

March 29, 2010

C.M.P:  
Rs.1750.00

Target Price:  
Rs.1925.00

1 Year Comparative Graph



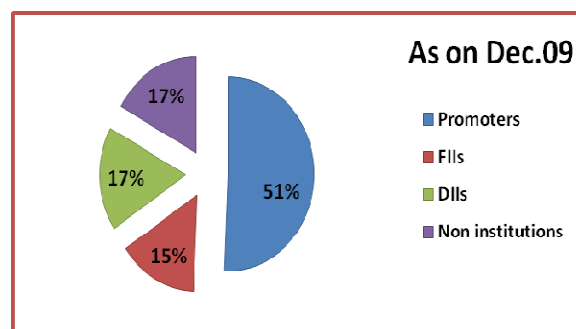
GSK PHARMA

BSE SENSEX

Stock Data

|                       |                   |
|-----------------------|-------------------|
| Sector                | Pharma Sector     |
| Face Value            | Rs.10.00          |
| 52 wk. High/Low (Rs.) | Rs.1785.00/1060.0 |
| Volume (2 wk. Avg.)   | 4211              |
| BSE Code              | 500660            |
| Market Cap            | 148225.00         |

Share Holding Pattern



V.S.R. Sastry  
Equity Research Desk  
vsrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.  
Chief Research Officer  
drsastry@firstcallindia.com

SYNOPSIS

- GSK Pharma is the largest pharma company in the domestic pharma market. It is a 51% subsidiary of the US\$ 46 bn Glaxo Group, the world's second-largest pharma company with an R&D warchest of US\$ 6.8 bn.
- The company has emerged as frontrunner for a phased buy-in to Dr Reddy's Laboratories.
- The company has introduced 3 vaccines and 2 pharmaceutical products in 9MCY09 and it has got very good response for Rotarix and Cervarix vaccine.
- Glaxo SmithKline Pharmaceutical is looking at launching its patented medicine promecta, used in treatment of depleted platelet count, in India.
- The company is obtaining a nod from the government to market its patented drug for treating the contagious H1N1 virus, popularly known as swine flu.
- The topline and bottomline of the company is expected to grow at a CAGR of 12% & 12% over 2008 to 2011E.

| Financials | CY09     | CY10E    | CY11E    |
|------------|----------|----------|----------|
| Net Sales  | 18910.90 | 20801.99 | 23298.23 |
| EBIDTA     | 6929.40  | 7677.72  | 8585.81  |
| PAT        | 5048.80  | 5605.07  | 6253.83  |
| EPS        | 59.61    | 66.18    | 73.84    |
| P/E        | 29.36    | 26.44    | 23.70    |

| Financials       | Dec08   | Dec09   | % Change |
|------------------|---------|---------|----------|
| <b>Net sales</b> | 3748.70 | 4498.80 | 20.01    |
| <b>PAT</b>       | 891.60  | 1067.20 | 19.69    |
| <b>EPS</b>       | 10.53   | 12.60   | 19.69    |

#### ❖ **Board recommends Dividend**

The company has approved a Dividend of Rs. 30 per equity share (Previous year Rs. 22 per equity share and a special additional Dividend of Rs. 18 per equity share).

#### ❖ **GSK to launch 'promecta' in India**

GSK is looking at launching its patented medicine promecta, used in treatment of depleted platelet count, in India by this year-end or early next year. The company is looking to launch promecta in the Indian market in the fourth quarter of this year or in the first quarter of next year.

#### ❖ **Net Sales and PAT of the company are expected to grow at a CAGR of 12% and 12% over 2008 to 2011E respectively.**

## Investment Rationale

### • **GlaxoSmithKline eyes Dr Reddy's Laboratories**

The company has emerged as frontrunner for a phased buy-in to Dr Reddy's Laboratories. A transaction could spark a fresh wave of foreign deals in India's drugs sector. While nothing is finalized, one possibility is that Glaxo will take a 20% stake in Dr Reddy's Holdings, a family vehicle that in turn owns 23.2% of the drug maker. It is believed that this would give Glaxo a stake of just under

5%, worth around USD 165 million. But the British company could also get right of first refusal on the family's remaining holding.

### • **GSK's Cervarix blocks cervical cancer virus**

The US Food and Drug Administration (USFDA) have announced that Cervarix from Glaxo Smith Kline (GSK) was effective in blocking the cervical cancer virus. The vaccine blocked the Human Papilloma Virus (HPV) about 93% of the time with some minor side effects. The agency is going to consult a team of professionals to seek their opinion on whether to approve the vaccine for female consumers falling in the age group of 10-25 years.

If the company receives approval for Cervarix then it will end the two years wait of the British drug-maker to introduce this vaccine in American markets. The vaccine has already been approved in around 100 countries across the globe.

## Valuation

At the current market price of Rs.1750.00, the stock trades at a P/E of 26.44x and 23.70x for CY10E and CY11E respectively. Earning per share (EPS) of the company for the earnings of CY10E and CY11E is seen at Rs.66.18 and Rs.73.84 respectively for equity share of Rs.10.00 each. On the basis of EV/EBDITA, the stock trades at 19.31x and 17.26x for CY10E and CY11E respectively. Price to Book Value of the stock is expected to be at 6.39x and 5.03x respectively for CY10E and CY11E. The Net sales of the company are expected to grow at a CAGR of 12% over 2008 to 2011E. The company has plans to launch two vaccines Infanrix Hexa and Synflorix over the next two years. We recommend to **'BUY'** this stock at a target price of Rs.1925.00 for Medium to Long term gains.



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*For Further Details Contact:*

*3rd Floor,Sankalp,The Bureau,Dr.R.C.Marg,Chembur,Mumbai 400 071*

*Tel. : 022-2527 2510/2527 6077/25276089 Telefax : 022-25276089*

*E-mail: info@firstcallindiaequity.com*

*www.firstcallindiaequity.com*



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