

## Results affected by manufacturing constraints

Glaxo SK Pharma's (GSK) results for Q3CY12 were below our expectations. The company reported 10%YoY growth in revenues, 70bps improvement in EBITDA margin and 12%YoY growth in net profit. The growth was driven by vaccines and specialties segments. However, capacity constraints at its Nashik facility and one of the suppliers of sterile products affected the results. GSK is a debt-free company with cash/share of Rs201. We expect the growth momentum to be maintained from new products introduction. We have lowered our CY12 and CY13 estimates by 5% and 3% respectively. We have a Buy rating for the scrip with a revised target price of Rs2,393 (based on 24x CY13E EPS of Rs99.7).

- Moderate growth in core business:** GSK reported 10%YoY growth in revenues from Rs6.15bn to Rs6.76bn. The pharma business grew by 11.0% during the quarter. The company's vaccines and specialties segments had good growth. New products introduction is likely to drive future growth.
- Margin improved:** GSK's EBITDA margin improved by 70bps YoY from 29.8% to 30.5% due to the reduction in other expenses. The company's material cost increased by 260bps from 39.5% to 42.1% of revenues due to the rise in imported raw material cost with the depreciating rupee. GSK's personnel cost increased by 30bps from 10.8% to 11.1%. Other expenses declined by 370bps from 20.0% to 16.3% of revenues due to rationalization measures.

Y/E Dec-stdalone (Rsmn)	Q3CY12	Q3CY11	YoY (%)	Q2CY12	QoQ (%)	Q3CY12E	Var (%)
Net sales	6,760	6,146	10.0	6,619	2.1	7,050	(4.1)
<b>EBIDTA</b>	2,064	1,830	12.8	2,127	(3.0)	2,300	(10.3)
EBIDTA Margin (%)	30.5	29.8		32.1		32.6	
Other income	0	0	NA	0		0	NA
<b>PBDIT</b>	2,064	1,830	12.8	2,127	(3.0)	2,300	(10.3)
Depreciation	48	49	(1.2)	43	12.6	45	7.6
Interest exp / (income)	(404)	(371)	8.8	(380)		(400)	1.0
PBT	2,419	2,152	12.4	2,464	(1.8)	2,655	(8.9)
Prov. For tax	783	692	13.2	739	6.0	810	(3.3)
% of PBT	32.4	32.2		30.0		30.5	
PAT	1,636	1,460	12.1	1,725	(5.2)	1,845	(11.3)
Extraordinary item	(113)	(1)		(90)		(50)	125.4
Reported PAT	1,523	1,459	4.4	1,635	(6.8)	1,795	(15.1)
Equity capital	847	847		847		847	0.0
EPS (Rs)	19.3	17.2	12.1	20.4	(5.2)	21.8	(11.3)

Source: Company, Centrum Research

- Manufacturing constraints affected sales:** GSK's sales during the quarter were impacted by constraints of sterile manufacturing at one of the suppliers end and constraints at its Nashik facility. The company has resolved the said constraint and is likely to show good growth from Q4CY12 onwards.
- Major brands growing well:** As per IMS MAT-September'12 data, GSK's five major brands reported good growth namely: Augmentin 17.9%, Calpol 22.5%, Zinetac 18.5%, Betnovate-N 13.9% and Eltroxin 19.5%. These brands are likely to drive future growth.
- New product introduction:** GSK launched the following new products during the quarter: Zimivir for herpes and Ictacetam for epilepsy. These products are likely to become future growth drivers.
- Valuations:** We expect GSK to benefit from growth in domestic market and introduction of new products. We have lowered our EPS estimates for CY12 and CY13 by 5% and 3% respectively. At the CMP of Rs2,006, the stock trades at 24.0x CY12 EPS of Rs83.6 and 20.1x CY13E EPS of Rs99.7. We have a Buy rating for the scrip with target price of Rs2,393 (based on 24x CY13E EPS of Rs99.7) with 19.3% upside over CMP.

Y/E Dec (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA Margin (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)
CY10	21,511	12.7	7,586	35.3	5,783	15.6	68.3	30.9	28.1	29.4
CY11	23,785	10.6	7,666	32.2	6,294	8.8	74.3	32.4	28.1	27.0
CY12E	26,676	12.2	8,509	31.9	7,078	12.5	83.6	35.4	30.9	24.0
CY13E	30,642	14.9	10,189	33.3	8,446	19.3	99.7	38.3	33.5	20.1
CY14E	35,248	15.0	11,916	33.8	9,903	17.2	116.9	38.8	33.8	17.2

Source: Company, Centrum Research Estimates

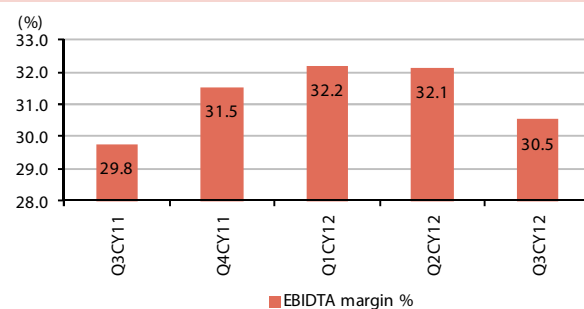
### Key Data

Target Price	Rs2,393	Bloomberg Code	GLXO IN
CMP	Rs2,006*	Reuters Code	GLAX BO
Upside	19.3%	Current Shares O/S (mn)	84.7
Stock to Sector	Outperform	Diluted Shares O/S(mn)	84.7
Sector to Market	Outperform	Mkt Cap (Rsbm/USDbn)	169.9/3.1
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	2,360/1,801
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
Glaxo	1.8	(2.2)	(1.1)
NIFTY	0.3	15.5	10.1
		Daily Vol. (3M NSE Avg.)	23,596
		Face Value (Rs)	10
		<b>1 USD = Rs54.7</b>	

Source: Bloomberg, Centrum Research

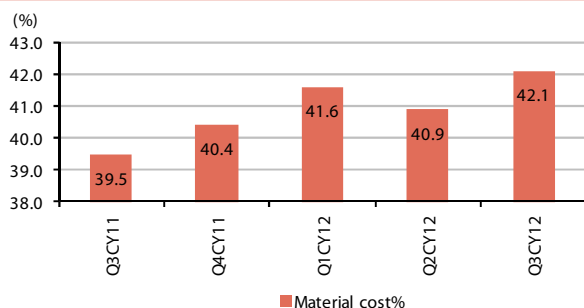
\*as on 09 November 2012

### Trend in EBITA margin (%)



Source: Company, Centrum Research

### Trend in Material Cost (%)



Source: Company, Centrum Research

### Earning Revision

Particulars	CY12E			CY13E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	26,676	27,179	(1.9)	30,642	31,213	(1.8)
EBIDTA	8,509	8,849	(3.8)	10,189	10,415	(2.2)
EBIDTA margin (%)	31.9	32.6	(70)bps	33.3	33.4	(10)bps
Net profit	7,078	7,424	(4.7)	8,446	8,748	(3.4)
EPS Rs.	83.6	87.6	(4.6)	99.7	103.3	(3.5)

Source: Centrum Research

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Please refer to important disclosures/disclaimers inside

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

## Financials (Standalone)

### Exhibit 1: Income Statement

Y/E Dec (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
<b>Net Sales</b>	<b>21,511</b>	<b>23,785</b>	<b>26,676</b>	<b>30,642</b>	<b>35,248</b>
-Growth (%)	12.7	10.6	12.2	14.9	15.0
Operating Expenses	13,924	16,119	18,167	20,453	23,333
% of sales	64.7	67.8	68.1	66.7	66.2
EBIDTA	7,586	7,666	8,509	10,189	11,916
-EBIDTA margin (%)	35.3	32.2	31.9	33.3	33.8
Depreciation	176	204	183	204	224
<b>EBIT</b>	<b>7,410</b>	<b>7,462</b>	<b>8,326</b>	<b>9,985</b>	<b>11,692</b>
Interest Income/(expenses)	996	1,452	1,572	1,840	2,203
PBT from operations	8,406	8,913	9,897	11,825	13,894
Other non operating income	310	360	386	447	514
<b>PBT</b>	<b>8,716</b>	<b>9,274</b>	<b>10,283</b>	<b>12,271</b>	<b>14,408</b>
-PBT margin (%)	40.5	39.0	38.5	40.0	40.9
Provision for tax	2,934	2,980	3,205	3,825	4,505
Effective tax rate (%)	33.7	32.1	31.2	31.2	31.3
Minority Interest	-	-	-	-	-
EO Items	(177)	(2,007)	(881)	-	-
Net profit	5,606	4,287	6,197	8,446	9,903
<b>Adj. PAT</b>	<b>5,783</b>	<b>6,294</b>	<b>7,078</b>	<b>8,446</b>	<b>9,903</b>
-Growth (%)	15.6	8.8	12.5	19.3	17.2
-Net profit margin (%)	26.1	18.0	23.2	27.6	28.1

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E Dec (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Share capital	847	847	847	847	847
Reserves & surplus	18,669	18,511	19,732	22,705	26,637
Total shareholder's fund	19,516	19,358	20,579	23,552	27,484
Loan fund	52	49	50	50	50
Deferred tax liability	(566)	(616)	(655)	(710)	(720)
<b>Total capital employed</b>	<b>19,002</b>	<b>18,791</b>	<b>19,974</b>	<b>22,892</b>	<b>26,814</b>
Gross block	3,625	3,158	3,948	4,578	5,168
Accumulated depreciation	(2,536)	(2,166)	(2,349)	(2,553)	(2,777)
Net Block	1,090	992	1,600	2,026	2,392
Capital WIP	87	254	200	150	100
Net fixed assets	1,177	1,246	1,800	2,176	2,492
Investments	1,179	1,122	1,100	1,200	1,500
Cash and bank	20,029	20,433	19,481	21,730	25,704
Inventories	2,856	3,334	3,960	4,520	4,930
Debtors	470	853	945	1,070	1,160
Other CA and loans and adv.	1,741	2,996	2,815	3,090	3,400
Total CA and loans and adv.	26,275	28,737	28,301	31,610	36,694
Current liabilities & provisions	8,450	11,192	10,126	10,894	12,372
Net current assets	17,825	17,545	18,174	20,716	24,322
<b>Total assets</b>	<b>19,002</b>	<b>18,791</b>	<b>19,974</b>	<b>22,892</b>	<b>26,814</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Cash flow

Y/E Dec (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
<b>Cash flow from operations</b>					
Net Profit	5,606	4,287	6,197	8,446	9,903
Dep. and amortization	176	204	183	204	224
Change in working capital	884	626	(1,603)	(192)	668
Deferred tax liability	(117)	(50)	(39)	(55)	(10)
Other non-cash charges	(17)	-	-	-	-
<b>Cash from operations</b>	<b>6,532</b>	<b>5,067</b>	<b>4,738</b>	<b>8,403</b>	<b>10,785</b>
<b>Cash flow from investments</b>					
Capex	(166)	(273)	(736)	(580)	(540)
Investments	305	57	22	(100)	(300)
<b>Cash from investments</b>	<b>139</b>	<b>(216)</b>	<b>(715)</b>	<b>(680)</b>	<b>(840)</b>
<b>Cash flow from financing</b>					
Inc / (dec) in debt	(3)	(3)	1	-	-
Dividends paid	(3,981)	(4,445)	(4,976)	(5,474)	(5,971)
<b>Cash from financing</b>	<b>(3,983)</b>	<b>(4,447)</b>	<b>(4,975)</b>	<b>(5,474)</b>	<b>(5,971)</b>
<b>Net Cash Flow</b>	<b>2,688</b>	<b>404</b>	<b>(952)</b>	<b>2,249</b>	<b>3,974</b>

Source: Company, Centrum Research Estimates

### Exhibit 4: Key Ratios

Y/E Dec (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
<b>Profitability ratios (%)</b>					
EBIDTA margin	35.3	32.2	31.9	33.3	33.8
PBIT margin	35.9	32.9	32.7	34.0	34.6
PBT margin	40.5	39.0	38.5	40.0	40.9
PAT margin	26.1	18.0	23.2	27.6	28.1
<b>Return ratios (%)</b>					
ROCE	28.1	28.1	30.9	33.5	33.8
ROE	30.9	32.4	35.4	38.3	38.8
<b>Turnover Ratios (days)</b>					
Working capital	72.7	59.8	37.4	40.9	47.0
Inventory	46.1	47.5	49.9	50.5	48.9
Debtors	8.5	10.2	12.3	12.0	11.5
Creditors	88.5	109.0	104.9	80.5	79.5
<b>Per share (Rs)</b>					
Recurring EPS	68.3	74.3	83.6	99.7	116.9
Book value	230.4	228.6	243.0	278.1	324.5
<b>Valuation (x)</b>					
P/E	29.4	27.0	24.0	20.1	17.2
P/BV	8.7	8.8	8.3	7.2	6.2
Market Cap/Sales	7.9	7.1	6.4	5.5	4.8
EV/EBIDTA	22.4	22.2	20.0	16.7	14.3
EV/Sales	7.9	7.1	6.4	5.5	4.8

Source: Company, Centrum Research Estimates

## Appendix A

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