

Q4CY2011 Review
 Sector: Pharmaceuticals
 BSE Sensex: 18,154

GSK Pharma

Maintain **SELL**
 CMP Rs2,088
 TP Rs1,880

16 February 2012

Largely in-line with estimates

GSK Pharma's Q4CY11 results were largely in-line with our estimates. The net sales grew by 15.4% YoY to Rs5.6bn on back of revival in the anti-infective and mass markets. The company also witnessed strong traction in speciality and vaccine segment. The gross margins contracted by 372bps YoY due to escalation in the raw material costs. However, EBITDA margins were in-line with our estimates at 31.5%, as the lower SG&A costs offset the impact of contracted gross margins. Consequently, the net profit came in at Rs1.4bn, growth of 20.5% YoY.

We maintain our 'SELL' recommendation on back of rich valuations and the overhang of the proposed NPPP-2011. We value the company at 22x one year forward earnings with a Target Price of Rs1,880.

Revival in key segments boost growth

GSK Pharma reported net sales of Rs5.6bn up 15.4%YoY, in-line with our estimates, backed by the revival in the anti-infective and mass market segments. Further, the company also launched Synflorix-vaccine against invasive pneumococcal disease during the quarter. The core pharmaceutical segment clocked growth of 18.2% YoY.

EBITDA margins expand on lower SG&A

The gross margins contracted during the quarter due to escalation in the raw material costs. However, the impact was offset by the lower SG&A expense, translating to EBITDA margins of 31.5%, in-line with our estimates. Subsequently, the reported recurring net profit came in at Rs1.4bn, growth of 20.5% YoY.

NPPP-2011 remains an overhang

The proposed NPPP-2011 policy, which entails to bring more than 60% of the domestic drugs under price control on back of market based pricing, still remains unclear and would negatively impact GSK Pharma. We expect key brands such as Augmentin and Calpol to be impacted by the policy.

VALUATIONS AND RECOMMENDATION

The stock is trading at an expensive valuation of 25.3x CY12E and 22.3x CY13E earnings. We maintain our 'SELL' recommendation on the stock on back of rich valuations and the overhang of the proposed NPPP-2011. We value the company at 22x one year forward earnings with a Target Price of Rs1,880.

KEY FINANCIALS	(Rs mn)				
	CY09	CY10	CY11P	CY12E	CY13E
Net Sales	19,078	21,510	23,785	26,691	30,287
YoY Gr. (%)	12.7	12.7	10.6	12.2	13.5
Op.Profit	6,741	7,586	7,665	9,116	10,473
OPM (%)	35.3	35.3	32.2	34.2	34.6
Recurring Profit	5,005	5,783	6,292	6,999	7,948
YoY Gr.(%)	8.1	15.5	8.8	11.2	13.6

KEY RATIOS					
Recurring EPS (Rs)	59.1	68.3	74.3	82.6	93.8
ROCE (%)	27.9	29.6	32.3	31.6	30.9
RoE (%)	29.8	30.9	32.3	33.7	33.2
PER (x)	35.3	30.6	28.1	25.3	22.3
EV/ Net Sales (x)	8.3	7.2	6.6	5.7	4.9
EV/EBITDA (x)	23.5	20.5	20.3	16.8	14.2

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net sales	5,615	6,076	5,660
YoY Gr. (%)	12.8	4.2	15.4
Op.Profit	1,993	1,830	1,822
OPM (%)	34.7	29.8	31.5
Net Profit	1,517	1,460	1,474
YoY Gr. (%)	8.6	(7.7)	20.5

STOCK DATA

Market cap	Rs177bn
Book Value per share	Rs260
Shares O/S (F.V. Rs1)	85mn
Free Float	49.3%
Avg Trade Value (6 months)	Rs53mn
52 week High/Low	2,475/1,830
Bloomberg Code	GLXO IN
Reuters Code	GLAX.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	5.3	4.8	(6.4)
Relative	(6.1)	(5.0)	(4.5)

RELATIVE PERFORMANCE

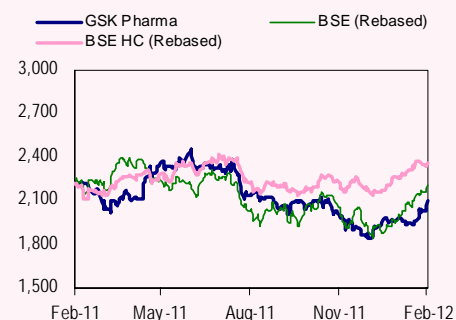


Exhibit 1 - Earnings Summary (Standalone, Rs mn)

Dec Ended	Q4CY10	Q4CY11	% Ch YoY	Q3CY11	% Ch QoQ	CY10	CY11	% Ch YoY	PINC Comments
Gross Sales	5,005	5,799	15.9	6,227	(6.9)	21,551	23,917	11.0	Led by revival in the anti infective and mass market businesses. The core Pharma business grew by 18.2% YoY
Excise Duty	98	139	41.4	152	(8.4)	434	537	23.6	
<i>Excise duty rate</i>	2.0	2.4	43 bps	2.4	(4) bps	2.0	2.2	23 bps	
Net Sales	4,906	5,660	15.4	6,076	(6.8)	21,116	23,380	10.7	
Other Operating Income	101	116	14.7	71	63.9	324	379	16.8	
Expenditure	3,433	3,954	15.2	4,316	(8.4)	13,739	15,935	16.0	Higher raw-material costs impacted the gross margins, however lower SG&A offset the impact on the OPM
EBITDA	1,574	1,822	15.7	1,830	(0.5)	7,702	7,824	1.6	
<i>EBITDA Margins</i>	31.4	31.5	11 bps	29.8	176 bps	35.9	32.9	(299) bps	
Interest	(306)	(417)	36.1	(371)	12.4	(967)	(1,416)	46.4	
Depreciation	57	62	7.5	49	25.5	176	204	15.8	
Other income	0	0	na	0	na	180	180	0.0	
PBT	1,823	2,177	19.4	2,152	1.2	8,673	9,216	6.3	
Tax	600	703	17.3	692	1.6	2,859	2,902	1.5	
<i>Tax rate (%)</i>	32.9	32.3	(60) bps	32.2	14 bps	33.0	31.5	(147) bps	
Exceptional items Gain/(Loss)	(66)	(106)	na	(1)	na	(177)	(2,008)	1,035	
Reported PAT	1,157	1,368	18.2	1,459	(6)	5,637	4,306	(23.6)	
Recurring Net Profit	1,223	1,474	20.5	1,460	1.0	5,814	6,314	8.6	Excluding the exceptional items
<i>Net margin (%)</i>	24.9	26.0	111 bps	24.0	201 bps	27.5	27.0	(53) bps	

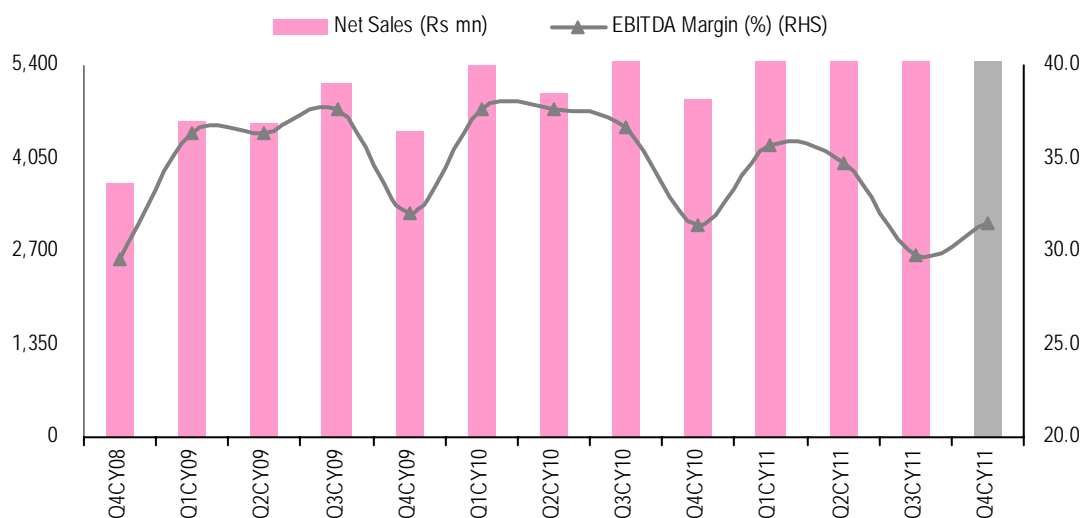
Source: PINC Research, Company

Exhibit 2 - Expenditure Break-up (Standalone, Rs mn)

Year to 31 Dec	Q4CY10	Q4CY11	% Ch YoY	Q3CY11	% Ch QoQ	CY10	CY11	% Ch YoY	PINC Comments
Net Sales	4,906	5,660	15.4	6,076	(6.8)	21,116	23,380	10.7	
Consumption of RM	1,831	2,323	26.9	2,420	(4.0)	7,770	9,085	16.9	Impacted by increase in prices
<i>% of Net sales</i>	37.3	41.0	372 bps	39.8	121 bps	36.8	38.9	206 bps	
Staff Cost	650	702	8.1	661	6.3	2,409	2,784	15.6	Expansion in field force by 700 MRs in CY11
<i>% of Net sales</i>	13.2	12.4	(83) bps	10.9	153 bps	11.4	11.9	50 bps	
Other Expenses	953	929	(2.5)	1,235	(24.8)	3,560	4,066	14.2	
<i>% of Net sales</i>	19.4	16.4	(301) bps	20.3	(392) bps	16.9	17.4	53 bps	
Total Expenditure	3,433	3,954	15.2	4,316	(8.4)	13,739	15,935	16.0	
<i>% of Net sales</i>	70.0	69.9	(12) bps	71.0	(118) bps	65.1	68.2	309 bps	

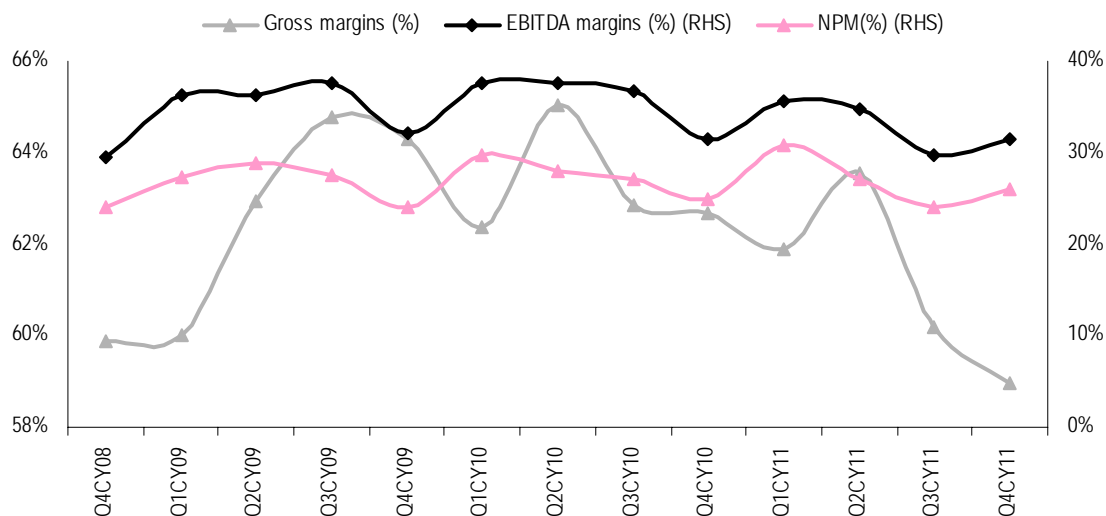
Source: PINC Research, Company

Exhibit 3 - Net Sales and EBITDA Margin trend



Source: PINC Research, Company

Exhibit 4 - Margin Performance



Source: PINC Research, Company

Year Ended Dec (Figures are in Rs mn)

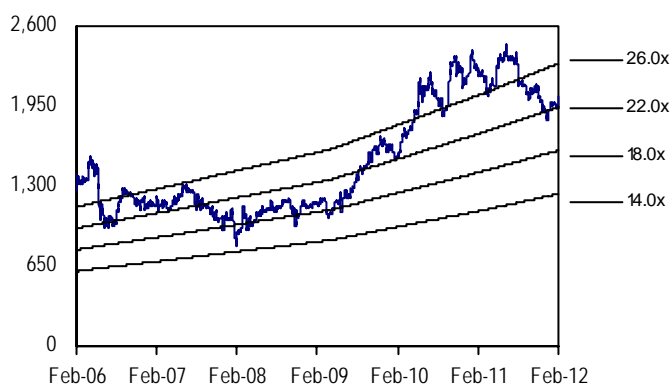
Income Statement	CY09	CY10	CY11P	CY12E	CY13E
Net sales	19,078	21,510	23,785	26,691	30,287
<i>Growth (%)</i>	<i>12.7</i>	<i>12.7</i>	<i>10.6</i>	<i>12.2</i>	<i>13.5</i>
Operating Profit	6,741	7,586	7,665	9,116	10,473
<i>Growth (%)</i>	<i>13.2</i>	<i>12.5</i>	<i>1.0</i>	<i>18.9</i>	<i>14.9</i>
Depreciation	164	176	204	212	221
Other Income	1,034	1,306	1,811	1,649	1,707
EBIT	7,612	8,716	9,272	10,553	11,959
Interest Paid	-	-	-	-	-
PBT (before E/o items)	7,612	8,716	9,272	10,553	11,959
Tax Provision	2,607	2,934	2,980	3,554	4,011
E/o income/(loss)	-	(177)	(2,008)	-	-
Recurring PAT	5,005	5,783	6,292	6,999	7,948
<i>Growth (%)</i>	<i>8.1</i>	<i>15.5</i>	<i>8.8</i>	<i>11.2</i>	<i>13.6</i>
Reported PAT	5,005	5,606	4,285	6,999	7,948
<i>Growth (%)</i>	<i>8.1</i>	<i>12.0</i>	<i>(23.6)</i>	<i>63.4</i>	<i>13.6</i>
Recurring EPS	59.1	68.3	74.3	82.6	93.8
<i>EPS Growth (%)</i>	<i>8.1</i>	<i>15.5</i>	<i>8.8</i>	<i>11.2</i>	<i>13.6</i>
Note - Recurring EPS excludes extraordinary items					

Cash Flow Statement	CY09	CY10	CY11P	CY12E	CY13E
Pre-tax profit	7,612	8,716	9,272	10,553	11,959
Depreciation	164	176	204	212	221
Total Tax Paid	(1,854)	(3,139)	(3,012)	(3,430)	(3,887)
Chg in working capital	205	127	43	689	758
Other operating activities	-	-	-	-	-
Cash flow from oper (a)	6,126	5,880	6,507	8,025	9,051
Capital Expenditure	(209)	(206)	(313)	(350)	(350)
Chg in investments	5,802	300	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv.(b)	5,593	94	(313)	(350)	(350)
Free cash flow (a+b)	11,719	5,974	6,194	7,675	8,701
Equity raised/(repaid)	-	(0)	-	-	-
Debt raised/(repaid)	-	-	-	-	-
Change in Minority Interest	-	-	-	-	-
Dividend (incl. Tax)	(3,943)	(2,962)	(4,345)	(4,345)	(4,345)
Other financing activities	(2)	(322)	-	-	-
Cash flow from fin. (c)	(3,945)	(3,284)	(4,345)	(4,345)	(4,345)
Net chg in cash (a+b+c)	7,775	2,690	1,849	3,330	4,356

Balance Sheet	CY09	CY10	CY11P	CY12E	CY13E
Equity Share Capital	847	847	847	847	847
Reserves & surplus	17,014	18,669	18,608	21,262	24,865
Shareholders' funds	17,861	19,516	19,455	22,109	25,712
Minorities interests	-	-	-	-	-
Total Debt	54	52	52	52	52
Capital Employed	17,915	19,567	19,507	22,161	25,764
Net fixed assets	1,142	1,177	1,286	1,423	1,552
Cash & Cash Eq.	17,339	20,029	1,441	1,441	1,441
Net Other current assets	(2,499)	(3,383)	(3,426)	(4,116)	(4,874)
Investments	1,485	1,179	19,508	22,738	26,994
Net Deferred tax Assets	449	566	698	674	650
Total Assets	17,915	19,567	19,507	22,161	25,764

Key Ratios	CY09	CY10	CY11P	CY12E	CY13E
OPM (%)	35.3	35.3	32.2	34.2	34.6
Net Margin (%)	26.2	26.9	26.5	26.2	26.2
Div. Yield (%)	2.2	1.9	2.2	2.2	2.2
Net debt/Equity (x)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Net Working Capital (days)	(48)	(57)	(53)	(56)	(59)
ROCE (%)	27.9	29.6	32.3	31.6	30.9
RoE (%)	29.8	30.9	32.3	33.7	33.2
EV/Net Sales (x)	8.3	7.2	6.6	5.7	4.9
EV/EBITDA (x)	23.5	20.5	20.3	16.8	14.2
PER (x)	35.3	30.6	28.1	25.3	22.3
PCE (x)	34.2	30.6	39.4	24.5	21.6
Price/Book (x)	9.9	9.1	9.1	8.0	6.9

P/E Band



Key Assumptions	CY09	CY10	CY11P	CY12E	CY13E
Pharma products (% Chng YoY)	9.8	14.2	8.3	15.1	14.1
Vaccines (% Chng YoY)	30.0	25.0	25.0	30.0	20.0
Revenue growth (% Chng YoY)	12.7	12.7	10.6	12.2	13.5
OPM (%)	35.3	35.3	32.2	34.2	34.6
Effective Tax rate (%)	34.3	33.7	32.1	33.7	33.5

T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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