

GSK Pharmaceuticals Ltd.

CMP Rs. 2,067.40
HOLD

Q2CY10
Result Update

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

On a standalone yoy basis, Net Revenues grew by 8.9% from Rs. 4,574.1 Mn to Rs. 4,979.3 Mn. Pharmaceuticals business grew by 12% over the quarter however Vaccines sales were affected due to supply constraints. Management indicated that the same had improved though towards the quarter end. Pharmaceuticals business also saw an improvement in margins thus taking Gross Profits higher by 12.4% at Rs. 3,238 Mn. As indicated in the previous quarter, the Company continued to invest in its Sales force. Staff Costs were higher by 19.8% at Rs. 633.6 Mn. Total Expenditure stood at Rs. 3,162.6 Mn. Operating Margins improved by 87 bps and stood at 36.5%. EBITDA margins were only marginally higher due to a 58% dip in Other Income from Rs. 225.4 Mn to Rs. 95.8 Mn. Reported PAT stood at Rs. 1,289.9 Mn against Rs. 1,243.5 Mn, a rise of 3.7%.

Our Take

At the CMP of Rs. 2,067.4, GSK trades at a PE (TTM) of 32.8. Valuations seem extremely rich. On a first impression, these tend to be discomfoting. However given the MNC nature of the Company with a strong parent, professional management, certainty over new product introductions through this Company itself and not any other unlisted companies and a robust balance sheet that is virtually debt free with high levels of Cash seem to be relieving. Nevertheless, it would be crucial to monitor how the Company performs over the coming quarters. Recommend a 'Hold'.

Financials >>

Standalone Quarterly Financials

Earnings Statement								
YE Dec (Rs. Mn.)	Q2CY10	Q1CY10	Q-Q(%)	Q2CY09	Y-Y(%)	6MCY10	6MCY09	Y-Y(%)
Net Revenues	4,979.3	5,411.0	-8.0%	4,574.1	8.9%	10,390.3	9,145.6	13.6%
Cost of Materials	1,741.3	2,034.9	-14.4%	1,692.4	2.9%	3,776.2	3,532.0	6.9%
Gross Profit	3,238.0	3,376.1	-4.1%	2,881.7	12.4%	6,614.1	5,613.6	17.8%
Staff Costs	633.6	553.2	14.5%	528.9	19.8%	1,186.8	963.6	23.2%
Excise Duty on Samples	(2.0)	(3.0)		6.4		(5.0)	(20.1)	
Expenses Relating to Service Income (122.7)		(83.1)		(109.7)		(205.8)	(192.6)	
Other Expenses	912.4	907.7	0.5%	827.1	10.3%	1,820.1	1,588.3	14.6%
Total Expenditure	3,162.6	3,409.7	-7.2%	2,945.1	7.4%	6,572.3	5,871.2	11.9%
Operating Profit	1,816.7	2,001.3	-9.2%	1,629.0	11.5%	3,818.0	3,274.4	16.6%
OPM (%)	36.5%	37.0%	(50.1)	35.6%	2.4%	36.7%	35.8%	94.3
Interest Income (Net)	202.2	203.4	-0.6%	193.9	4.3%	405.6	456.0	-11.1%
Other Income	95.8	234.4	-59.1%	225.4	-57.5%	330.2	263.7	25.2%
EBITDA	2,114.7	2,439.1	-13.3%	2,048.3	3.2%	4,553.8	3,994.1	14.0%
Depreciation	40.5	37.6	7.7%	39.6	2.3%	78.1	76.3	2.4%
EBIT	2,074.2	2,401.5	-13.6%	2,008.7	3.3%	4,475.7	3,917.8	14.2%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	2,074.2	2,401.5	-13.6%	2,008.7	3.3%	4,475.7	3,917.8	14.2%
Tax	678.1	789.6	-14.1%	692.1	-2.0%	1,467.7	1,346.9	9.0%
PAT Before EI	1,396.1	1,611.9	-13.4%	1,316.6	6.0%	3,008.0	2,570.9	17.0%
Extra-ordinary Income (EI)	(106.2)	0.0		(73.1)		(106.2)	105.3	
Reported PAT	1,289.9	1,611.9	-20.0%	1,243.5	3.7%	2,901.8	2,676.2	8.4%
Equity Capital	847.0	847.0		847.0		847.0	847.0	
EPS	15.2	19.0	-20.0%	14.7	3.7%	34.3	31.6	8.4%
Ratio Analysis								
Profitability								
YE Dec	Q2CY10	Q1CY10	Q-Q(%)	Q2CY09	Y-Y(%)	6MCY10	6MCY09	Y-Y(%)
OPM (%)	36.5%	37.0%	(50.1)	35.6%	87.1	36.7%	35.8%	94.3
EBITDA (%)	42.5%	45.1%	(260.7)	44.8%	(231.1)	43.8%	43.7%	15.5
EBIT (%)	41.7%	44.4%	(272.5)	43.9%	(225.8)	43.1%	42.8%	23.8
PAT (%)	25.9%	29.8%	(388.4)	27.2%	(128.0)	27.9%	29.3%	(133.4)
Operational Parameters								
YE Dec	Q2CY10	Q1CY10	Q-Q(%)	Q2CY09	Y-Y(%)	6MCY10	6MCY09	Y-Y(%)
RM Consumed	35.0%	37.6%	(263.6)	37.0%	(202.9)	36.3%	38.6%	(227.6)
Staff Cost	12.7%	10.2%	250.1	11.6%	116.2	11.4%	10.5%	88.6
Other Expenses	18.3%	16.8%	154.9	18.1%	24.2	17.5%	17.4%	15.0
Effective Tax Rate	32.7%	32.9%	(18.7)	34.5%	(176.3)	32.8%	34.4%	(158.6)

Consolidated Financials

Earnings Statement						
Particulars (Rs. Mn)	CY04	CY05	CY06	CY07	CY08	CY09
Total Revenues	14,096.8	15,185.4	15,819.9	16,082.1	16,934.1	19,077.7
- Growth (%)		7.7%	4.2%	1.7%	5.3%	12.7%
Total Expenditure	10,133.5	10,761.9	10,659.2	10,574.5	10,980.3	12,311.5
Operating Profit	3,963.3	4,423.5	5,160.7	5,507.5	5,953.8	6,766.2
Forex Gain/(Loss)	11.4	3.3	(1.4)	18.7	24.6	(25.1)
Other Income	521.5	657.3	704.8	910.0	1,195.1	1,034.2
EBITDA	4,496.2	5,084.1	5,864.1	6,436.2	7,173.5	7,775.3
Goodwill Amortization	42.1	42.1	42.1	42.2	0.0	0.0
Depreciation	175.1	157.7	158.6	163.2	163.4	163.7
EBIT	4,278.9	4,884.3	5,663.4	6,230.8	7,010.1	7,611.6
PBT	4,278.9	4,884.3	5,663.4	6,230.8	7,010.1	7,611.6
Tax	1,572.6	1,767.3	1,991.3	2,164.1	2,381.4	2,607.0
PAT Before EI	2,706.3	3,117.0	3,672.1	4,066.7	4,628.7	5,004.6
- Growth (%)		15.2%	17.8%	10.7%	13.8%	8.1%
Extra-ordinary Items	670.4	1,954.4	1,837.9	1,408.7	1,282.1	74.0
PAT	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	5,078.6

Ratio Analysis						
Particulars	CY04	CY05	CY06	CY07	CY08	CY09
OPM (%)	28.1%	29.1%	32.6%	34.2%	35.2%	35.5%
EBITDA (%)	31.9%	33.5%	37.1%	40.0%	42.4%	40.8%
PBIT (%)	30.4%	32.2%	35.8%	38.7%	41.4%	39.9%
PAT Before EI (%)	19.2%	20.5%	23.2%	25.3%	27.3%	26.2%
PAT (%)	24.0%	33.4%	34.8%	34.0%	34.9%	26.6%
Adjusted EPS (Rs.)	31.0	36.8	43.4	48.0	54.6	59.1
EPS (Rs.)	38.7	59.9	65.1	64.6	69.8	60.0
Adjusted PE (x)	24.8	30.4	26.9	21.5	21.0	27.3
P/E (x)	19.9	18.7	17.9	15.9	16.4	26.9
P/BV (x)	7.3	10.0	8.2	6.3	6.2	7.6
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	210.9
Market Cap (Rs. Mn.)	67,181.5	94,888.5	98,632.3	87,239.8	97,154.3	136,375.9
M Cap/Sales (x)	4.8	6.2	6.2	5.4	5.7	7.1
EV (Rs. Mn.)	66,504.7	94,461.0	98,329.5	85,747.8	87,643.4	119,091.1
EV/EBITDA (x)	14.8	18.6	16.8	13.3	12.2	15.3
EV/Sales (x)	4.7	6.2	6.2	5.3	5.2	6.2
ROCE (%)	46.1%	51.0%	46.8%	44.9%	44.3%	42.5%
RONW (%)	29.3%	32.7%	30.5%	29.5%	29.4%	28.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	59.7	53.4	56.9	47.9	50.2	49.2
Debtors T/o Days	19.7	16.2	13.9	8.6	12.5	10.3
Advances T/o Days	26.1	26.6	34.1	30.3	34.1	20.5
Creditors T/o Days	57.2	61.5	57.7	56.1	59.4	60.7
Working Cap T/o Days	7.6	(18.7)	(11.4)	(16.6)	155.5	283.9
Fixed Assets T/o (Gross)	5.5	6.0	6.2	6.0	6.0	6.6
DPS (Rs.)	24.0	28.0	31.0	36.0	40.0	30.0
Dividend Payout (%)	62.1%	46.8%	47.7%	55.7%	57.3%	50.0%
Dividend Yield (%)	3.1%	2.5%	2.7%	3.5%	3.5%	1.9%

Consolidated Financials

Balance Sheet						
Particulars (Rs. Mn)	CY04	CY05	CY06	CY07	CY08	CY09
Equity Capital	873.2	847.0	847.0	847.0	847.0	847.0
Reserves	8,364.3	8,684.5	11,200.4	12,961.4	14,908.3	17,013.9
Shareholders Funds	9,237.5	9,531.5	12,047.5	13,808.4	15,755.3	17,860.9
Minority Interest						
Borrowed Funds	38.4	48.5	55.4	58.0	56.5	54.2
Deferred Tax Liability	(448.2)	(299.1)	(247.6)	(203.2)	(297.8)	(448.8)
Total Liabilities	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,466.3
Goodwill	126.5	84.3	42.2	0.0	0.0	0.0
Fixed Assets	917.1	971.3	946.4	929.2	1,003.7	1,141.9
Investments	7,492.1	9,004.4	11,359.2	13,464.7	7,295.2	1,484.6
Current Assets						
Inventory	2,303.9	2,223.2	2,467.9	2,112.1	2,329.8	2,573.0
Sundry Debtors	760.6	673.9	604.5	377.7	579.4	537.3
Other Current Assets	217.9	204.5	280.2	290.0	459.3	304.0
Loans & Advances	1,006.8	1,108.2	1,478.7	1,336.0	1,581.6	1,073.5
Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	17,339.0
Current Liabilities						
Sundry Creditors	2,210.3	2,559.3	2,500.4	2,471.0	2,757.3	3,172.1
Provisions	2,502.2	2,905.5	3,181.5	3,925.5	4,545.1	3,814.9
Net Current Assets	292.0	(779.1)	(492.6)	(730.8)	7,215.1	14,839.8
Miscellaneous Expenditure						
Total Assets	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,466.3

Cash Flow						
Particulars (Rs. Mn)	CY04	CY05	CY06	CY07	CY08	CY09
Opening Cash & Bank	943.2	715.3	476.0	358.2	1,549.9	9,567.3
Profit After Tax	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	5,078.6
Investment Income	(521.5)	(657.3)	(704.8)	(910.0)	(1,195.1)	(1,034.2)
Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	175.1	157.7	158.6	163.2	163.4	163.7
Deferred Taxation	125.5	163.4	53.3	106.1	(23.3)	(226.2)
Others	203.6	(70.7)	(155.3)	(67.1)	(109.5)	(42.3)
Change in Working Cap	124.5	831.8	(404.3)	1,430.0	71.5	146.9
CF - Operating Activities	3,483.9	5,496.3	4,457.5	6,197.7	4,817.8	4,086.4
Change in Fixed Assets	969.0	(113.3)	61.9	(98.5)	(199.6)	(184.4)
Change in Investments	(2,842.4)	(1,512.3)	(2,354.8)	(2,105.5)	6,169.5	5,810.6
Investment Income	521.5	657.3	704.8	910.0	1,195.1	1,034.2
CF - Investing Activities	(1,352.0)	(968.3)	(1,588.1)	(1,294.0)	7,165.1	6,660.5
Increase in Equity	0.0	(2,073.1)	0.0	(147.0)	0.0	0.0
Changes in Borrowings	9.8	10.1	6.8	2.6	(1.5)	(2.3)
Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(2,369.6)	(2,704.3)	(2,994.1)	(3,567.5)	(3,963.9)	(2,972.9)
CF - Financing Activities	(2,359.8)	(4,767.3)	(2,987.2)	(3,711.9)	(3,965.4)	(2,975.3)
Net Change in Cash	(227.8)	(239.4)	(117.8)	1,191.8	8,017.4	7,771.7
Closing Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	17,339.0

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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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