

GlaxoSmithKline Pharmaceuticals

Performance Highlights

Y/E Mar (₹ cr)	3QFY2017	2QFY2017	% chg (QoQ)	3QFY2016	% chg (YoY)
Net Sales	689	783	(12.0)	730	(5.6)
Other income	38	34	9.6	47	(19.5)
Gross profit	332	421	(21.2)	390	(14.9)
Operating profit	35	124	(71.9)	84	(58.6)
Adj. PAT	41	98	(58.3)	81	(49.6)

Source: Company, Angel Research

For 3QFY2017 Glaxo Pharmaceuticals (GSK) posted results lower than expectations on all fronts. In sales, the company posted sales of ₹689cr v/s ₹700cr expected, a yoy de-growth of 5.6%. On EBITDA front, the company posted EBITDA of 5.1% (v/s 9.1% expected) v/s 11.6% in 3QFY2016. Consequently, Adj. PAT came in at ₹40.8cr (v/s ₹78.4cr expected) v/s ₹81cr in 3QFY2016, de-growth of 49.6% yoy. **We maintain our Neutral rating.**

Results below expectations: Glaxo Pharmaceuticals, posted results lower than expected on all fronts. In sales, the company posted sales of ₹689cr v/s ₹700cr expected, a yoy de-growth of 5.6%. On EBITDA front, the company posted EBITDA of 5.1% (v/s 9.1% expected) v/s 11.6% in 3QFY2016. Consequently, Adj. PAT came in at ₹40.8cr (v/s ₹78.4cr expected) v/s ₹81cr in 3QFY2016, de-growth of 49.6% yoy. The net profit came in lower than expected OPM's, which was eroded on the back of lower sales and pricing pressures.

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 9.6% to ₹3,290cr and EPS to register a mere CAGR of 16.9% to ₹60.3 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	2,800	3,290
% chg	28.9	(16.2)	2.1	17.5
Net profit	509	374	273	511
% chg	9.8	(26.5)	(27.2)	87.5
EPS (₹)	60.1	44.2	32.2	60.3
EBITDA (%)	17.8	16.5	10.2	20.6
P/E (x)	44.6	60.7	83.4	44.5
RoE (%)	26.7	21.2	17.2	34.5
RoCE (%)	26.7	21.7	13.9	37.5
P/BV (x)	12.4	13.4	15.4	15.3
EV/Sales (x)	6.4	7.8	7.8	6.7
EV/EBITDA (x)	35.8	47.3	76.4	32.4

Source: Company, Angel Research; Note: CMP as of February 14, 2017; * 15 months numbers

NEUTRAL

CMP ₹2,683
 Target Price -

Investment Period -

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	22,726
Net Debt (₹ cr)	(1,055)
Beta	0.33
52 Week High / Low	3,850/2,600
Avg. Daily Volume	1,835
Face Value (₹)	10
BSE Sensex	28,339
Nifty	8,792
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	10.6
FII / NRIs / OCBs	2.2
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	5.7	23.3	39.1
Glaxo	1.7	(16.2)	(10.8)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2017 – Standalone performance

Y/E March (₹ cr)	3QFY17	2QFY17	% chg (QoQ)	3QFY16	% chg (YoY)	9MFY17	9MFY16	% chg
Net Sales	689	783	(12.0)	730	(5.6)	2,157	2,065	4.5
Other income	38	34	9.6	47	(19.5)	117	119	(1.5)
Total Income	727	817	(11.0)	777	(6.5)	2,275	2,184	4.2
Gross profit	332	421	(21.2)	390	(14.9)	1,125	1,119	0.5
Gross margin	48.2	53.8		53.4		52.1	54.2	
Operating profit	35	124	(71.9)	84	(58.6)	230	327	(29.7)
Operating margin (%)	5.1	15.9		11.6		10.6	15.8	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortization	7	7	0.5	8	(15.4)	19	18	3.1
PBT & Exceptional Items	66	152	(56.6)	123	(46.5)	328	428	(23.3)
Less : Exceptional Items	12	2	-	(2)	-	13	(14)	
Profit before tax	78	154	(49.2)	121	(35.6)	341	415	(17.7)
Provision for taxation	25	54	(52.9)	45	(43.4)	117	145	(19.1)
Reported PAT	53	99	(46.4)	79	(32.9)	224	268	(16.5)
Adj. Net profit	41	98	(58.3)	81	(49.6)	211	277	(23.9)
EPS (₹)	4.8	11.5		9.6		24.9	32.7	

Source: Company, Angel Research,

Exhibit 2: 3QFY2017 – Actual Vs Angel estimates

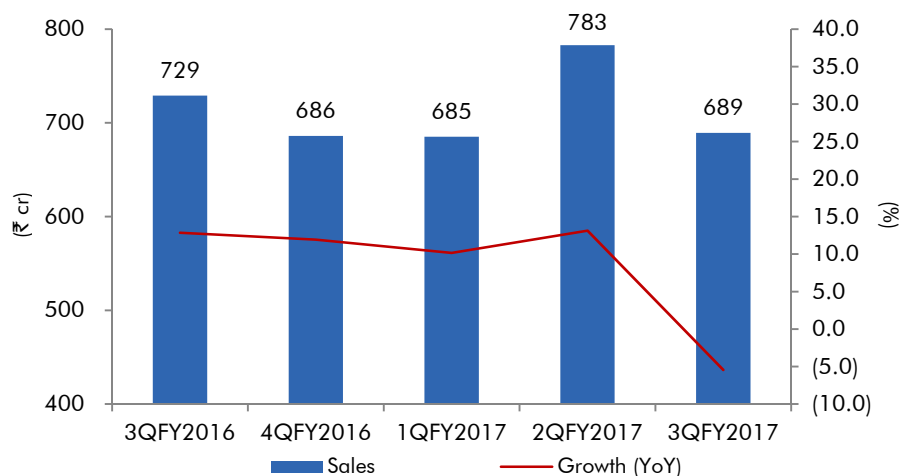
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	689	700	(1.5)
Other income	38	47	(19.6)
Operating profit	35	63	(44.8)
Tax	25	25	0.0
Adj. net profit	41	78	(47.9)

Source: Company, Angel Research

Revenue de-grew by 5.6%

In sales, the company posted sales of ₹689cr v/s ₹700cr expected, a yoy de-growth of 5.6%. The sales during the quarter were impacted on the back of the mandatory price cuts by 5% in the current quarter. The estimated impact of demonetization adversely impacted sales further by 5%, mainly in acute & consumer brands.

Exhibit 3: Sales trend

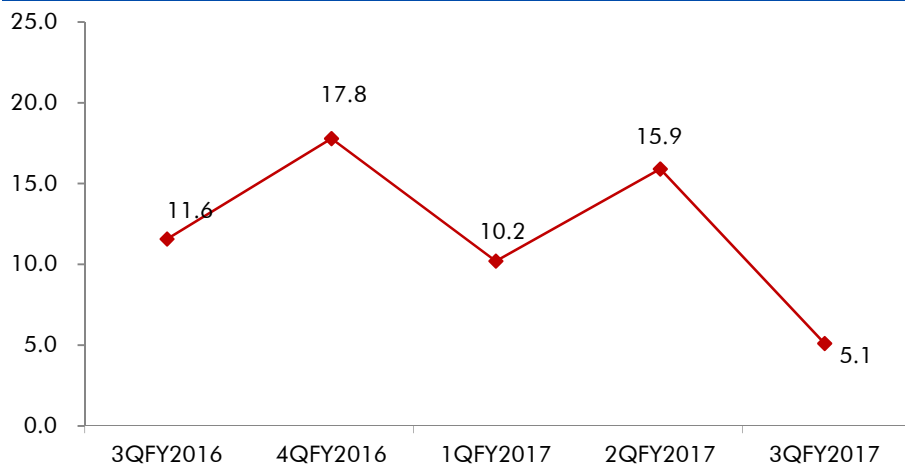


Source: Company, Angel Research

OPM lower the expected

The company posted OPM of 5.1% (v/s 9.1% expected) v/s 11.6% in 3QFY2016. On the operating front, the gross margin came in at 48.2% v/s 53.4% in 3QFY2016. This was mainly on back of pricing pressures in the domestic formulation market.

Exhibit 4: OPM trend

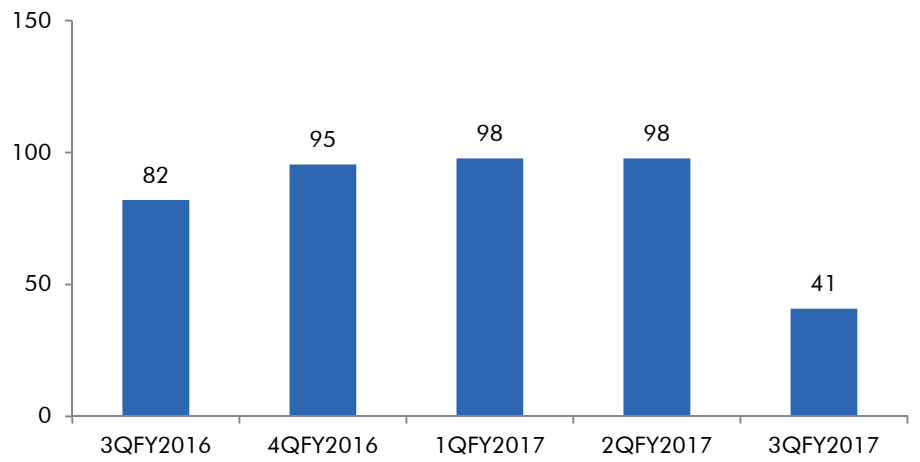


Source: Company, Angel Research

Net profit lower than estimated

Consequently, Adj. PAT came in at ₹40.8cr (v/s ₹78.4cr expected) v/s ₹81.0cr in 3QFY2016, de-growth of 49.6% yoy. The net profit was lower than expected, on back of OPMs, which was eroded on the back of lower sales and pricing pressures.

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 fuel its growth prospects in the Indian pharmaceuticals market. The said investments are expected to fructify by 2017.

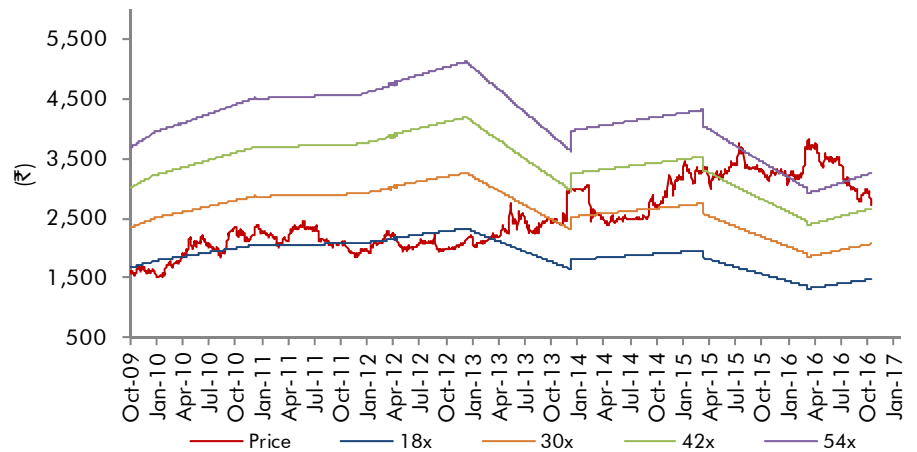
On the operational front, we expect the company's net sales to post a CAGR of 9.6% to ₹3,290cr and EPS to register a CAGR of 16.9% to ₹60.3 over FY2016–18E. At current level, the stock is trading at 83.4x and 44.5x its FY2017E and FY2018E earnings respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	FY2017E	FY2018E
Sales growth (%)	2.1	17.5
Growth in employee expenses (%)	16.2	5.0
Operating margin (%)	10.2	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 %	FY2018E			FY16-18E	FY2018E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	558	-	-	18.4	3.0	11.4	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	659	877	33.0	13.9	2.7	9.8	18.1	22.5	26.1
Cadila Healthcare	Accum.	366	400	9.4	19.0	3.6	13.3	13.4	22.7	25.7
Cipla	Sell	577	465	(19.4)	23.5	3.2	15.9	14.2	12.2	13.9
Dr Reddy's	Neutral	2,944	-	-	20.6	3.0	11.8	1.7	16.2	15.9
Dishman Pharma	Neutral	216	-	-	19.1	2.5	9.5	13.3	10.3	10.9
GSK Pharma*	Neutral	2,683	-	-	44.5	7.9	32.8	16.9	37.5	34.5
Indoco Remedies	Reduce	266	240	(9.6)	16.6	2.3	10.7	33.2	19.1	20.1
Ipca labs	Buy	523	613	17.2	26.5	2.1	12.0	36.5	8.8	9.4
Lupin	Buy	1,435	1,809	26.0	20.7	4.1	12.7	17.2	24.4	20.9
Sanofi India	Neutral	4,165	-	-	24.2	3.9	17.3	22.2	25.6	28.8
Sun Pharma	Buy	650	847	30.3	18.4	4.6	11.7	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, 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	2,872	3,357
Less: Excise duty	71	51	56	59	72	67
Net sales	2,621	2,538	3,272	2,741	2,800	3,290
Other operating income	29	24	32	27	27	27
Total operating income	2,651	2,563	3,305	2,768	2,827	3,317
% chg	11.4	(3.3)	28.9	(16.2)	2.1	17.3
Total expenditure	1,862	2,034	2,690	2,289	2,515	2,614
Net raw materials	1,104	1,164	1,510	1,233	1,456	1,481
Other Mfg costs	94	89	115	99	107	115
Personnel	296	362	493	443	504	530
Other	369	420	572	514	448	488
EBITDA	759	504	582	452	285	676
% chg	2.1	(33.6)	15.5	(22.4)	(36.9)	137.1
(% of Net Sales)	29.0	19.9	17.8	16.5	10.2	20.6
Depreciation & amortization	18	20	25	25	37	45
EBIT	741	484	557	427	248	631
% chg	2.6	(34.7)	15.0	(23.3)	(41.9)	154.4
(% of Net Sales)	28.3	19.1	17.0	15.6	8.9	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	401	784
% chg	4.4	(27.5)	15.1	(26.5)	(30.8)	95.6
Extraordinary expense/(Inc.)	101	(26)	33	(3)	-	-
PBT (reported)	844	711	756	582	401	784
Tax	318	230	279	203	128	273
(% of PBT)	37.7	32.3	36.9	34.8	32.0	34.8
PAT (reported)	526	482	477	377	273	511
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items						
PAT after MI (reported)	526	482	477	377	273	511
ADJ. PAT	657	464	509	374	273	511
% chg	12.0	(29.4)	9.8	(26.5)	(27.2)	87.5
(% of Net Sales)	25.1	18.3	15.6	13.7	9.7	15.5
Basic EPS (₹)	78	55	60	44	32	60
Fully diluted EPS (₹)	78	55	60	44	32	60
% chg	12.0	(29.4)	9.8	(26.5)	(27.2)	87.5

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	1,388	1,404
Shareholders funds	2,007	1,990	1,829	1,696	1,473	1,489
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	1,677	1,693
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	320	376
Investments	55	10	0	0	0	0
Current assets	2,602	2,614	2,587	2,172	1,786	1,777
Cash	2,067	2,042	1,911	1,348	946	790
Loans & advances	134	238	122	123	126	148
Other	401	335	554	701	714	839
Current liabilities	836	889	1,107	1,058	1,064	1,250
Net current assets	1,765	1,725	1,480	1,115	722	527
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	2,165	2,148	2,026	1,900	1,677	1,693

Cash flow statement

Y/E March (₹ cr)	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Profit before tax and exceptional	844	711	756	582	401	784
Depreciation	18	20	25	25	37	45
(Inc)/Dec in working capital	(25)	15	114	(197)	(9)	39
Direct taxes paid	318	230	279	203	128	273
Cash Flow from Operations	519	517	616	207	300	595
(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)	-	-
Cash Flow from Financing	(381)	(448)	(593)	(512)	(495)	(495)
Inc./(Dec.) in cash	52	(25)	(131)	(563)	(402)	(156)
Opening cash balances	2,014	2,067	2,042	1,911	1,348	946
Closing cash balances	2,067	2,042	1,911	1,348	946	790

Key ratio

Y/E March	CY2012	CY2013	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	34.6	49.0	44.6	60.7	83.4	44.5
P/CEPS	41.8	45.3	45.3	56.6	73.4	40.9
P/BV	11.3	11.4	12.4	13.4	15.4	15.3
Dividend yield (%)	1.9	1.9	1.9	1.9	1.9	1.9
EV/Sales	7.9	8.2	6.4	7.8	7.8	6.7
EV/EBITDA	27.2	41.1	35.8	47.3	76.4	32.4
EV / Total Assets	9.5	9.6	10.3	11.3	13.0	13.0
Per Share Data (₹)						
EPS (Basic)	77.6	54.8	60.1	44.2	32.2	60.3
EPS (fully diluted)	77.6	54.8	60.1	44.2	32.2	60.3
Cash EPS	64.2	59.2	59.3	47.4	36.5	65.6
DPS	50.0	50.0	50.0	50.0	50.0	50.0
Book Value	236.9	234.9	215.9	200.2	173.9	175.8
Returns (%)						
RoCE (Pre-tax)	34.7	22.4	26.7	21.7	13.9	37.5
Angel ROIC (Pre-tax)	-	-	-	-	-	-
RoE	33.3	23.2	26.7	21.2	17.2	34.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	9.7	8.6	8.4	4.6	3.4	3.2
Inventory / Sales (days)	43	48	40	59	56	43
Receivables (days)	14	15	11	15	15	12
Payables (days)	58	54	55	77	72	76
WC cycle (ex-cash) (days)	74	79	69	99	107	101
Solvency ratios (x)						
Net debt to equity	(1.0)	(1.0)	(1.0)	(0.8)	(0.6)	(0.5)
Net debt to EBITDA	(2.7)	(4.0)	(3.3)	(3.0)	(3.3)	(1.2)
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)