

**GSK Pharmaceuticals Ltd.**

CMP Rs. 1,898.65  
HOLD

Q1CY10  
Result Update

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Glaxo SmithKline Pharmaceuticals Ltd (GSK) reported an excellent set of numbers for the quarter ended Mar 2010.

On a standalone yoy basis, Net Revenues grew by a strong 18.4% from Rs.4,571.5 Mn to Rs.5,411 Mn. Management indicated of a broad based Sales growth across all therapeutic segments with strong performance by the Vaccines range and the Dermatologicals franchise. Gross Profits grew even faster at 23.6%. This was primarily because of an improvement in the product mix. The Company continued to invest in its Sales force through hiring and training. As a result, Staff Costs were higher by 27.3% at Rs.553.2 Mn. The same are expected to continue rising in the coming quarters. Total Expenditure stood at Rs.3,409.7 Mn, up by 16.5%. Operating Margins improved by 99 bps and stood at 37%. EBITDA margins were much higher at 45.1%, thanks to a strong contribution from Other Income which grew five fold, from Rs.38.3 Mn to Rs.234.4 Mn. Reported PAT stood at Rs.1,611.9 Mn against Rs.1,432.7 Mn, a rise of 12.5%. The muted figure of Reported PAT as compared to the growth at EBITDA level was because of an Extraordinary income of Rs.178.4 Mn in Q1CY09. EPS stood at Rs.19.

**New Launches**

During this quarter, GSK launched Mycamine, an antifungal antibiotic, in-licensed from Astellas, Japan. The Company also launched the Stiefel range of products in Cosmetic dermatology therapies. Stiefel Laboratories Inc. was acquired in the recent past by the parent GSK Plc. With this, GSK is expected to further strengthen its leadership position in the Dermatology segment.

**Our Take**

Overall, GSK continues to be virtually debt free with high levels of Cash and healthy cashflows. At the CMP of Rs.1,898.65, GSK trades at a PE (TTM) of 30.3. Though growth is steady and the balance sheet strong, we believe that the valuations are rich. Recommend a 'Hold'.

**Financials >>**

## Standalone Quarterly Financials

Earnings Statement								
YE December (Rs. Mn.)	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	CY09	CY08	Y-Y(%)
Net Revenues	5,411.0	4,444.0	21.8%	4,571.5	18.4%	18,707.7	16,604.1	12.7%
Cost of Materials	2,034.9	1,584.3	28.4%	1,839.6	10.6%	6,922.3	6,476.1	6.9%
Gross Profit	3,376.1	2,859.7	18.1%	2,731.9	23.6%	11,785.4	10,128.0	16.4%
Staff Costs	553.2	568.3	-2.7%	434.7	27.3%	2,093.5	1,727.5	21.2%
Recovery of Expenses		(2.3)		(19.3)		(39.4)	(79.6)	-50.5%
Excise Duty on Samples	(3.0)	8.9	-133.7%	(26.5)		(18.7)	(48.8)	-61.7%
Expenses Relating to Service Income	(83.1)	(119.9)	-30.7%	(82.9)	0.2%	(455.0)	(334.0)	36.2%
Other Expenses	907.7	1,021.1	-11.1%	780.5	16.3%	3,658.8	3,086.0	18.6%
Total Expenditure	3,409.7	3,060.4	11.4%	2,926.1	16.5%	12,161.5	10,827.2	12.3%
Operating Profit	2,001.3	1,383.6	44.6%	1,645.4	21.6%	6,546.2	5,776.9	13.3%
OPM (%)	37.0%	31.1%	585.2	36.0%	2.8%	35.0%	34.8%	20.0
Interest Income (Net)	203.4	194.7	4.5%	262.1	-22.4%	819.1	700.2	17.0%
Other Income	234.4	54.8	327.7%	38.3	512.0%	383.2	485.3	-21.0%
EBITDA	2,439.1	1,633.1	49.4%	1,945.8	25.4%	7,748.5	6,962.4	11.3%
Depreciation	37.6	47.5	-20.8%	36.7	2.5%	163.7	163.4	0.2%
EBIT	2,401.5	1,585.6	51.5%	1,909.1	25.8%	7,584.8	6,799.0	11.6%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	2,401.5	1,585.6	51.5%	1,909.1	25.8%	7,584.8	6,799.0	11.6%
Tax	789.6	518.4	52.3%	654.8	20.6%	2,535.9	2,315.4	9.5%
Current Tax (Incl. FBT)	790.8	737.4	7.2%	644.0	22.8%	2,762.0	2,338.7	18.1%
Deferred tax	(1.2)	(219.0)	-99.5%	10.8	-111.1%	(226.1)	(23.3)	870.4%
PAT Before EI	1,611.9	1,067.2	51.0%	1,254.3	28.5%	5,048.9	4,483.6	12.6%
Extra-ordinary Income (EI)	0.0	(31.3)	-100.0%	178.4		74.0	1,282.1	-94.2%
Reported PAT	1,611.9	1,035.9	55.6%	1,432.7	12.5%	5,122.9	5,765.7	-11.1%
Equity Capital	847.0	847.0		847.0		847.0	847.0	
EPS	19.0	12.2	55.6%	16.9	12.5%	60.5	68.1	-11.1%
Ratio Analysis								
Profitability								
YE December	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	CY09	CY08	Y-Y(%)
OPM (%)	37.0%	31.1%	585.2	36.0%	99.3	35.0%	34.8%	20.0
EBITDA (%)	45.1%	36.7%	832.8	42.6%	251.3	41.4%	41.9%	(51.3)
EBIT (%)	44.4%	35.7%	870.2	41.8%	262.1	40.5%	40.9%	(40.4)
PAT (%)	29.8%	23.3%	647.9	31.3%	(155.1)	27.4%	34.7%	(734.1)
Operational Parameters								
YE December	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	CY09	CY08	Y-Y(%)
RM Consumed	37.6%	35.7%	195.6	40.2%	(263.4)	37.0%	39.0%	(200.1)
Staff Cost	10.2%	12.8%	(256.4)	9.5%	71.5	11.2%	10.4%	78.7
Other Expenses	16.8%	23.0%	(620.2)	17.1%	(29.8)	19.6%	18.6%	97.2
Effective Tax Rate	32.9%	32.7%	18.5	34.3%	(141.9)	33.4%	34.1%	(62.1)

## Consolidated Financials

Earnings Statement				
Particulars (Rs Mn.)	CY06	CY07	CY08	CY09
Total Revenues	15,819.9	16,082.1	16,934.1	19,077.7
- Growth (%)	4.2%	1.7%	5.3%	12.7%
Total Expenditure	10,659.2	10,574.5	10,980.3	12,311.5
Operating Profit	5,160.7	5,507.5	5,953.8	6,766.2
Forex Gain/(Loss)	(1.4)	18.7	24.6	(25.1)
Other Income	704.8	910.0	1,195.1	1,034.2
EBITDA	5,864.1	6,436.2	7,173.5	7,775.3
Goodwill Amortization	42.1	42.2	0.0	0.0
Depreciation	158.6	163.2	163.4	163.7
EBIT	5,663.4	6,230.8	7,010.1	7,611.6
PBT	5,663.4	6,230.8	7,010.1	7,611.6
Tax	1,991.3	2,164.1	2,381.4	2,607.0
PAT Before EI	3,672.1	4,066.7	4,628.7	5,004.6
- Growth (%)	17.8%	10.7%	13.8%	8.1%
Extra-ordinary Items	1,837.9	1,408.7	1,282.1	74.0
PAT	5,510.0	5,475.5	5,910.9	5,078.6

Ratio Analysis				
Particulars	CY06	CY07	CY08	CY09
OPM (%)	32.6%	34.2%	35.2%	35.5%
EBITDA (%)	37.1%	40.0%	42.4%	40.8%
PBIT (%)	35.8%	38.7%	41.4%	39.9%
PAT Before EI (%)	23.2%	25.3%	27.3%	26.2%
PAT (%)	34.8%	34.0%	34.9%	26.6%
Interest Cover (x)	-	-	-	-
Adjusted EPS (Rs.)	43.4	48.0	54.6	59.1
EPS (Rs.)	65.1	64.6	69.8	60.0
Adjusted PE (x)	43.8	39.5	34.7	32.1
P/E (x)	29.2	29.4	27.2	31.7
P/BV (x)	13.3	11.6	10.2	9.0
BVPS (Rs.)	142.2	163.0	186.0	210.9
Market Cap (Rs. Mn.)	160,821.2	160,821.2	160,821.2	160,821.2
M Cap/Sales (x)	10.2	10.0	9.5	8.4
EV (Rs. Mn.)	160,518.4	159,329.2	151,310.4	143,536.4
EV/EBITDA (x)	27.4	24.8	21.1	18.5
EV/Sales (x)	10.1	9.9	8.9	7.5
ROCE (%)	46.8%	44.9%	44.3%	42.5%
RONW (%)	30.5%	29.5%	29.4%	28.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	56.9	47.9	50.2	49.2
Debtors T/o Days	13.9	8.6	12.5	10.3
Advances T/o Days	34.1	30.3	34.1	20.5
Creditors T/o Days	57.7	56.1	59.4	60.7
Working Cap T/o Days	(11.4)	(16.6)	155.5	283.9
Fixed Assets T/o (Gross)	6.2	6.0	6.0	6.6
DPS (Rs.)	31.0	36.0	40.0	30.0
Dividend Payout (%)	47.7%	55.7%	57.3%	50.0%
Dividend Yield (%)	1.6%	1.9%	2.1%	1.6%

Balance Sheet				
Particulars (Rs Mn.)	CY06	CY07	CY08	CY09
Equity Capital	847.0	847.0	847.0	847.0
Reserves	11,200.4	12,961.4	14,908.3	17,013.9
Shareholders Funds	12,047.5	13,808.4	15,755.3	17,860.9
Minority Interest				
Borrowed Funds	55.4	58.0	56.5	54.2
Deferred Tax Liability	(247.6)	(203.2)	(297.8)	(448.8)
<b>Total Liabilities</b>	<b>11,855.2</b>	<b>13,663.1</b>	<b>15,514.0</b>	<b>17,466.3</b>
Goodwill	42.2	0.0	0.0	0.0
Fixed Assets	946.4	929.2	1,003.7	1,141.9
Investments	11,359.2	13,464.7	7,295.2	1,484.6
Current Assets				
Inventory	2,467.9	2,112.1	2,329.8	2,573.0
Sundry Debtors	604.5	377.7	579.4	537.3
Other Current Assets	280.2	290.0	459.3	304.0
Loans & Advances	1,478.7	1,336.0	1,581.6	1,073.5
Cash & Bank Balance	358.2	1,549.9	9,567.3	17,339.0
Current Liabilities				
Sundry Creditors	2,500.4	2,471.0	2,757.3	3,172.1
Provisions	3,181.5	3,925.5	4,545.1	3,814.9
Net Current Assets	(492.6)	(730.8)	7,215.1	14,839.8
Miscellaneous Expenditure				
<b>Total Assets</b>	<b>11,855.2</b>	<b>13,663.1</b>	<b>15,514.0</b>	<b>17,466.3</b>

Cash Flow				
Particulars (Rs Mn.)	CY06	CY07	CY08	CY09
Opening Cash & Bank	476.0	358.2	1,549.9	9,567.3
Profit After Tax	5,510.0	5,475.5	5,910.9	5,078.6
Investment Income	(704.8)	(910.0)	(1,195.1)	(1,034.2)
Interest Paid	0.0	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Depreciation	158.6	163.2	163.4	163.7
Deferred Taxation	53.3	106.1	(23.3)	(226.2)
Others	(155.3)	(67.1)	(109.5)	(42.3)
Change in Working Cap	(404.3)	1,430.0	71.5	146.9
CF - Operating Activities	4,457.5	6,197.7	4,817.8	4,086.4
Change in Fixed Assets	61.9	(98.5)	(199.6)	(184.4)
Change in Investments	(2,354.8)	(2,105.5)	6,169.5	5,810.6
Investment Income	704.8	910.0	1,195.1	1,034.2
CF - Investing Activities	(1,588.1)	(1,294.0)	7,165.1	6,660.5
Increase in Equity	(0.0)	(147.0)	(0.0)	(0.0)
Changes in Borrowings	6.8	2.6	(1.5)	(2.3)
Interest Paid	0.0	0.0	0.0	0.0
Dividend Paid	(2,994.1)	(3,567.5)	(3,963.9)	(2,972.9)
CF - Financing Activities	(2,987.2)	(3,711.9)	(3,965.4)	(2,975.3)
Net Change in Cash	(117.8)	1,191.8	8,017.4	7,771.7
Closing Cash & Bank Balance	358.2	1,549.9	9,567.3	17,339.0

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

GSK Pharma

- NO  
YES  
YES

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