

**BUY**

<b>Price</b>	<b>Rs1,020</b>
<b>Target Price</b>	<b>Rs1,250</b>
<b>Investment Period</b>	<b>12 months</b>

**Stock Info**

Sector	Pharmaceutical
Market Cap (Rs cr)	8,641
Beta	0.45
52 WK High / Low	1340/800
Avg Daily Volume	19906
Face Value (Rs)	10
BSE Sensex	16,739
Nifty	5,037
BSE Code	500660
NSE Code	GLAXO
Reuters Code	GLAX.BO
Bloomberg Code	GLXO IN

**Shareholding Pattern (%)**

Promoters	50.7
MF/Banks/Indian FIs	18.0
FII/ NRIs/ OCBs	14.7
Indian Public	16.7

<b>Abs.</b>	<b>3m</b>	<b>1yr</b>	<b>3yr</b>
Sensex (%)	(4.9)	20	166
Glaxo Pharma (%)	7.7	(13.1)	44

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**Performance Highlights**

- Net Sales remains Flat:** For 1QCY2008, Glaxo Pharmaceuticals posted Net Sales and Profits of Rs418cr and Rs121.3cr, respectively. Sales was almost flat clocking a marginal decline of 0.5% yoy to Rs418 (Rs420.3cr) owing mainly to the sale of the Fine Chemicals business. However, on a like-to-like basis excluding the sale of the Fine Chemicals business, Sales registered a yoy growth of 5.3%.

The Pharmaceutical business was impacted due to the inventory adjustments done by the company in March 2008 on account of excise-related price changes.

- Operating Margins expand by 190bp:** While Sales remained flat, the company registered a yoy growth of 4.9% in Operating Profits. The company ended 1QCY2008 with 190bp expansion in Operating Margins to 36.4%. This improvement on the operating front came mainly on account of a reduction in Other Expenditure and stagnant Staff Costs. Other expenditure yoy declined by 12.2%, and accounted for 13.9% of Sales v/s 15.8% during the corresponding period of last year. Staff costs remained almost flat at Rs40.3cr, and accounted for 9.6% of Sales.
- Net Profit rises 8.6%:** Improvement on the operating front, along with higher Other Income aided the company post an 8.6% yoy increase in Net Profits. Other income during the period yoy rose by 25.3% to Rs34.1cr.

**Exhibit 1 : Key Financials (Consolidated)**

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
<b>Net Sales</b>	<b>1,582</b>	<b>1,608</b>	<b>1,652</b>	<b>1,810</b>
% chg	4.2	1.7	2.7	9.6
<b>Net Profit</b>	<b>551</b>	<b>548</b>	<b>437</b>	<b>490</b>
% chg	8.6	(0.6)	(20.2)	12.3
<b>EPS (Rs)</b>	<b>65.1</b>	<b>64.6</b>	<b>51.6</b>	<b>57.9</b>
EBITDA Margin (%)	30.4	32.1	31.7	32.4
P/E (x)	15.7	15.8	19.8	17.6
P/CEPS (x)	15.1	15.2	18.9	16.9
RoE (%)	51.1	42.4	29.9	30.0
RoCE (%)	47.8	45.2	43.7	38.4
P/BV (x)	7.2	6.3	5.6	5.0

Source: Company, Angel Research, Note: Net Profit Includes Extra-ordinary Income

**Business Outlook**

- **Sales growth expected to be in line with Industry:** During CY2007, the company registered a yoy Sales growth of 1.6%. However, on a like-to-like basis it posted a 7.5% growth in Sales. With the divesture of the Fine Chemicals and Animal Healthcare Business, the company is now a pure Pharmaceutical company. Going forward, it expects its Pharmaceutical business to grow in line with Industry. The growth would come primarily from a slew of New Product introductions from the parent's product pipeline and a shift towards the high-growth Life-style segment. Globally, GSK leads the R&D pipeline, having 82 products (as on December 2007) at various stages of development and around 15 NDAs filed. Till CY2010, the company has lined up around 9 products from its parent's basket.
- **Operating Margins to be maintained at 31- 32% levels:** Over the last 5-6 years, the company has restructured its operations significantly, which has aided a significant improvement on the operating front. From 23.1% in CY2003, Operating Margins improved to 32.1% in CY2007. Going forward, management expects OPMs to be in the range of 31 - 32%.

**Outlook and Valuation**

Advent of the Product Patents Regime in India is more beneficial for MNC Pharmaceutical companies in the long run. Glaxo, which has a strong parentage, is our preferred pick in the MNC pharmaceutical space on the back of management's commitment to launch its products through its listed arm. This is evident from the 9 product launches that the company plans to launch through the listed entity.

On the valuations front, at Rs1,020, stock is trading at 19.8x CY2008E and 17.6x CY2009E Earnings. Including the significant cash on the books, (constitutes around 17% of market capitalisation), the stock is trading at 16.4x CY2008E and 14.6x CY2009E Earnings, which we believe is attractive. **We maintain a Buy on the stock, with a Target Price of Rs1,250.**

**Exhibit 2: 1QCY2008 Performance (Standalone)**

Y/E Dec (Rs cr)	1QCY2008	1QCY2007	% chg	CY2007	CY2006	% chg
<b>Net Sales</b>	<b>418</b>	<b>420</b>	<b>(0.5)</b>	<b>1577.1</b>	<b>1538.4</b>	<b>2.5</b>
Other Income	34.1	27.2		89.8	95.8	
<b>Total Income</b>	<b>452</b>	<b>448</b>	<b>1.0</b>	<b>1667.0</b>	<b>1634.3</b>	<b>2.0</b>
PBIDT	152	145		537.5	476.0	
<b>Operating Margin (%)</b>	<b>36.4</b>	<b>34.5</b>		<b>32.2</b>	<b>29.1</b>	
Interest	0	0		0	0	
Depreciation & Amortisation	3.7	3.7		16.1	15.9	
PBT & Exceptional Items	183	169		611	556	
Less : Exceptional Items	0	0		137.9	183.8	
<b>Profit Before Tax</b>	<b>183</b>	<b>169</b>		<b>749.1</b>	<b>739.7</b>	
Provision for Taxation	61.7	57.3		211.5	194.2	
<b>Net Profit</b>	<b>121</b>	<b>111</b>	<b>8.6</b>	<b>537.6</b>	<b>545.5</b>	<b>(1.4)</b>
<b>EPS (Rs)</b>	<b>14.3</b>	<b>13.1</b>		<b>63.5</b>	<b>64.4</b>	

Source: Company, Angel Research



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**Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)**