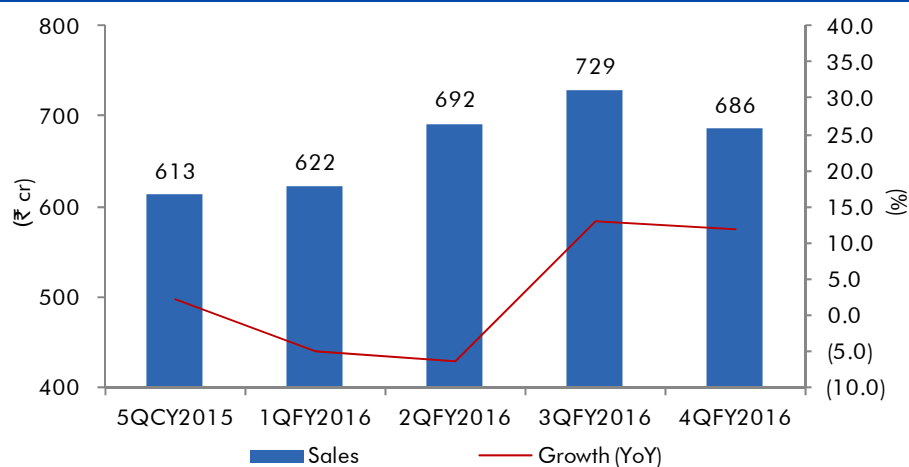
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	686	828	(17.1)
Other income	31	33	(5.9)
Operating profit	122	166	(26.3)
Tax	56	48	18.4
Adj. net profit	95	111	(14.2)

Source: Company, Angel Research

Revenue grew by 11.8%

Sales grew 11.8% yoy to ₹686cr (V/s ₹828cr expected). This is the second quarter of strong growth for the company after posting a 12.8% growth in 3QFY2016, whereas the 1HFY2016, of the company had been impacted by the supply constraints.

Exhibit 3: Sales trend

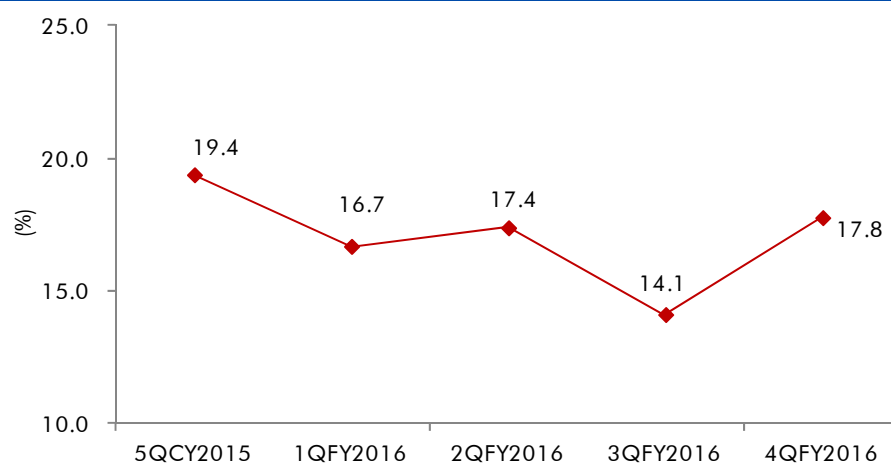


Source: Company, Angel Research

OPM comes in lower on a yoy basis at 17.8%

On the operating front, the gross margin came in at 55.0% V/s 57.1% in 4QFY2015. The OPM came in lower at 17.8% V/s 19.4% in 4QFY2015 and V/s our expectation of 19.6%, mainly owing to lower GPM on a yoy basis.

Exhibit 4: OPM trend

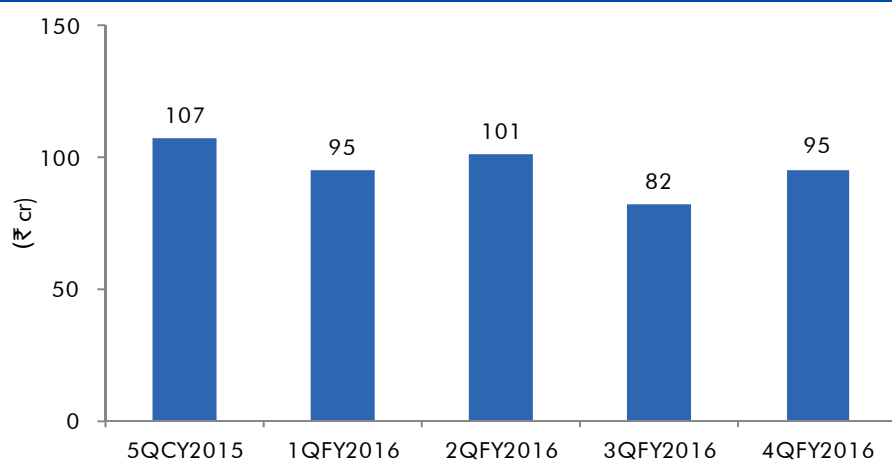


Source: Company, Angel Research

Net profit lower than estimated

The reported net profit came in at ₹106cr V/s ₹103cr in 4QFY2015. The Adj. net profit came in at ₹95cr V/s ₹107cr in 4QFY2015, ie a yoy de-growth of 10.6% and lower than our expectation of ₹111cr.

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 2nd, 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 19.0%.

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 hold 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.

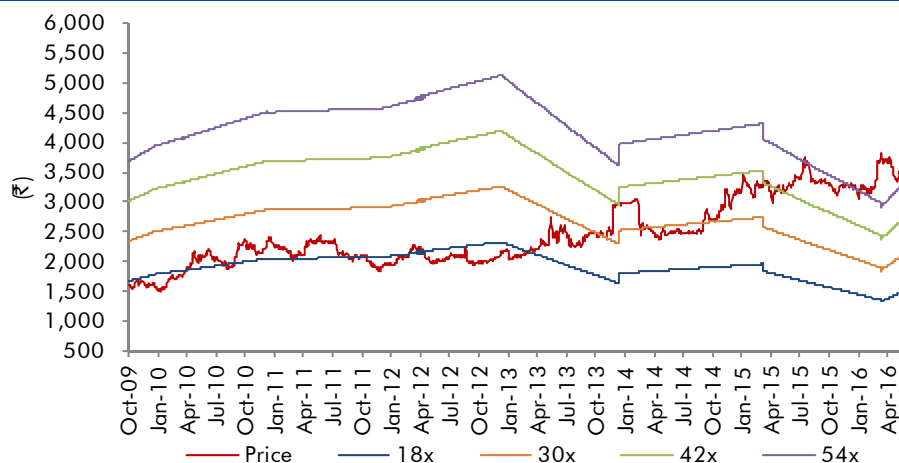
On the operational front, we expect the company's net sales to post a CAGR of 19.1% to ₹3,881cr and EPS to register a CAGR of 21.6% to ₹65.3 over FY2016–18E. At current levels, the stock is trading at 58.4x and 53.8x its FY2017E and FY2018E earnings, respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2017E	FY2018E
Sales growth (%)	28.7	10.0
Growth in employee expenses (%)	28.1	10.0
Operating margin (%)	18.9	19.1
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	557	-	-	29.8	3.0	18.2	11.4	22.0	20.1
Aurobindo Pharma	Accumulate	773	768	10.8	20.1	3.1	14.5	11.4	21.4	27.7
Cadila Healthcare	Buy	320	400	25.0	18.7	2.9	13.2	22.9	24.2	28.8
Cipla	Neutral	469	-	-	21.6	2.7	15.3	4.9	11.1	13.7
Dr Reddy's	Accumulate	3,158	3,476	10.1	20.7	3.0	12.3	6.8	19.2	18.7
Dishman Pharma	Neutral	152	-	-	15.2	1.6	7.7	15.9	9.4	11.0
GSK Pharma	Neutral	3,515	-	-	58.4	8.1	43.0	0.0	33.0	29.9
Indoco Remedies	Neutral	282	-	-	20.7	2.2	12.4	23.0	19.7	19.7
Ipca labs	Buy	431	750	74.0	15.4	1.6	8.8	17.9	11.8	14.9
Lupin	Buy	1,435	1,809	26.1	24.7	4.1	15.6	13.1	29.6	24.7
Sanofi India*	Accumulate	4,300	4,738	10.2	28.0	3.9	22.3	34.2	21.0	25.6
Sun Pharma	Buy	739	950	28.6	26.4	5.4	17.9	10.5	17.7	18.7

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	3,600	3,960
Less: Excise duty	71	51	56	59	72	79
Net sales	2,621	2,538	3,272	2,741	3,528	3,881
Other operating income	29	24	32	27	27	27
Total operating income	2,651	2,563	3,305	2,768	3,555	3,908
% chg	11.4	(3.3)	28.9	(16.2)	28.4	9.9
Total expenditure	1,862	2,034	2,690	2,289	2,862	3,140
Net raw materials	1,104	1,164	1,510	1,233	1,588	1,746
Other Mfg costs	94	89	115	99	107	115
Personnel	296	362	493	443	568	625
Other	369	420	572	514	600	654
EBITDA	759	504	582	452	666	740
% chg	2.1	(33.6)	15.5	(22.4)	47.4	11.2
(% of Net Sales)	29.0	19.9	17.8	16.5	18.9	19.1
Depreciation & amortisation	18	20	25	25	37	45
EBIT	741	484	557	427	629	695
% chg	2.6	(34.7)	15.0	(23.3)	47.3	10.6
(% of Net Sales)	28.3	19.1	17.0	15.6	17.8	17.9
Interest & other charges	-	-	-	-	-	-
Other income	175	177	200	125	125	125
(% of PBT)						
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	945	685	789	579	781	848
% chg	4.4	(27.5)	15.1	(26.5)	34.8	8.5
Extraordinary expense/(Inc.)	101	(26)	33	(3)	-	-
PBT (reported)	844	711	756	582	781	848
Tax	318	230	279	203	272	295
(% of PBT)	37.7	32.3	36.9	34.8	34.8	34.8
PAT (reported)	526	482	477	377	509	553
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items	-	-	-	-	-	-
PAT after MI (reported)	526	482	477	377	509	553
ADJ. PAT	657	464	509	374	509	553
% chg	12.0	(29.4)	9.8	(26.5)	36.1	8.5
(% of Net Sales)	25.1	18.3	15.6	13.7	14.4	14.2
Basic EPS (₹)	78	55	60	44	60	65
Fully diluted EPS (₹)	78	55	60	44	60	65
% chg	12.0	(29.4)	9.8	(26.5)	36.1	8.5

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	1,625	1,683
Shareholders funds	2,007	1,990	1,829	1,696	1,710	1,768
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	1,914	1,972
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	403	444
Investments	55	10	0	0	0	0
Current assets	2,602	2,614	2,587	2,172	2,216	2,213
Cash	2,067	2,042	1,911	1,348	1,158	1,049
Loans & advances	134	238	122	123	159	175
Other	401	335	554	701	900	990
Current liabilities	836	889	1,107	1,058	1,341	1,475
Net current assets	1,765	1,725	1,480	1,115	876	739
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	2,165	2,148	2,026	1,900	1,914	1,972

Cash flow statement

Y/E March (₹ cr)	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Profit before tax and exceptional	844	711	756	582	781	848
Depreciation	18	20	25	25	37	45
(Inc)/Dec in working capital	(25)	15	114	(197)	49	28
Direct taxes paid	318	230	279	203	272	295
Cash Flow from Operations	519	517	616	207	596	626
(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)	(90)	(40)
Cash Flow from Financing	(381)	(448)	(593)	(512)	(585)	(535)
Inc./(Dec.) in cash	52	(25)	(131)	(563)	(190)	(109)
Opening cash balances	2,014	2,067	2,042	1,911	1,348	1,158
Closing cash balances	2,067	2,042	1,911	1,348	1,158	1,049

Key ratio

Y/E March	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	45.3	64.2	58.5	79.6	58.4	53.8
P/CEPS	54.8	59.4	59.3	74.1	54.5	49.8
P/BV	14.8	15.0	16.3	17.6	17.4	16.8
Dividend yield (%)	1.4	1.4	1.4	1.4	1.4	1.4
EV/Sales	10.6	10.9	8.5	10.4	8.1	7.4
EV/EBITDA	36.5	55.1	47.9	62.9	43.0	38.8
EV / Total Assets	12.8	12.9	13.8	15.0	15.0	14.6
Per Share Data (₹)						
EPS (Basic)	77.6	54.8	60.1	44.2	60.1	65.3
EPS (fully diluted)	77.6	54.8	60.1	44.2	60.1	65.3
Cash EPS	64.2	59.2	59.3	47.4	64.5	70.6
DPS	50.0	50.0	50.0	50.0	50.0	50.0
Book Value	236.9	234.9	215.9	200.2	201.9	208.7
Returns (%)						
RoCE (Pre-tax)	34.7	22.4	26.7	21.7	33.0	35.8
Angel ROIC (Pre-tax)	-	-	-	-	-	-
RoE	33.3	23.2	26.7	21.2	29.9	31.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	9.7	8.6	8.4	4.6	4.3	3.8
Inventory / Sales (days)	43	48	40	59	50	46
Receivables (days)	14	15	11	15	14	12
Payables (days)	58	54	55	77	72	77
WC cycle (ex-cash) (days)	74	79	69	99	97	104
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)	(1.7)	(1.4)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

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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)
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