

November 4, 2011

Reco	Previous Reco
Reduce	Hold
CMP	Target Price
Rs2,110	Rs1,714
EPS change FY11E/12E (%)	-12/ -10
Target Price change (%)	-21
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(7)	(8)	(5)
Rel. to Nifty	(9)	(7)	(3)	13

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	GLXO@IN
Equity Capital (Rs mn)	847
Face Value(Rs)	10
No of shares o/s (mn)	85
52 Week H/L	2,475/1,905
Market Cap (Rs bn/USD mn)	179/3,635
Daily Avg Volume (No of sh)	32200
Daily Avg Turnover (US\$m)	1.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	50.7	50.7	50.7
FII/NRI	17.4	17.1	17.0
Institutions	15.5	15.9	15.8
Private Corp	2.1	2.0	2.0
Public	14.4	14.5	14.6

Source: Capitaline

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- **GSK Pharma Q3CY11 results were below expectations with a) Revenues at Rs6bn (up 4% YoY) b) EBITDA at Rs1.8bn (down 15% YoY) and c) PAT at Rs1.5bn (down 8% YoY)**
- **Lower revenue growth at 4% and decline in EBITDA margins by 687bps to 29.8% was due to intense pricing pressure in existing brands & new product launches at lower prices**
- **Going forward – high dependence on acute therapy will keep the top-line growth subdued & intense competition and govt. price control policy will keep the margins under pressure**
- **We downgrade the stock one notch from Hold to Reduce with a revised target price of Rs1,714 (22x CY12E EPS)**

Slowdown in revenue growth was led by

- 95% of the revenues are coming from the acute therapy where there was a increase in competition from the local players and intense pricing pressures
- 5 out of the top 10 brands witnessed subdued growth viz. – Zinetac, Phexin, Betnesol, Calpol and Neosporin
- The secondary AIOCD data shows price decline of 0.2% in existing portfolio compared to industry price growth of 2.5%

Decline in profitability led by higher material cost and other expenses

- EBITDA margins contracted by 687bps YoY to 30% on account of
 - Higher raw material cost (up 12% YoY, 266bps expansion) and
 - Other expenses (up 24% YoY, 316bps expansion).
- PAT de-grew 8% to Rs1.5bn

Impact of proposed drug price control policy

The government's new proposed drug price control policy will bring 60% of the domestic market under direct price control. Among the pharma companies GSK will be the most affected with ~67% of its portfolio falling under the price control regime which will have ~Rs1.5bn impact on the top-line. The major brands which will be impacted are Augmentin, Zentel, Banocide, Betnovate, Neosporin, Zinetac, Zovirax, Eltroxin, Betnesol and Calpol.

However, we have not factored-in any downsides from price control policy in our estimates.

Valuation

We expect GSK to report 7% revenue growth in CY11 and 12% growth in CY12. We expect EBITDA margins to contract from 35.31% in CY10 to 31.6% in CY11 and 32.9% in CY12. Earnings will grow at a CAGR of 7% to Rs6.7bn. We revised our target on the stock to Rs1,714 and downgrade the stock one notch to Reduce. At CMP, the stock is trading at 31x/27x CY11E/CY12E earnings respectively.

Financials

	Rs mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
CY09	19,078	6,741	35.3	5,005	59.1	8.1	30.2	35.7	20.8	10.0
CY10	21,511	7,586	35.3	5,783	68.3	15.5	30.0	30.9	17.9	9.2
CY11E	22,971	7,247	31.6	5,789	68.3	0.1	28.6	30.9	17.8	8.5
CY12E	25,670	8,446	32.9	6,676	77.9	14.0	30.7	27.1	15.5	8.0

Key Financials – Quarterly

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD'10	YTD'11	YoY (%)
Revenue	5,893	5,007	6,098	5,739	6,146	4.3	7.1	16,433	17,983	9.4
Expenditure	3,733	3,433	3,920	3,746	4,316	15.6	15.2	10,305	11,981	16.3
<i>as % of sales</i>	<i>63.4</i>	<i>68.6</i>	<i>64.3</i>	<i>65.3</i>	<i>70.2</i>	-	-	<i>62.7</i>	<i>66.6</i>	-
Consumption of RM	2,163	1,831	2,297	2,046	2,420	11.9	18.3	5,934	6,762	14.0
<i>as % of sales</i>	<i>36.7</i>	<i>36.6</i>	<i>37.7</i>	<i>35.6</i>	<i>39.4</i>	266.3	-	<i>36.1</i>	<i>37.6</i>	-
Employee Cost	572	650	644	776	661	15.5	(14.8)	1,759	2,081	18.3
<i>as % of sales</i>	<i>9.7</i>	<i>13.0</i>	<i>10.6</i>	<i>13.5</i>	<i>10.8</i>	104.4	-	<i>10.7</i>	<i>11.6</i>	-
Other expenditure	998	953	978	924	1,235	23.8	33.7	2,612	3,137	20.1
<i>as % of sales</i>	<i>16.9</i>	<i>19.0</i>	<i>16.0</i>	<i>16.1</i>	<i>20.1</i>	316.1	-	<i>15.9</i>	<i>17.4</i>	-
EBIDTA	2,160	1,574	2,179	1,993	1,830	(15.2)	(8.2)	6,128	6,002	(2.1)
Depreciation	41	57	44	49	49	19.5	(0.6)	119	143	19.7
EBIT	2,119	1,517	2,134	1,944	1,781	(15.9)	(8.4)	6,009	5,859	(2.5)
Other Income	256	306	511	298	371	45.0	24.3	841	1,180	40.3
Interest	0	0	0	0	0	-	-	0	0	
PBT	2,374	1,823	2,645	2,242	2,152	(9.4)	(4.0)	6,850	7,039	2.8
Total Tax	792	600	782	725	692	(12.6)	(4.6)	2,259	2,199	(2.7)
Adjusted PAT	1,578	1,223	1,863	1,517	1,460	(7.5)	(3.7)	4,586	4,840	5.5
APAT after MI	1,578	1,223	1,863	1,517	1,460	(7.5)	(3.7)	4,586	4,840	5.5
Extra ordinary items (Net of Tax)	-4	-66	-1859	-41	0	-	-	102	-1900	
Reported PAT	1,583	1,157	5	1,475	1,460	(8)	-	4,484	2,940	(34.4)
A EPS	18.7	14.4	22.0	17.9	17.2	(7.9)	(3.7)	54.2	57.1	5.4

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	36.6	31.4	35.7	34.7	29.8	(687)	(495)	37.3	33.4	(391)	
EBIT	36.0	30.3	35.0	33.9	29.0	(697)	(489)	36.6	32.6	(398)	
EBT	40.3	36.4	43.4	39.1	35.0	(528)	(405)	41.7	39.1	(254)	
PAT	26.8	24.4	30.6	26.4	23.8	(303)	(268)	27.9	26.9	(99)	
Effective Tax rate	33.3	32.9	29.6	32.3	32.2	(118)	(19)	33.0	31.2	(174)	

Valuations

We expect GSK to report 7% revenue growth in CY11 and 12% growth in CY12. We expect EBIDTA margins to contract from 35.31% in CY10 to 31.6% in CY11 and 32.9% in CY12. Earnings will grow at a CAGR of 7% to Rs6.7bn. We revised our target on the stock to Rs1,714 and downgrade the stock one notch to Reduce. At CMP, the stock is trading at 31x/27x CY11E/CY12E earnings respectively.

Revised Financials

We have downgraded CY11/ CY12E top-line and earnings by ~5% and ~10-12% on account of pricing pressure and higher dependence on the acute segment in the domestic market.

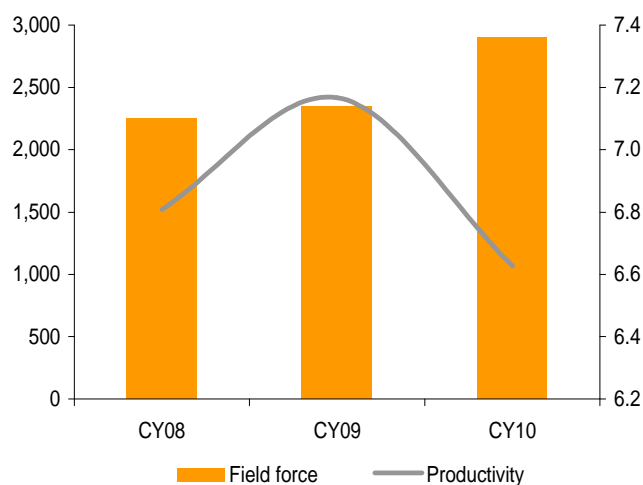
Rs mn	Old Financials		New Financials		% Change	
	CY11E	CY12E	CY11E	CY12E	CY11E	CY12E
Sales	24229	27080	22971	25670	-5.2	-5.2
EBITDA	8638	9735	7247	8446	-16.1	-13.2
PAT	6566	7406	5789	6676	-11.8	-9.9
EPS	77.5	86.4	68	78	-11.8	-9.8
Target Price		2161		1714		-20.7

GSK Pharma – Domestic Metrics

GSK Pharma - Therapeutic growth

Therapies	FY11 % Contribution	MAT Sep'11	MAT Sep'10	YoY Gr.
Anti-infectives	26.0%	691.5	620.9	11.4%
Dermatology	16.0%	424.5	364.3	16.5%
Pain Mgmt.	10.8%	287.1	258.1	11.3%
Vitamins	8.8%	232.9	208.8	11.5%
Respiratory	7.7%	204.0	183.9	10.9%
Hormones	6.8%	181.8	176.4	3.0%
Vaccines	5.8%	154.97	105.67	46.6%
Gastro	6.3%	166.4	160.5	3.7%
CVS	2.9%	76.2	63.0	21.0%
Others	9.0%	240.4	225.5	6.6%
Acute	94.7%	2519.6	2244.2	12.3%
Chronic	5.3%	140.2	122.8	14.2%
Total Sales	100.0%	2659.8	2367.0	12.4%

Field force productivity

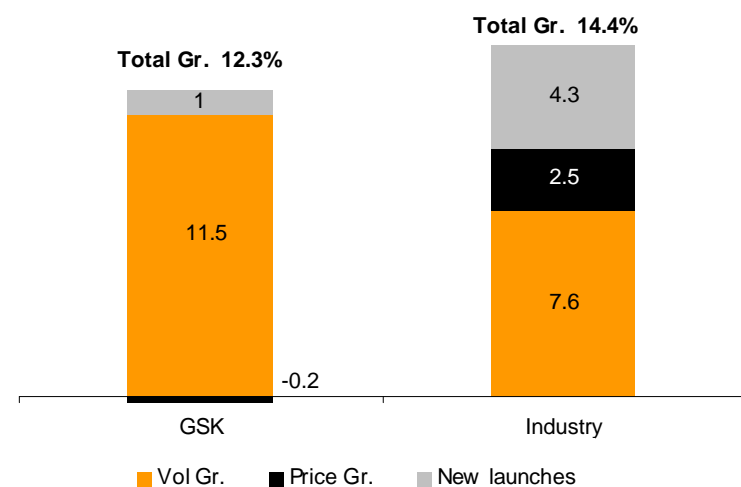


Sep'11 MAT growth for GSK has been lower at 13%

- Acute segment which contributes 95% grew by 12%
- Chronic segment which contributes 5% grew by 14%

- The company has hired ~550 people during CY10
- Sales to grow at a higher clip once the MR productivity improves

Growth drivers - Volume/ Price/ New launches



- GSK's underperformance to the industry was due to lack of new product launches and subdued price growth during MAT Sep'11

Top 10 brand performance

Rs Cr	Therapies	MAT Sep'11	MAT Sep'10	YoY Gr.
Augmentin	Anti-Infective	184.2	163.2	12.9%
Calpol	Pain	142.2	131.1	8.5%
Zinetac	Anti-Infective	119.0	117.4	1.4%
Ceftum	Anti-Infective	112.4	98.5	14.2%
Eltroxin	Hormones	86.9	69.2	25.5%
Phexin	Anti-bacterial	79.7	77.6	2.6%
Betnesol	Hormones	79.3	86.7	-8.5%
Betnovate C	Derma	74.0	60.5	22.3%
Neosporin	Ophthal	71.4	65.7	8.7%
Augmentin Duo	Anti-Infective	70.7	59.7	18.5%
Total		1,019.7	929.6	9.7%

- Top 10 brands contribute 38% to the domestic formulation sales
- With its strong field force and strong product pipeline we expect the domestic business to sustain 14-15% growth

Source: AIOCD, Emkay Research

Financials

Income Statement

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	19,078	21,511	22,971	25,670
<i>Growth (%)</i>	12.7	12.8	6.8	11.8
Expenditure	12,337	13,924	15,724	17,225
Raw Materials	7,022	7,881	9,188	10,268
SGA	1,045	1,359	1,252	1,284
Employee Cost	2,093	2,409	2,527	2,593
Other Exp	2,176	2,275	2,757	3,080
EBITDA	6,741	7,586	7,247	8,446
<i>Growth (%)</i>	8.4	14.4	-0.7	15.2
EBITDA margin (%)	35.3	35.3	31.6	32.9
Depreciation	164	176	186	200
EBIT	6,577	7,410	7,061	8,245
EBIT margin (%)	34.5	34.4	30.7	32.1
Other Income	1,034	1,306	1,579	1,719
Interest expenses	0	0	0	0
PBT	7,686	8,539	8,640	9,964
Tax	2,607	2,934	2,851	3,288
<i>Effective tax rate (%)</i>	33.9	34.4	33.0	33.0
Adjusted PAT	5,005	5,783	5,789	6,676
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	5,005	5,783	5,789	6,676
<i>Growth (%)</i>	8.1	15.5	0.1	15.3
Net Margin (%)	26.2	26.9	25.2	26.0
E/O items	74	-177	0	0
Reported PAT	5,079	5,606	5,789	6,676
<i>Growth (%)</i>	-14.1	10.4	3.3	15.3

Cash Flow

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	6,651	7,233	7,061	8,245
Depreciation	164	176	186	200
Interest Provided	0	0	0	0
Other Non-Cash items	0	0	0	0
Chg in working cap	147	884	185	514
Tax paid	-2,607	-2,934	-2,851	-3,288
Operating Cashflow	4,355	5,360	4,581	5,671
Capital expenditure	-302	-211	-166	-250
Free Cash Flow	4,053	5,149	4,415	5,421
Other income	1,034	1,306	1,579	1,719
Investments	5,811	306	0	0
Investing Cashflow	6,543	1,400	1,413	1,469
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-2	-3	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-2,973	-3,951	-4,388	-5,060
Income from investments	0	0	0	0
Others	-151	-117	0	0
Financing Cashflow	-3,126	-4,070	-4,388	-5,060
Net chg in cash	7,772	2,690	1,607	2,080
Opening cash position	9,567	17,339	20,029	21,636
Closing cash position	17,339	20,029	21,636	23,715

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity share capital	847	847	847	847
Reserves & surplus	17,014	18,669	20,070	21,686
Net worth	17,861	19,516	20,917	22,533
Minority Interest	0	0	0	0
Secured Loans	54	52	52	52
Unsecured Loans	0	0	0	0
Loan Funds	54	52	52	52
Net deferred tax liability	-449	-566	-566	-566
Total Liabilities	17,466	19,002	20,403	22,019
Gross Block	3,333	3,625	3,833	4,083
Less: Depreciation	2,405	2,536	2,764	2,964
Net block	928	1,090	1,069	1,119
Capital work in progress	214	87	87	87
Investment	1,485	1,179	1,179	1,179
Current Assets	21,827	25,096	27,046	29,761
Inventories	2,573	2,856	3,049	3,408
Sundry debtors	537	470	502	561
Cash & bank balance	17,339	20,029	21,636	23,715
Loans & advances	1,074	1,203	1,284	1,435
Other current assets	304	538	574	642
Current lia & Prov	6,987	8,450	8,978	10,128
Current liabilities	3,172	3,582	3,859	4,313
Provisions	3,815	4,868	5,119	5,815
Net current assets	14,840	16,646	18,067	19,634
Misc. exp & Def. Assets	0	0	0	0
Total Assets	17,466	19,002	20,403	22,019

Key Ratios

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	35.3	35.3	31.6	32.9
Net Margin	26.2	26.9	25.2	26.0
ROCE	45.1	46.5	42.6	45.8
ROE	30.2	30.0	28.6	30.7
Per Share Data (Rs)				
EPS	59.1	68.3	68.3	77.9
CEPS	61.9	68.3	70.5	81.2
BVPS	210.9	230.4	247.0	262.9
DPS	30.0	40.0	44.4	51.2
Valuations (x)				
PER	35.7	30.9	30.9	27.1
P/CEPS	34.1	30.9	29.9	26.0
P/BV	10.0	9.2	8.5	8.0
EV / Sales	8.5	7.4	6.8	6.1
EV / EBITDA	20.8	17.9	17.8	15.5
Dividend Yield (%)	1.4	1.9	2.1	2.4
Gearing Ratio (x)				
Net Debt/ Equity	-1.0	-1.0	-1.0	-1.1
Net Debt/EBITDA	-2.2	-2.2	-2.4	-2.3
Working Cap Cycle (days)	25	25	25	25

Recommendation History: GlaxoSmithKline Pharma – GLXO IN

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
11/08/2011	GlaxoSmithKline Q2CY11 Result Update	Hold	2,122	2,161
06/05/2011	GlaxoSmithKline Q1CY11 Result Update	Hold	2,288	2,161
21/02/2011	GlaxoSmithKline Q4CY10 Result Update	Hold	2,229	2,161

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/11/2011	Pfizer Q2FY12 Result Update	Accumulate	1,325	1,574
01/11/2011	Divis Lab Q2FY12 Result Update	Buy	759	927
01/11/2011	Jubilant Life Sciences Q2FY12 Result Update	Buy	200	359
31/10/2011	IPCA Lab Q2FY12 Result Update	Buy	254	392

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