

GlaxoSmithKline Pharma

Performance Highlights

Y/E Dec. (₹ cr)	2QCY2014	1QCY2014	% chg (qoq)	2QCY2013	% chg (yoy)
Net Sales	655	600	9.2	637	2.8
Other income	45	55	(18.6)	52	(14.3)
Gross profit	337	305	10.5	341	(1.1)
Operating profit	109	98	12.0	114	(3.8)
Adj. PAT	98	97	1.8	102	(3.4)

Source: Company, Angel Research

Glaxo SmithKline Pharmaceuticals (Glaxo) announced its 2QCY2014 numbers, which are below our expectations on the OPM and net profit front. On the other hand the revenue for the quarter came in in line with our expectations. The company posted a revenue of ₹655cr (V/s an expected ₹660cr), up 2.8% yoy. The EBITDA margin came in at 16.7% (V/s an expected 19.8%), dipping by 116bp yoy. Thus, the PAT came in at ₹98.2cr, a dip of 3.4% yoy. **We maintain our Neutral rating on the stock.**

Results below our expectations: Glaxo announced its 2QCY2014 numbers, which are below our expectations on the OPM and net profit front. On the other hand the revenue for the quarter came in in line with our expectations. The company posted a revenue of ₹655cr (V/s an expected ₹660cr), up 2.8% yoy. The EBITDA margin came in at 16.7% (V/s an expected 19.8%), dipping by 116bp yoy. This was mainly on back of the gross margin dip, which came in at 51.5% V/s 53.6% during the corresponding period of the previous year. The staff cost and other expenditure on the other hand posted a mere 3.4% yoy growth and a dip of 2.1% respectively. Thus, the PAT came in at ₹98.2cr, a dip of 3.4% yoy.

Outlook and valuation: Glaxo has a strong balance sheet with cash of ~₹2,000cr, which could be used for future acquisitions or higher dividend payouts. On the operational front, we expect Glaxo's net sales to post a CAGR of 6.0% to ₹2,853cr and EPS to register a mere CAGR of 0.4% to ₹59.4 over CY2013–15E. At current levels, the stock is trading at 46.1x and 42.3x CY2014E and CY2015E earnings, respectively. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y / E Dec. (₹ cr)	CY2012	CY2013	CY2014E	CY2015E
Net sales	2,621	2,538	2,640	2,853
% chg	10.2	(3.2)	4.0	8.1
Net profit	657	499	462	503
% chg	12.0	(24.0)	(7.5)	9.0
EPS (₹)	77.6	59.0	54.5	59.4
EBITDA (%)	29.0	19.9	19.7	20.5
P/E (x)	32.4	42.6	46.1	42.3
RoE (%)	33.3	25.0	23.4	25.7
RoCE (%)	34.7	22.4	22.9	25.9
P/BV (x)	10.6	10.7	10.9	10.8
EV/Sales (x)	7.3	7.6	7.3	6.7
EV/EBITDA (x)	25.3	38.2	36.9	32.7

Source: Company, Angel Research; Note: CMP as of August 12, 2014

NEUTRAL

CMP	₹2,513
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	21,289
Net Debt (₹ cr)	(1,791)
Beta	0.14
52 Week High / Low	3,054/2,202
Avg. Daily Volume	6,021
Face Value (₹)	10
BSE Sensex	25,881
Nifty	7,727
Reuters Code	GLAX.BO
Bloomberg Code	GLXO@IN

Shareholding Pattern (%)	
Promoters	75.0
MF / Banks / Indian Fls	9.4
FII / NRIs / OCBs	2.9
Indian Public / Others	12.7

Abs. (%)	3m	1yr	3yr
Sensex	9.9	36.6	53.7
Glaxo	5.6	9.9	17.5

Sarabjit Kour Nangra

+91 22 39357800 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QCY2014 – Standalone performance

Y/E Dec. (₹ cr)	2QCY2014	1QCY2014	% chg (qoq)	2QCY2013	% chg (yoy)	1HCY2014	1HCY2013	% chg
Net Sales	655	600	9.2	637	2.8	1,255	1,275	(1.6)
Other income	45	55	(18.6)	52	(14.3)	100	127	(21.6)
Total Income	700	655	6.9	689	1.5	1,354	1,402	(3.4)
Gross profit	337	305	10.5	341	(1.1)	643	700	(8.2)
Gross margin	51.5	50.9		53.6		51.2	54.9	
Operating profit	109	98	12.0	114	(3.8)	207	277	(25.3)
Operating margin (%)	16.7	16.3		17.8		16.5	21.7	
Interest	0	0	-	0	-	0	0	-
Depreciation & Amortisation	5	4	17.9	5	0.6	9	9	2.9
PBT & Exceptional Items	149	148	0.5	161	(7.4)	297	395	(24.8)
Less : Exceptional Items	0	0	-	13	-	0	19	
Profit before tax	149	148	0.5	174	(14.4)	297	414	(28.2)
Provision for taxation	51	52	(1.9)	59	(14.1)	102	129	(20.6)
Reported PAT	98	97	1.8	115	(14.6)	195	284	(31.4)
Adj. Net profit	98	97	1.8	102	(3.4)	195	271	(28.2)
EPS (₹)	11.6	11.4		12.0		23.0	32.1	

Source: Company, Angel Research

Exhibit 2: 2QCY2014 – Actual vs Angel estimates

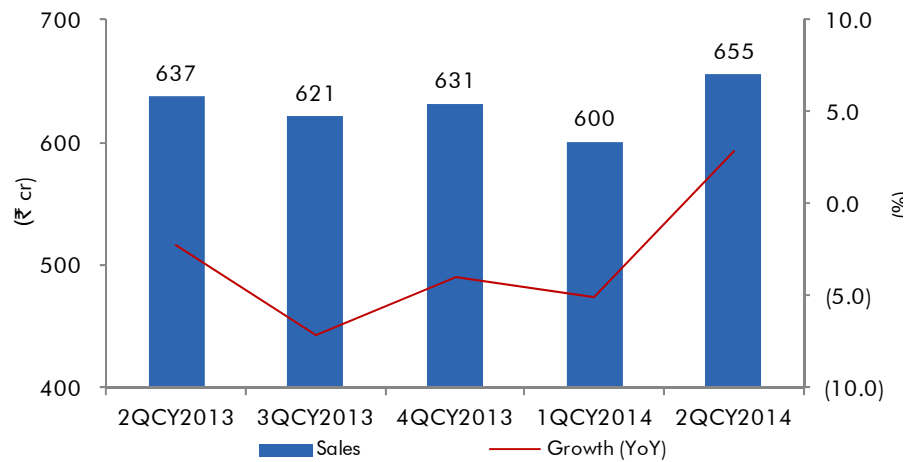
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	655	660	(0.8)
Other income	45	65	(31.7)
Operating profit	109	131	(16.3)
Tax	51	67	(24.2)
Adj. net profit	98	125	(21.3)

Source: Company, Angel Research

Revenue grew by 2.8%

For 2QCY2014, the company posted a revenue of ₹655cr (V/s an expected ₹660cr), up 2.8% yoy. The new DPCO continued to impact overall sales and profitability of the company, as many of its major brands continued to fall under the new pricing norm.

Exhibit 3: Sales trend

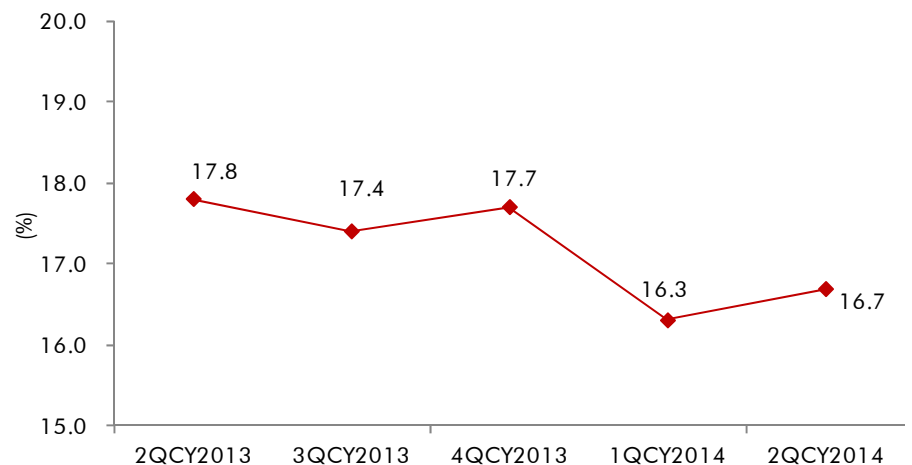


Source: Company, Angel Research

OPM comes in at 16.7%

EBITDA margin came in at 16.7% (V/s an expected 19.8%), dipping by 116bp yoy. This was mainly on back of the gross margin dip, which came in at 51.5% V/s 53.6% during the corresponding period of last year. The staff cost and other expenditure on the other hand posted a mere 3.4% yoy growth and a dip of 2.1% respectively.

Exhibit 4: OPM trend

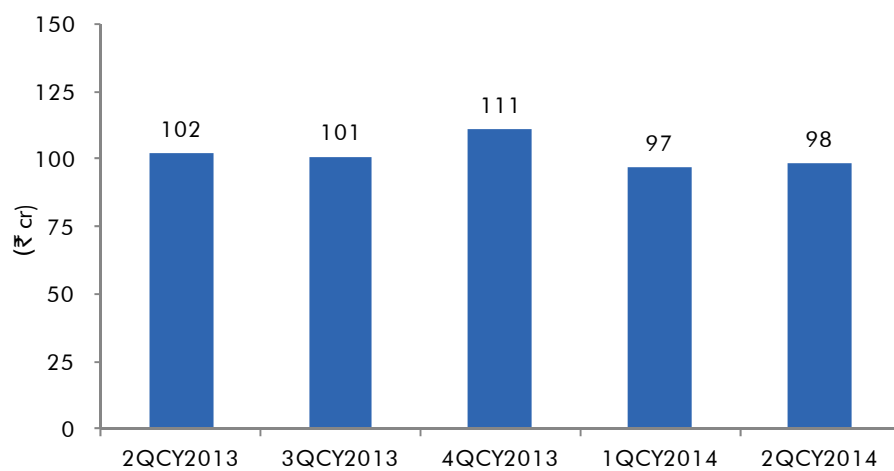


Source: Company, Angel Research

Net profit lower than estimates

During the quarter, the PAT came in at ₹98.2cr, a dip of 3.4% yoy. This is below our expected net profit of ₹125cr. The dip in PAT is on account of a lower-than-expected other income, which came in at ₹45cr V/s ₹52cr during the corresponding period of last year.

Exhibit 5: Adjusted net profit trend



Source: Company, Angel Research

Recommendation rationale

Renewed focus on the Indian market; CY2013 muted on back of DPCO 2013:

Glaxo is among the top ten players in the Indian market, having a market share of ~3.7%. Unlike other MNCs, the company has been amongst the few which have taken initiatives to grow their business in the Indian markets; the company has been consistently launching new products in the Indian market.

Over the last six years, the company has strategically decided to expand its presence in the Specialty segment. Specialty segment's contribution to sales continued in 2013 and has reached 23%. The segment grew by 9.0% yoy in CY2013. Another segment which is strong for the company is the area of vaccine, where GSK Vaccines has become the leading company in the private market for vaccines in India. The recently introduced vaccine for pneumococcal conjugate disease, Synflorix, became the biggest brand in the vaccine portfolio of the company in the second year of its launch. The efforts of the company in raising awareness about vaccines and preventable diseases continued with increasing fervour.

On the other hand, its other key segments like mass markets and mass specialty, which contribute 60% of its sales, de-grew by 12% during the period. This was as a result of a number of products of the company having come under the DPCO 2013 ruling, resulting in reduction in prices of its drugs, which impacted its sales in CY2013. However, we expect some improvement to set in in CY2014. Overall, for CY2013-15E, we expect the domestic formulation business of the company to grow at a CAGR of 6.0%.

Significant capex plans ahead indicate revival in growth: Global pharmaceutical major GlaxoSmithKline Pharmaceuticals (GSK) announced an ₹864cr investment in India to set up a medicine manufacturing unit. The new facility will substantially increase GSK's manufacturing base. The drug maker is proactively building capacity in the country as it delivers its portfolio of products in areas such as gastroenterology and anti-inflammatory medicines. When complete, the factory will make pharmaceutical products for the Indian market at a rate of up to eight billion tablets and one billion capsules a year. The facility, expected to be operational by 2017, will include a warehouse, site infrastructure, and utilities to support the manufacturing and packing of medicines. It showcases GSK's latest commitment to its manufacturing network in India where the company has invested ₹1,017cr over the last decade. The development is positive and comes after a long lull in terms of investments.

Outlook and valuation:

Glaxo has a strong balance sheet with cash of ~₹2,000cr, which could be used for future acquisitions or higher dividend payouts. The company's parent had announced to increase stake in it through a voluntary open offer, after which GlaxoSmithKline Pharmaceuticals holds 75.0% stake in its Indian subsidiary. The buy-back of shares is a strong indicator from the Management towards the performance of its listed Indian entity, especially as it comes after the recent ₹864cr investment plan announced by the company to further its growth prospects in the Indian pharmaceutical markets. The said investments are expected to fructify by 2017.

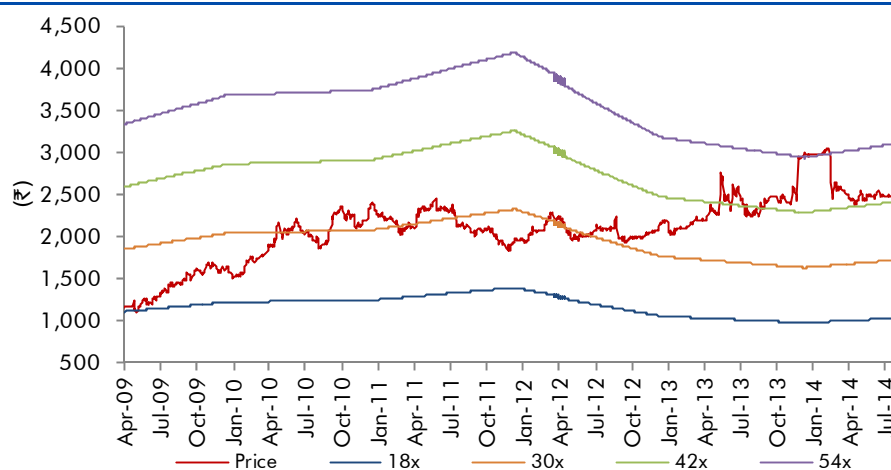
On the operational front, we expect Glaxo's net sales to post a CAGR of 6.0% to ₹2,853cr and EPS to register a mere CAGR of 0.4% to ₹59.4 over CY2013–15E. At current levels, the stock is trading at 46.1x and 42.3x CY2014E and CY2015E earnings, respectively. **We remain Neutral on the stock.**

Exhibit 6: Key assumptions

	CY2014E	CY2015E
Sales growth (%)	4.0	8.1
Growth in employee expenses (%)	14.0	14.0
Operating margin (%)	19.7	20.5
Capex (₹ cr)	100.0	100.0

Source: Company, Angel Research

Exhibit 7: One-year forward PE



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2016E EV/Sales (x)	FY2016E EV/EBITDA (x)	FY14-16E CAGR in EPS (%)	FY2016E RoCE (%)	FY2016E RoE (%)
Alembic Pharma.	Neutral	348	-	-	18.9	2.7	14.0	21.2	31.7	32.6
Aurobindo Pharma	Neutral	768	-	-	17.9	2.0	11.9	(3.1)	15.5	23.8
Cadila Healthcare	Accumulate	1,090	1209	10.9	18.1	2.3	13.5	22.9	19.6	26.1
Cipla	Accumulate	445	480	7.9	18.5	2.7	14.2	17.7	14.5	15.5
Dr Reddy's	Buy	2,732	3,399	24.4	16.1	2.6	11.3	15.8	20.7	23.0
Dishman Pharma	Buy	147	177	20.4	6.6	0.9	3.8	27.7	12.8	12.7
GSK Pharma*	Neutral	2,513	-	-	42.3	6.7	32.8	0.4	25.9	25.7
Indoco Remedies	Neutral	223	-	-	15.7	2.1	11.3	50.0	19.8	21.8
Ipca labs	Buy	719	986	37.1	12.5	2.1	9.3	20.9	25.4	26.2
Lupin	Neutral	1,163	-	-	19.2	3.3	12.0	21.6	33.9	26.0
Ranbaxy	Neutral	576	-	-	47.2	2.5	29.9	1.8	4.8	12.9
Sanofi India*	Neutral	3,049	-	-	24.9	2.7	15.3	6.6	19.0	20.6
Sun Pharma	Neutral	784	-	-	24.4	4.0	13.4	5.3	25.6	26.2

Source: Company, Angel Research; Note: * December year ending;

Company Background

Glaxo is the sixth largest pharmaceutical player in the Indian market with a market share of ~3.7%. The company's product portfolio includes both, prescription medicines and vaccines. Glaxo sells prescription medicines across therapeutic areas such as anti-infectives, dermatology, gynaecology, diabetes, oncology, cardiovascular diseases and respiratory diseases. A large portion of the company's revenue comes from the acute therapeutic portfolio. However, the company is now scouting for opportunities in high-growth therapeutic areas such as CVS, CNS, diabetes and oncology. Further, with a strong parentage, Glaxo plans to increase its product portfolio through patented launches and vaccines. To fructify the same, the company plans to enhance its manufacturing assets with its parent company investing ₹864cr in it; the capacity expansion is expected to fructify in 2017.

Profit & loss statement

Y/E Dec. (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Gross sales	2,195	2,433	2,692	2,589	2,696	2,912
Less: Excise duty	44	55	71	51	56	58
Net sales	2,151	2,378	2,621	2,538	2,640	2,853
Other operating income	5	1	29	24	6	6
Total operating income	2,156	2,379	2,651	2,563	2,646	2,859
% chg	12.9	10.3	11.4	(3.3)	3.3	8.1
Total expenditure	1,392	1,635	1,862	2,034	2,121	2,267
Net raw materials	788	919	1,104	1,164	1,109	1,084
Other Mfg costs	126	122	94	89	92	100
Personnel	241	279	296	362	413	471
Other	237	314	369	420	507	613
EBITDA	759	743	759	504	519	586
% chg	12.5	(2.0)	2.1	(33.6)	3.0	12.9
(% of Net Sales)	35.3	31.2	29.0	19.9	19.7	20.5
Depreciation & amortisation	18	20	18	20	30	37
EBIT	741	723	741	484	489	550
% chg	12.7	(2.5)	2.6	(34.7)	1.1	12.3
(% of Net Sales)	34.4	30.4	28.3	19.1	18.5	19.3
Interest & other charges	1	0	-	-	-	-
Other income	126	182	175	177	177	177
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	872	905	945	685	672	732
% chg	14.5	3.9	4.4	(27.5)	(1.9)	9.0
Extraordinary expense/(Inc.)	18	301	101	(26)	-	-
PBT (reported)	854	605	844	711	672	732
Tax	293	176	318	230	210	229
(% of PBT)	34.4	29.1	37.7	32.3	31.3	31.3
PAT (reported)	561	429	526	482	462	503
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Exceptional items	-	-	-	-	-	-
PAT after MI (reported)	561	429	526	482	462	503
ADJ. PAT	577	587	657	499	462	503
% chg	14.7	1.6	12.0	(24.0)	(7.5)	9.0
(% of Net Sales)	26.8	24.7	25.1	19.7	17.5	17.6
Basic EPS (₹)	68	69	78	59	55	59
Fully diluted EPS (₹)	68	69	78	59	55	59
% chg	14.7	1.6	12.0	(24.0)	(7.5)	9.0

Balance Sheet

Y/E Dec. (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
SOURCES OF FUNDS						
Equity share capital	85	85	85	85	85	85
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,867	1,851	1,922	1,905	1,872	1,880
Shareholders funds	1,952	1,936	2,007	1,990	1,957	1,965
Minority Interest	-	-	-	-	-	-
Total loans	5	5	4	4	6	6
Other long-term liabilities		5	5	5	5	5
Long-term provisions		225	236	242	242	242
Deferred tax liability	(57)	(62)	(87)	(92)	(92)	(92)
Total liabilities	1,900	2,108	2,165	2,148	2,118	2,126
APPLICATION OF FUNDS						
Gross block	320	274	274	323	423	523
Less: Acc. depreciation	254	217	227	247	276	313
Net block	67	57	47	76	146	210
Capital work-in-progress	9	16	44	44	44	44
Goodwill	42	42	42	42	42	42
Other non-current assets	-	36	17	14	14	14
Long-term loans and adv.	-	157	195	238	174	188
Investments	118	112	55	10	10	10
Current assets	2,510	2,548	2,602	2,614	2,928	2,959
Cash	2,003	2,014	2,067	2,042	2,136	2,103
Loans & advances	174	85	134	238	264	285
Other	333	448	401	335	528	571
Current liabilities	845	860	836	889	1,241	1,341
Net current assets	1,665	1,688	1,765	1,725	1,687	1,618
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,900	2,108	2,165	2,148	2,118	2,126

Cash flow statement

Y/E Dec. (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Profit before tax and exceptionals	854	605	844	711	672	732
Depreciation	18	20	18	20	30	37
(Inc)/Dec in working capital	88	(205)	(25)	15	132	36
Direct taxes paid	314	188	318	230	210	229
Cash Flow from Operations	646	232	519	517	624	576
(Inc.)/Dec.in fixed assets	(17)	39	(28)	(49)	(100)	(100)
(Inc.)/Dec. in investments	(31)	(6)	(57)	(45)	-	-
Cash Flow from Investing	(47)	34	(85)	(93)	(100)	(100)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	0.26	(1)	-	-	-	-
Dividend paid (Incl. Tax)	(296)	(444)	(491)	(495)	(495)	(495)
Others	(34)	191	110	47	66	(14)
Cash Flow from Financing	(330)	(254)	(381)	(448)	(429)	(509)
Inc./(Dec.) in cash	269	11	52	(25)	94	(33)
Opening cash balances	1,734	2,003	2,014	2,067	2,042	2,136
Closing cash balances	2,003	2,014	2,067	2,042	2,136	2,103

Key ratio

Y/E Dec	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Valuation Ratio (x)						
P/E (on FDEPS)	36.9	36.3	32.4	42.6	46.1	42.3
P/CEPS	36.8	47.4	39.1	42.4	43.3	39.4
P/BV	10.9	11.0	10.6	10.7	10.9	10.8
Dividend yield (%)	1.6	1.8	2.0	2.0	2.0	2.0
EV/Sales	9.0	8.1	7.3	7.6	7.3	6.7
EV/EBITDA	25.4	25.9	25.3	38.2	36.9	32.7
EV / Total Assets	10.2	9.1	8.9	9.0	9.0	9.0
Per Share Data (₹)						
EPS (Basic)	68.2	69.3	77.6	59.0	54.5	59.4
EPS (fully diluted)	68.2	69.3	77.6	59.0	54.5	59.4
Cash EPS	68.3	53.0	64.2	59.2	58.0	63.7
DPS	40.0	45.0	50.0	50.0	50.0	50.0
Book Value	230.4	228.5	236.9	234.9	231.0	232.0
Returns (%)						
RoCE (Pre-tax)	40.6	36.1	34.7	22.4	22.9	25.9
Angel ROIC (Pre-tax)	-	-	-	-	-	-
RoE	30.9	30.2	33.3	25.0	23.4	25.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	7.1	8.0	9.7	8.6	7.1	6.1
Inventory / Sales (days)	46	47	43	48	50	49
Receivables (days)	9	10	14	15	15	15
Payables (days)	82	69	58	54	64	73
WC cycle (ex-cash) (days)	81	80	74	79	94	105
Solvency ratios (x)						
Net debt to equity	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)
Net debt to EBITDA	(2.6)	(2.7)	(2.7)	(4.0)	(4.1)	(3.6)
Interest Coverage (EBIT / Int.)	-	-	-	-	-	-

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Pvt. Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Pvt. Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Glaxo Pharma

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)