

Results affected by NPPP

We maintain Sell rating on Glaxo SmithKline Pharma (GSK) with a revised target price of Rs2,010 (earlier Rs2,130) based on 24xDec'15 EPS of Rs83.7. GSK's results for Q1CY14 were lower than our expectations and were affected by NPPP provisions. Some of GSK's major brands witnessed steep price reduction under NPPP. We expect growth momentum to continue due to price revision of 6.2% for price controlled products and up to 10% for those outside price control in April'14. We have revised our CY14 and CY15 EPS estimates downward by 12% and 9% respectively. Key risks to our assumptions include faster than expected growth of the domestic market and appreciation of rupee against the dollar, which will bring down the cost of imported raw materials.

- **Revenue to grow faster:** GSK reported 4%YoY decline in revenues to Rs6.10bn from Rs6.37bn. Revenues were impacted by NPPP. Some of GSK's major brands saw sharp reduction in price due to NPPP. However, these brands witnessed good volume growth. Meanwhile, GSK launched five new products, Acne-Aid for acne, Avamys for allergic rhinitis, Cardio Check for determining cholesterol levels, Physiogel lotion for the skin and Xgeva for bone cancer. We expect these brands to drive future growth.
- **EBIDTA margin under pressure:** GSK's EBIDTA margin declined by 870bps to 17.6% from 26.3% mainly due to overall increase in costs and lower sales growth. The company's material cost went up by 540bps to 48.3% from 42.9% due to price reduction of its major brands under NPPP. Personnel cost was up by 130bps to 13.7% from 12.4%. Other expenses grew by 210bps to 20.4% from 18.3%. We expect GSK's margin to improve from Q2CY14 onwards due to the price revision of most of its products during April'14.
- **Net profit to be better:** GSK's net profit before EO items declined by 43% YoY to Rs965mn from Rs1,706mn due to sharp reduction in margins, lower interest income and higher tax rate. Its interest income declined by 42%YoY to 449mn from Rs770mn. The company's tax rate went up to 34.9% from 29.1%. We expect improvement in net profit due to margin improvement from Q2CY14 onwards due to price revision of its brands in April'14.
- **Recommendation and key risks:** We expect the company to perform well from Q2CY14 onwards due to price revision and new product introductions. We have revised our EPS estimates for CY14 and CY15 downwards by 12% and 9% respectively. We maintain Sell rating on the scrip with a revised target price of Rs2,010 based on 24x Dec'15 EPS of Rs83.7 with a downside of 19.3% from the CMP due to its rich valuations. Key risks to our assumptions include faster than expected growth of the domestic market and appreciation of rupee against the dollar, which will bring down the cost of imported raw materials.

Y/E Dec (Rs mn)	Q1CY14	Q1CY13	YoY (%)	Q4CY13	QoQ (%)	Q1CY14E	% Var.
Net sales	6,099	6,369	(4.2)	6,373	(4.3)	6,800	(10.3)
EBIDTA	1,076	1,676	(35.8)	1,182	(9.0)	1,495	
EBIDTA Margin (%)	17.6	26.3		18.6		22.0	
PBDIT	1,076	1,676	(35.8)	1,182	(9.0)	1,495	(28.0)
Depreciation	43	42	1.7	58	(26.3)	60	(29.2)
PBT	1,482	2,404	(38.3)	1,603	(7.5)	1,895	(21.8)
Prov. For tax	517	698	(26.0)	518	(0.2)	610	(15.3)
% of PBT	34.9	29.1		32.3		32.2	
PAT before EO items	965	1,706	(43.4)	1,085	(11.0)	1,285	(24.9)

Source: Company, Centrum Research Estimates

Y/E Dec (Rs mn)	Revenue	YoY (%)	EBIDTA	EBIDTA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBIDTA (x)
CY12	26,468	11.3	8,223	31.1	7,101	9.6	83.8	36.0	30.7	29.7	25.7
CY13	25,627	(3.2)	5,282	20.6	4,554	(35.9)	53.8	22.8	17.8	46.3	40.0
CY14E	27,147	5.9	6,412	23.6	5,365	17.8	63.3	27.4	22.1	39.3	32.9
CY15E	30,280	11.5	8,440	27.9	6821	27.1	80.5	35.1	29.6	30.9	25.0
CY16E	33,982	12.2	9,939	29.2	7,902	15.8	93.3	39.4	33.6	26.7	21.2

Source: Company, Centrum Research Estimates

Target Price	Rs2,010	Key Data	
CMP*	Rs2,492	Bloomberg Code	GLXO IN
Downside	19.3%	Curr Shares O/S (mn)	84.7
Previous Target	Rs2,130	Diluted Shares O/S(mn)	84.7
Previous Rating	Sell	Mkt Cap (Rsbn/USDbn)	211/3.5
Price Performance (%)*		52 Wk H / L (Rs)	3054.5/2155
		5 Year H / L (Rs)	3054.5/999.8
GLXO IN	(3.0)	0.5	13.0
Nifty	4.6	10.2	17.9
		Daily Vol. (3M NSE Avg.)	80717

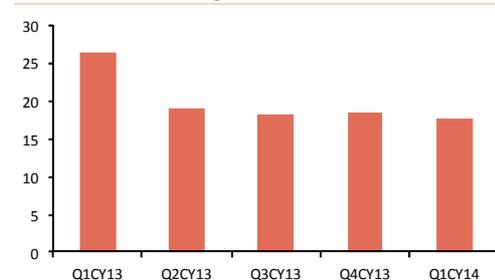
*as on 17th April 2014; Source: Bloomberg, Centrum Research

Shareholding pattern (%)

	Mar'14	Dec-13	Sept-13	June-13
Promoter	75.0	50.7	50.7	50.7
FIIs	2.6	23.8	23.9	23.7
DIIIs	8.9	10.2	10.5	10.6
Others	13.5	15.3	14.9	15.0

Source: BSE

Trend in EBIDTA margin (%)



Source: Company, Centrum Research

Earning Revision

Particulars (Rs mn)	CY14E			CY15E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	27,147	27,573	(1.5)	30,280	30,929	(2.1)
EBITDA	6,412	6,608	(3.0)	8,440	8,485	(0.5)
EBITDA Margin (%)	23.6	24.0	(40)bps	27.9	27.4	50bps
PAT-adj.	5,365	6,098	(12.0)	6,821	7,510	(9.2)

Source: Centrum Research

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	CY14E			CY15E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	27,147	28,562	(5.0)	30,280	31,809	(4.8)
EBITDA	6,412	6,589	(2.7)	8,440	7,874	7.2
PAT	5,365	5,561	(3.5)	6821	6,536	4.4

*as on 17th April 2014; Source: Bloomberg, Centrum Research

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
2	12	8	2,466	2,010	(18.5)

Source: Bloomberg, Centrum Research Estimates

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Performance of major brands

As per AIOCD AWACS MAT-March'13 data, GSK's revenues declined 14.7% against the industry growth rate of 6.2% due to the effect of NPPP. GSK's major brands Augmentin and Calpol went under price control due to NPPP. Prices of these brands have come down substantially. The company's major anti-ulcerant brand Zinetac continues to be under price control. However, GSK has increased prices of these products at WPI rate of 6.2% in April'14.

Four of GSK's major brands, Ceftum, Betnovate-C, Betnovate-N and Neosporin are currently outside price control. The company will be able to take up to 10% increase in prices for these brands in Q2CY14.

Only one out of top 10 products grew faster than the market namely Betnovate-N which grew at 11.8% against the industry growth rate of 6.2%. Six of top 10 brands witnessed over 10% decline in revenues.

The details are as follows:

Exhibit 1: Performance of major brands

Products (Top 10)	Ther. Category	MAT (Rs mn)	Gr. Rate %
Company		27,110	(14.7)
Augmentin	Antiinfective	2,420	(24.4)
Calpol	Antipyretic	1,546	(14.0)
Zinetac	Antiulcer	1,278	(13.4)
Eltroxin	Thyroid Hormone	1,226	2.3
Betnovate-N	Antiinfective	1,023	11.8
Ceftum	Antiinfective	1,008	(27.6)
Betnovate-C	Antiinflammatory	983	(3.1)
T Bact	Antiinfective	770	2.6
Neosporin	Antiinfective	736	(10.7)
Betnesol	Antiinflammatory	694	(27.8)
Top 10 brands		11,684	

Source: AIOCD AWACS-March'14

New product launches to drive growth

GSK launched new products in CY13, Acne-Aid for acne, Avamys for allergic rhinitis, Cardio Check for determining the cholesterol levels, Physiogel lotion for skin and Xgeva for bone cancer. We expect these products to drive future growth.

New manufacturing facility at Bangalore

GSK announced Rs8.64bn green field state-of-the-art manufacturing facility in Bangalore with leading edge technology including continuous manufacturing and automated systems. The company is proactively building manufacturing capacity in India. The facility is likely to be operational by 2017. It will create 250 jobs in India. This new facility will substantially increase manufacturing capacity in India.

Earnings Revision

Based on the above results, we have revised our consolidated EPS estimates downwards for CY14 and CY15 by 12% and 9% respectively.

Exhibit 2: Earning Revision

Particulars	CY14E			CY15E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	27,147	27,573	(1.5)	30,280	30,929	(2.1)
EBIDTA	6,412	6,608	(3.0)	8,440	8,485	(0.5)
EBIDTA margin (%)	23.6	24.0	(40)bps	27.9	27.4	50bps
Net profit	5,365	6,098	(12.0)	6,821	7,510	(9.2)

Source: Centrum Research

Valuation and key risks

At the CMP of Rs2,492, GSK trades at 39.3x CY14E EPS of Rs63.3 and 30.9x CY15E EPS of Rs80.5 and 26.7x CY16E EPS of Rs93.3. We expect the company to perform well from Q2CY14 onwards due to price revision and new product introductions. We have revised our EPS estimates for CY14 and CY15 downwards by 12% and 9% respectively. We maintain Sell rating on the scrip with a revised target price of Rs2,010 based on 24x Dec'15 EPS of Rs83.7 with a downside of 19.3% from the CMP due to rich valuations. Key risks to our assumptions include faster than expected growth of the domestic market and appreciation of rupee against the dollar, which will reduce imported raw material cost.

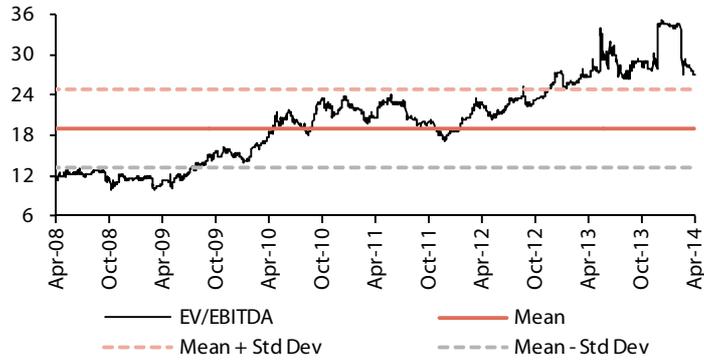
Valuation & key risks

Exhibit 3: Sensitivity Analysis

Sensitivity to key variables – CY14E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.2	5.1
Material cost	1	(1.8)	(2.2)

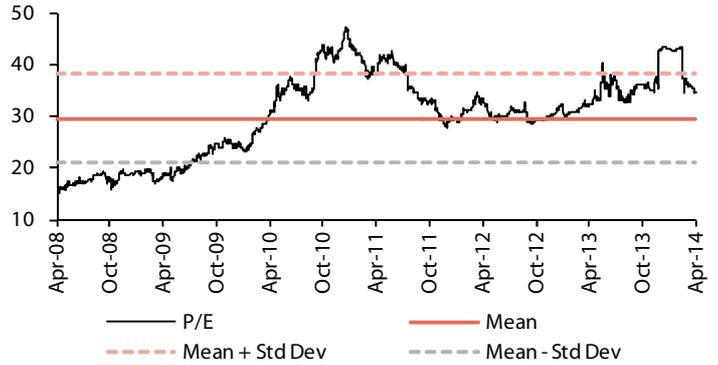
Source: Company, Centrum Research Estimates

Exhibit 4: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR CY13-15E%			EBIDTA margin (%)			P/E(x)			EV/EBIDTA(x)			RoE(%)			Div. Yield(%)		
		Revenue	EBIDTA	PAT	CY13	CY14E	CY15E	CY13	CY14E	CY15E	CY13	CY14E	CY15E	CY13	CY14E	CY15E	CY13	CY14E	CY15E
Glaxo SK Pharma	211,072	8.7	26.4	22.4	20.6	23.6	27.9	46.3	39.3	30.9	40.0	32.9	25.0	22.8	27.4	35.1	2.0	2.4	2.6
Abbott India	37,698	13.1	16.8	20.0	12.4	13.0	13.7	18.1	19.5	16.2	11.8	12.1	9.6	28.8	22.2	22.6	1.2	1.1	1.2
Pfizer	36,852	11.7	21.0	14.6	19.7	21.7	23.1	17.5	16.1	13.3	11.7	11.9	10.1	31.3	69.6	53.9	24.8	1.5	1.6
Sanofi India	67,985	15.5	18.6	24.7	22.0	22.7	23.4	28.3	22.4	18.3	17.1	14.3	12.1	18.8	21.2	22.9	1.5	1.7	1.9

Source: Company, Centrum Research Prices as on 17th April '14

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 7: Quarterly Financials

Particulars (Rs mn)	Q2CY12	Q3CY12	Q4CY12	Q1CY13	Q2CY13	Q3CY13	Q4CY13	Q1CY14
P & L								
Total revenues	6,619	6,753	6,622	6,369	6,454	6,266	6,373	6,099
Material cost	2,707	2,847	2,803	2,734	2,958	2,748	3,138	2,944
Personnel cost	789	747	769	791	991	951	888	837
Other expenses	996	1,102	1,081	1,168	1,283	1,426	1,164	1,242
Total expenses	4,492	4,696	4,653	4,693	5,232	5,125	5,190	5,023
EBIDTA	2,127	2,057	1,969	1,676	1,222	1,141	1,182	1,076
Other income	380	411	422	770	369	394	478	449
PBDIT	2,507	2,468	2,390	2,446	1,590	1,535	1,660	1,525
Interest	-	-	-	-	-	-	-	-
Depreciation	43	48	46	42	50	50	58	43
Profit before tax	2,464	2,419	2,344	2,404	1,540	1,485	1,603	1,482
Tax provision	739	783	762	698	591	468	518	517
Profit after tax before EO	1,725	1,636	1,583	1,706	950	1,017	1,085	965
EO items	(90)	(113)	(198)	(16)	201	(8)	84	0
Profit after tax after EO	1,635	1,523	1,385	1,690	1,150	1,009	1,169	965
Growth (%)								
Revenues	15.3	9.9	14.6	1.3	(2.5)	(7.2)	(3.8)	(4.2)
EBIDTA	6.7	12.4	8.0	(16.8)	(42.6)	(44.5)	(39.9)	(35.8)
Net Profit before EO	13.8	12.1	7.4	(8.1)	(45.0)	(37.8)	(31.5)	(43.4)
Margin (%)								
EBIDTA	32.1	30.5	29.7	26.3	18.9	18.2	18.6	17.6
PBT	37.2	35.8	35.4	37.7	23.9	23.7	25.1	24.3
PAT before EO	26.1	24.2	23.9	26.8	14.7	16.2	17.0	15.8

Source: Company, Centrum Research

Exhibit 8: Key performance indicators

Key performance indicator	CY12	CY13	CY14E	CY15E	CY16E
Revenue growth %	11.3	(3.2)	5.9	11.5	12.2
Material cost (%)	41.7	45.4	43.5	40.0	40.1

Source: Centrum Research Estimates

Financials - consolidated

Exhibit 9: Income Statement

Y/E Dec (Rs mn)	CY12	CY13	CY14E	CY15E	CY16E
Net Sales	26,468	25,627	27,147	30,280	33,982
Material cost	11043	11638	11805	12120	13610
% of sales	41.7	45.4	43.5	40.0	40.1
Personnel Expenses	2956	3621	3780	4125	4450
% of sales	11.2	14.1	13.9	13.6	13.1
Other expenses	4246	5087	5150	5595	5983
% of sales	16.0	19.8	19.0	18.5	17.6
Operating Expenses	18,245	20,346	20,735	21,840	24,043
% of sales	68.9	79.4	76.4	72.1	70.8
EBIDTA	8,223	5,282	6,412	8,440	9,939
EBIDTA margin (%)	31.1	20.6	23.6	27.9	29.2
Depreciation	178	199	252	296	340
EBIT	8,044	5,083	6,160	8,144	9,599
Interest Income/(expenses)	1,743	1,741	1,873	2,039	2,304
PBT from operations	9,787	6,824	8,033	10,183	11,903
Other non operating income	39	28	7	8	9
PBT	9,826	6,852	8,040	10,191	11,912
PBT margin (%)	37.1	26.7	29.6	33.7	35.1
Provision for tax	2,725	2,298	2,675	3,370	4,010
Effective tax rate (%)	27.7	33.5	33.3	33.1	33.7
Minority Interest	-	-	-	-	-
EO Items	(1,483)	262	-	-	-
Net profit	5,618	4,816	5,365	6,821	7,902
Adj. PAT	7,101	4,554	5,365	6,821	7,902

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E Dec (Rs mn)	CY12	CY13	CY14E	CY15E	CY16E
Growth Matrices (%)					
Net sales	11.3	(3.2)	5.9	11.5	12.2
EBIDTA	7.3	(35.8)	21.4	31.6	17.8
Adjusted PAT	9.6	(35.9)	17.8	27.1	15.8
Profitability Matrices (%)					
EBIDTA margin	31.1	20.6	23.6	27.9	29.2
EBIT margin	30.5	19.9	22.7	26.9	28.3
PAT margin	21.2	18.8	19.8	22.5	23.3
Return ratios (%)					
ROCE	30.7	17.8	22.1	29.6	33.6
ROE	36.0	22.8	27.4	35.1	39.4
ROIC	(353.8)	(264.1)	242.8	256.4	175.1
Turnover Ratios					
Inventory (days)	42.6	45.0	46.9	46.5	46.6
Debtors (days)	13.9	15.1	14.2	14.5	13.9
Working capital (days)	51.5	44.0	25.0	47.8	41.8
Solvency Ratio					
Debt: equity	0.0	0.0	0.0	0.0	0.0
Net debt: equity	(1.0)	(1.0)	(0.9)	(0.8)	(0.7)
Interest coverage ratio	(4.6)	(2.9)	(3.3)	(4.0)	(4.2)
Dividend Per share (Rs)					
DPS	50.0	50.0	60.0	65.0	70.0
Dividend Yield (%)	2.0	2.0	2.4	2.6	2.8
Dividend Payout (%)	88.6	103.6	111.8	95.2	88.5
Per share (Rs)					
Basic EPS	66.3	56.9	63.3	80.5	93.3
FDEPS	83.8	53.8	63.3	80.5	93.3
Book value	236.9	234.9	227.4	231.3	242.0
Valuation					
P/E (x)	29.7	46.3	39.3	30.9	26.7
P/BV (x)	10.5	10.6	11.0	10.8	10.3
EV/EBIDTA (x)	25.7	40.0	32.9	25.0	21.2
EV/Sales (x)	8.0	8.2	7.8	7.0	6.2

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

Y/E Dec (Rs mn)	CY12	CY13	CY14E	CY15E	CY16E
Share capital	847	847	847	847	847
Reserves & surplus	19,221	19,050	18,418	18,742	19,648
Total shareholder's fund	20,068	19,897	19,265	19,589	20,495
Loan fund	41	36	40	50	50
Deferred tax liability	(867)	(923)	(995)	(1,070)	(1,130)
Total capital employed	19,242	19,010	18,310	18,569	19,415
Gross block	3,162	3,432	7,246	8,826	10,516
Accumulated depreciation	(2,266)	(2,430)	(2,679)	(2,971)	(3,306)
Net Block	895	1,002	4,567	5,855	7,210
Capital WIP	438	617	700	800	900
Net fixed assets	1,333	1,619	5,267	6,655	8,110
Investments	550	101	120	140	160
Cash and bank	20,666	20,412	16,965	16,311	15,352
Inventories	2,851	3,469	3,510	4,200	4,480
Debtors	1,159	964	1,155	1,250	1,340
Other current assets & loans & adv.	3,454	3,803	3,386	3,810	4,350
Tot. current assets & loans & adv.	28,681	28,750	25,136	25,711	25,682
Current liabilities and provisions	10,773	11,359	12,093	13,797	14,376
Net current assets	17,908	17,390	13,043	11,914	11,306
Total assets	19,242	19,010	18,310	18,569	19,415

Source: Company, Centrum Research Estimates

Exhibit 12: Cash Flow

Y/E Dec (Rs mn)	CY12	CY13	CY14E	CY15E	CY16E
Cash flow from operations					
Net Profit	5,618	4,816	5,365	6,821	7,902
Depreciation & amortization	178	199	252	296	340
Change in working capital	(325)	(185)	919	495	(330)
Deferred tax liability	(251)	(56)	(72)	(75)	(60)
Other non-cash charges	69	-	-	-	-
Cash gen. from operations	5,290	4,774	6,464	7,537	7,852
Cash flow from investments					
Capex	(358)	(484)	(3,900)	(1,684)	(1,795)
Investments	572	449	(19)	(20)	(20)
Cash gen. from investments	214	(35)	(3,919)	(1,704)	(1,815)
Cash flow from financing					
Inc / (dec) in debt	(5)	(5)	4	10	-
Dividends paid	(4,976)	(4,987)	(5,997)	(6,496)	(6,996)
Share issuance / (repurchase)	-	-	-	-	-
Cash gen. from financing	(4,981)	(4,992)	(5,993)	(6,486)	(6,996)
Net Cash Flow	523	(254)	(3,448)	(654)	(960)

Source: Company, Centrum Research Estimates

Appendix A

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Hold	Upside between -25% to +25%	Upside between -20% to +20%	Upside between -15% to +15%
Sell	Downside > 25%	Downside > 20%	Downside > 15%

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