

Glaxo SmithKline Pharmaceuticals

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Shareholding (%)

Foreign Promoters	50.7
FII's	15.5
FI's/Banks/MF	14.2
Others	19.6

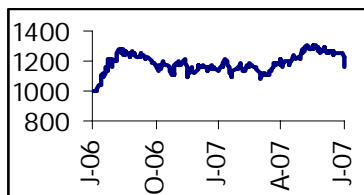
Share price performance

52-week high/low (Rs) 1,345/980

	-1m	-3m	-12m
Abs (%)	-8.1	-2.1	15.2
Rel* (%)	-11.2	-11.1	-25.7

*to Nifty

Stock chart



Results below expectations; 'Hold' maintained

GlaxoSmithkline Pharmaceutical's (GSK's) Q2CY07 results were below our expectations. Net sales declined 2.9% YoY, mainly due to the divestment of the animal health business (sold in Q2CY06) to Virbac for Rs2.1bn; the shift in business policy, from the purchase of traded goods to operating on a loan and license basis, also impacted the company's net sales. GSK's EBITDA margins, however, expanded by 20bps to 30.9%, mainly due to a change in the product mix and better operating capabilities. Net profits increased by 5.9% YoY to Rs 964mn, driven by a 70.5% increase in other income YoY.

GSK expects to launch three patented products from the parent's pipeline by 2010; the company has indicated that patented products (except vaccines) would be launched from the listed entity. At CMP of Rs 1,158.8, GSK trades at 23.8x CY07E EPS of Rs48.6 and 21.1x CY08E EPS of Rs54.9. We maintain a 'Hold' on the stock.

- ▲ GSK's net sales in the domestic pharmaceuticals market grew by 5-6% YoY; this growth was significantly lower than industry rates and also below GSK's previous growth rates. During the quarter, GSK continued to face supply issues on some of its products.
- ▲ The growth in net sales was lower than the growth in gross sales. This was due an increase of 80bps in the excise duties payable, as GSK largely shifted to loan and licensing arrangements from contract manufacturing setups.
- ▲ In Q2CY07, GSK launched *Arixta*, a new generation antithrombolytic. GSK plans to launch *Coreg* (carvedilol), an anti-hypertensive drug, in India soon; the drug was recently in-licensed from Roche. The company also expects to launch *Tykerb* (lapatinib- dual kinase inhibitor), *Allermist* (for allergic rhinitis) and *Alvimopan* (for postoperative ileus) in CY08E/09E. Additionally, GSK is also working on the launch of its innovative vaccines – *Rotarix* and *Cervarix*. These vaccines, currently undergoing trails, are expected to be launched over the next 4-5 quarters.
- ▲ The management has indicated that the delay in obtaining regulatory clearances has impacted the launch of GSK's new vaccines such as *Rotarix* and *Cervarix* in India. However, the management is hopeful of securing large volumes, particularly for *Rotarix*, given that India accounts for 20% of global childbirths a year.

Hold

Rs1159

July 27 2007

Market cap

Rs bn 98

US\$ mn 2,424

Avg 3m daily volume

80,617

Avg 3m daily value

Rs mn 101

Shares outstanding (mn)

85

Reuters

GLAX.BO/GLAXO.NS

Bloomberg

GLXO IN

Sensex

15,235

Nifty

4,445

Glaxo SmithKline Pharmaceuticals

- ▲ GSK also announced that its board had approved the sale of its Qualigens Fine Chemicals (QFC) division to Thermo Electron LLS for Rs 2.4bn. The division manufactures and markets laboratory chemicals, diagnostic kits and equipment, and accounts for ~8% of GSK's current turnover i.e ~Rs 1.2bn. The move is in line with the company's decision to divest non-pharma businesses and sharpen focus (within pharmaceuticals) on chronic care therapies as against its earlier focus on critical care segments.
- ▲ **Valuations:** We believe that in the new product patent regime, GSK is the best-placed MNC in India to leverage on the rich pipeline of vaccines / patented drugs. There, however, is only limited room for upsides from the current levels, given the company's rich valuations and 13.4% CAGR growth in earnings over CY06-08. GSK expects to launch at least three patented products from the parent's pipeline by CY10E. Further clarity on the timing of these launches as well as on the vehicle for routing the vaccine launches would be the triggers for an upgrade. At CMP (Rs.1,158.8), GSK trades at 23.8x CY07E EPS of Rs48.6 and 21.1x CY08E EPS of Rs54.9. We maintain a 'Hold' on the stock.

Table 1. Quarterly result table

	Q2CY07	Q1CY07	QoQ (%)	Q2CY06	YoY (%)
Net Sales	3956.1	4214.6	(6.1)	4073.4	(2.9)
Expenditure	2733.0	2764.2		-2821.6	
EBITDA	1223.1	1450.4	(15.7)	1251.8	(2.3)
Depreciation	37.3	36.5		39	
Other Income	312.1	272.0	14.7	183.1	70.5
PBT	1497.9	1685.9	(11.2)	1395.9	7.3
Tax	533.6	572.7		485.3	
PAT	964.3	1113.2	(13.4)	910.6	5.9
Extraordinary Items	0.0	0.0		0	
Net Profit	964.3	1113.2	(13.4)	910.6	5.9
Equity Capital	847.0	847.0		847	
EPS	11.4	13.1		10.8	
Key Ratios%					
EBITDA Margin	30.9	34.4		30.7	
Tax / PBT	35.6	34.0		-34.8	
Other Income / Sales	7.9	6.5		4.5	
PAT Margin	24.4	26.4		22.4	

Source: IISL research, company

Glaxo SmithKline Pharmaceuticals

Financials

Profit & Loss

In Rs million	CY05	CY06	CY07E	CY08E
Net sales	14,853.0	15,529.2	16,680.5	18,667.6
YoY (%)	8.0	4.6	7.4	11.9
Total expenses	10,566.2	10,769.6	11,452.2	12,775.6
Inc/dec in stock	(80.5)	(132.5)	(18.4)	(225.4)
Raw material cost	6,345.1	6,370.7	6,581.5	7,365.6
Staff cost	1,554.7	1,655.8	1,796.5	2,012.1
Power and fuel cost	166.0	176.7	191.0	213.7
Other manufacturing exper	441.3	471.1	508.4	568.9
Selling Expenses	793.4	771.7	834.0	1014.5
Other expenses	1,346.2	1,456.1	1,559.3	1,826.2
EBIDTA	4,286.9	4,759.6	5,228.2	5,891.9
YoY (%)	11.9	11.0	9.8	12.7
EBIDTA (%)	28.9	30.6	31.3	31.6
Other income	656.4	958.4	1,179.4	1,329.4
PBIDT	4,943.2	5,718.0	6,407.6	7,221.3
Interest	6.9	0.0	0.0	0.0
Gross profit	4,936.3	5,718.0	6,407.6	7,221.3
Depreciation	157.3	158.5	165.0	170.4
PBT and extra ordinary	4,779.0	5,559.5	6,242.7	7,050.9
Extra ordinary items	1,958.0	1,837.9	0.0	0.0
PBT	6,737.0	7,397.4	6,242.7	7,050.9
(-) Tax	1,716.2	1,942.3	2,122.5	2,397.3
Tax/ PBT	25.5	26.3	34.0	34.0
PAT	5,020.7	5,455.2	4,120.2	4,653.6
Adjusted net profit	3,062.8	3,617.3	4,120.2	4,653.6
YoY (%)	15.1	18.1	13.9	12.9

Key Ratios

	CY05	CY06	CY07E	CY08E
EPS (Rs)	36.2	42.7	48.6	54.9
CEPS (Rs)	63.1	66.9	51.3	57.8
Book value (Rs)	112.0	144.5	161.2	184.2
Dividend per share (Rs)	31.9	31.9	31.9	31.9
Debt-equity (x)	0.0	0.0	0.0	0.0
ROCE	43.3	37.5	37.0	36.6
ROE*	32.3	29.6	30.2	29.8

Valuations

	CY05	CY06	CY07E	CY08E
PE (x)	32.0	27.1	23.8	21.1
Cash PE (x)	18.4	17.3	22.6	20.1
Price/book value (x)	10.3	8.0	7.2	6.3
Dividend yield	2.8	2.8	2.8	2.8
Market cap/sales	6.6	6.3	5.9	5.3
EV/sales (x)	6.6	6.3	5.9	5.2
EV/EBDITA (x)	22.8	20.5	18.7	16.6

* Excluding extraordinary items

Balance Sheet

In Rs million	CY05	CY06	CY07E	CY08E
Equity capital	847.0	847.0	847.0	847.0
Preference capital	0.0	0.0	0.0	0.0
Reserves	8,639.0	11,389.9	12,805.7	14,755.0
Net worth	9,486.1	12,236.9	13,652.7	15,602.0
Total borrowings	48.5	48.5	48.5	48.6
Deferred tax	(297.6)	(244.3)	(181.9)	(111.4)
Total liabilities	9,237.0	12,041.1	13,519.4	15,539.2
Gross block	2,531.1	2,731.1	2,931.1	3,131.1
Less: Acc. depreciation	1,715.4	1,873.9	2,038.8	2,209.3
Net block	815.7	857.2	892.2	921.8
CWIP	153.7	100.0	100.0	100.0
Investments	9,130.6	11,709.2	13,064.9	14,692.2
Current assets	4,618.0	4,855.7	4,943.3	5,306.3
Inventories	2,181.3	2,300.9	2,330.6	2,601.2
Debtors	673.9	717.2	775.1	867.5
Cash	475.3	550.0	550.0	550.0
Loans and advances	1,287.6	1,287.6	1,287.6	1,287.6
Current liabilities	2,575.5	2,575.5	2,575.5	2,575.5
Provisions	2,905.5	2,905.5	2,905.5	2,905.5
Net current assets	(863.0)	(625.3)	(537.8)	(174.7)
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	9,237.0	12,041.1	13,519.4	15,539.2

Cash Flow

In Rs million	CY05	CY06	CY07E	CY08E
Net profit	5,020.7	5,455.2	4,120.2	4,653.6
Depn and w/o	157.3	158.5	165.0	170.4
Deferred tax	163.5	53.3	62.4	70.5
Change in working cap	853.8	(163.0)	(87.6)	(363.0)
Other income	(656.4)	(958.4)	(1,179.4)	(1,329.4)
Operating cash flow	5,539.0	4,545.6	3,080.6	3,202.1
Other income	656.4	958.4	1,179.4	1,329.4
Capex	(211.9)	(146.3)	(200.0)	(200.0)
Investments	(1,362.3)	(2,578.7)	(1,355.7)	(1,627.3)
Investing cash flow	(917.9)	(1,766.5)	(376.3)	(497.9)
Dividend	(2,704.3)	(2,704.3)	(2,704.3)	(2,704.3)
Fresh equity	(2,046.8)	0.0	0.0	0.0
Debt	10.1	(0.0)	0.0	0.0
Financing cash flow	(4,741.0)	(2,704.3)	(2,704.3)	(2,704.3)
Others	(38.7)	0.0	0.0	0.0
Net change in cash	(158.6)	74.7	0.0	0.0
Opening cash	633.8	475.3	550.0	550.0
Closing cash	475.3	550.0	550.0	550.0

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Glaxo SmithKline Pharmaceuticals

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