

GSK Pharmaceuticals Ltd.

CMP Rs. 1,650.0
Accumulate

Q4CY09
Result Update

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GlaxoSmithKline Pharmaceuticals Ltd. (GSK) – the largest MNC pharma company operating in India, reported excellent set of numbers for the fourth quarter of CY2009. On a Y-o-Y basis:

- GSK achieved more than 20% growth in its topline to Rs. 4,444 Mn. as compared to Rs. 3,684.5 Mn. for the same quarter last year.
- Staff Costs increased by more than 33% Y-o-Y to Rs. 568.3 Mn. for Q4CY09. This was largely due to increase in Sales workforce.
- Despite the increases in Staff Costs & Other Expenses, GSK was able to achieve a growth of 32% Y-o-Y in Operating Profits to Rs. 1,383.6 Mn. for Q4CY09. Operating Margins also improved by 270 bps to 31.1% in Q4CY09.
- GSK saw its Interest Income dip by almost 35% Y-o-Y from Rs. 297.6 Mn. in Q4CY08 to Rs. 194.7 Mn. in Q4CY09. Other Income also dipped by more than 22% Y-o-Y.
- The company paid Taxes at an Effective Rate of 32.7% for Q4CY09, down from 34.9% for the same quarter last year; helping it to report a 20% Y-o-Y rise in PAT before Extraordinary levels to Rs. 1,067.2 Mn. in the fourth quarter.
- However, an Extraordinary Loss of Rs. 31.3 Mn. in Q4CY09 vis-à-vis an Extraordinary Gain of Rs. 1,193.1 Mn. in the corresponding quarter last year led to sharp decline in Reported PAT from Rs. 2,084.7 Mn. in Q4CY08 to Rs. 1,035.9 Mn. in Q4CY09.
- EPS for the quarter ended December 2009 stood at Rs. 12.2.

On a sequential basis, the MNC giant reported rather poor set of numbers for Q4CY09. The company witnessed a Q-o-Q drop of 13.2% in Net Revenues from Rs. 5,118.1 Mn. in Q3CY09 to Rs. 4,444 Mn. in Q4CY09. Operating Margins were down by almost 576 bps on a Q-o-Q basis, largely due to the increases in Staff Costs & Other Expenses as a percentage of Sales. GSK reported a sequential drop of more than 26% in its bottomline for the fourth quarter.

The MNC pharmaceutical company also reported its full year results for CY2009. Main highlights are as follows:

- GSK's topline grew by 10.5% Y-o-Y from Rs. 16,934.1 Mn. in CY08 to Rs. 18,707.7 Mn. in CY09.
- On the cost front, Staff Costs & Other Expenses increased by 21.2% & 18.6% respectively.
- Despite this, GSK was able to maintain its Operating Margins at close to 35% levels for the full year CY2009.
- PAT before Extraordinary levels increased from Rs. 4,628.7 Mn. in CY08 to Rs. 5,048.9 Mn. in CY09, marking a growth of 9.1% Y-o-Y.
- With Extraordinary Income down by almost 94% Y-o-Y, Reported PAT for the full year ended December 2009 stood at Rs. 5,122.9 Mn., as against Rs. 5,910.9 Mn. for CY2008.
- Reported EPS for the full year 2009 was down to Rs. 60.5 vis-à-vis Rs. 69.8 for CY2008.
- The company declared a final dividend of Rs. 30 for CY2009.

Operating Performance for CY09

GSK Pharmaceuticals Ltd. launched the following products during 2009:

1. Benitec A (Olmersartan) in the Cardiology segment, - in-licensed from Daiichi Sankyo, Japan.
2. Dermocalm (Calamine Lotion) in the Dermatology segment.
3. Vetrolin CFC (Salbutamol) free inhaler in the Respiratory segment.
4. Esblanem (Meropenem) in the Antibiotic segment.
5. Cervarix – vaccine for prevention of Cervical cancer.

Sales growth was driven by improved performance across its diversified business units of Mass Market, Mass Specialty & Vaccines. Besides, products launched in the recent past like Rotarix – vaccine for rotaviral diarrhea, Tykerb – breast cancer & Arixtra – CVS have achieved significant growth during the year. Vaccines contribution to the topline has increased close to 10-11% in the current year, from about 7% in 2007. GSK continues to build on the Corporate Hospitals & Rural market segments. The company has increased its Sales workforce by close to 200 personnel this year. For the coming year, the company plans to launch 2 new vaccines & about 4 branded generic products. Further, it would also actively pursue on launching products through in-licensing agreements.

The UK parent – GSK Plc. recently acquired Stiefel Laboratories Inc. that is present in the Dermatology segment. This acquisition would help the Indian subsidiary – GSK Pharma to further strengthen its leadership position in the Dermatology segment, through an expansion of its portfolio in the area of Cosmetic Dermatology therapies like Acne, Sun protection, Emollients & Moisturizers. GSK plans to launch about 12-14 products from Stiefel's product basket in India over the next 6 months.

Our View

We remain bullish on the future growth prospects of the MNC pharma major - GSK Pharmaceuticals Ltd. The company has reported an EPS of Rs. 60.5 for CY09, easily surpassing our CY09 EPS target of Rs. 58.1. We expect the company to have a cash balance of Rs. 16,023.7 Mn. as at December 2009 (Annual Report is awaited), translating to cash of Rs. 228 per share. Looking at the recent product performances, both in the pharmaceutical & vaccines segments & the company's plans of launching new products, we revise our CY10E earnings estimate upwards from Rs. 62.2 to Rs. 65.4 per share. At CMP of Rs. 1,650, the scrip trades at 25.2x CY10E earnings of Rs. 65.4 per share. Maintain Accumulate.

Standalone Quarterly Financials

Earnings Statement					
YE March (Rs. Mn.)	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
Net Revenues	4,444.0	5,118.1	-13.2%	3,684.5	20.6%
Cost of Materials	1,584.3	1,806.0	-12.3%	1,482.1	6.9%
Gross Profit	2,859.7	3,312.1	-13.7%	2,202.4	29.8%
Staff Costs	568.3	561.6	1.2%	425.2	33.7%
Recovery of Expenses	(2.3)	(3.1)	-25.8%	(22.3)	-89.7%
Excise Duty on Samples	8.9	(7.5)		(10.9)	
Expenses Relating to Service Income	(119.9)	(142.5)	-15.9%	(97.9)	22.5%
Other Expenses	1,021.1	1,015.4	0.6%	860.6	18.6%
Total Expenditure	1,476.1	1,423.9	3.7%	1,154.7	27.8%
Operating Profit	1,383.6	1,888.2	-26.7%	1,047.7	32.1%
OPM (%)	31.1%	36.9%	(575.8)	28.4%	269.9
Interest Income (Net)	194.7	168.4	15.6%	297.6	-34.6%
Other Income	54.8	64.7	-15.3%	70.8	-22.6%
EBITDA	1,633.1	2,121.3	-23.0%	1,416.1	15.3%
Depreciation	47.5	39.9	19.0%	47.3	0.4%
EBIT	1,585.6	2,081.4	-23.8%	1,368.8	15.8%
Interest	0.0	0.0		0.0	
PBT	1,585.6	2,081.4	-23.8%	1,368.8	15.8%
Tax	518.4	670.6	-22.7%	477.2	8.6%
Current Tax (Incl. FBT)	737.4	684.3	7.8%	480.7	53.4%
Deferred tax	(219.0)	(13.7)	1498.5%	(3.5)	6157.1%
PAT Before EI	1,067.2	1,410.8	-24.4%	891.6	19.7%
Extra-ordinary Income (EI)	(31.3)	0.0		1,193.1	
Reported PAT	1,035.9	1,410.8	-26.6%	2,084.7	-50.3%
Equity Capital	847.0	847.0		847.0	
EPS	12.2	16.7	-26.6%	24.6	-50.3%
Ratio Analysis					
Profitability					
YE March	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
OPM (%)	31.1%	36.9%	(575.8)	28.4%	269.9
EBITDA (%)	36.7%	41.4%	(469.9)	38.4%	(168.6)
EBIT (%)	35.7%	40.7%	(498.8)	37.2%	(147.1)
PAT (%)	23.3%	27.6%	(425.5)	56.6%	(3,327.0)
Operational Parameters					
YE March	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
RM Consumed	35.7%	35.3%	36.4	40.2%	(457.5)
Staff Cost	12.8%	11.0%	181.5	11.5%	124.8
Recovery of Expenses	-0.1%	-0.1%	0.9	-0.6%	55.3
Excise Duty on Samples	0.2%	-0.1%		-0.3%	
Expenses Relating to Service Income	-2.7%	-2.8%	8.6	-2.7%	(4.1)
Other Expenses	23.0%	19.8%	313.8	23.4%	(38.0)
Effective Tax Rate	32.7%	32.2%	47.6	34.9%	(216.8)

Consolidated Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09A	CY10E
Total Revenues	14,096.8	15,185.4	15,819.9	16,082.1	16,934.1	18,707.7	20,382.5
- Growth (%)		7.7%	4.2%	1.7%	5.3%	10.5%	9.0%
Total Expenditure	10,133.5	10,761.9	10,659.2	10,574.5	10,980.3	12,161.5	13,226.0
Operating Profit	3,963.3	4,423.5	5,160.7	5,507.5	5,953.8	6,546.2	7,156.4
Forex Gain/(Loss)	11.4	3.3	(1.4)	18.7	24.6	0.0	0.0
Other Income	521.5	657.3	704.8	910.0	1,195.1	1,202.3	1,322.5
EBITDA	4,496.2	5,084.1	5,864.1	6,436.2	7,173.5	7,748.5	8,479.0
Goodwill Amortization	42.1	42.1	42.1	42.2	0.0	0.0	0.0
Depreciation	175.1	157.7	158.6	163.2	163.4	163.7	170.5
EBIT	4,278.9	4,884.3	5,663.4	6,230.8	7,010.1	7,584.8	8,308.5
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	4,278.9	4,884.3	5,663.4	6,230.8	7,010.1	7,584.8	8,308.5
Tax	1,572.6	1,767.3	1,991.3	2,164.1	2,381.4	2,535.9	2,765.0
PAT Before EI	2,706.3	3,117.0	3,672.1	4,066.7	4,628.7	5,048.9	5,543.5
- Growth (%)		15.2%	17.8%	10.7%	13.8%	9.1%	9.8%
Extra-ordinary Items	670.4	1,954.4	1,837.9	1,408.7	1,282.1	74.0	0.0
PAT	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	5,122.9	5,543.5

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	28.1%	29.1%	32.6%	34.2%	35.2%	35.0%	35.1%
EBITDA (%)	31.9%	33.5%	37.1%	40.0%	42.4%	41.4%	41.6%
PBIT (%)	30.4%	32.2%	35.8%	38.7%	41.4%	40.5%	40.8%
PAT Before EI (%)	19.2%	20.5%	23.2%	25.3%	27.3%	27.0%	27.2%
PAT (%)	24.0%	33.4%	34.8%	34.0%	34.9%	27.4%	27.2%
Interest Cover (x)	-	-	-	-	-	-	-
Adjusted EPS (Rs.)	31.0	36.8	43.4	48.0	54.6	59.6	65.4
EPS (Rs.)	38.7	59.9	65.1	64.6	69.8	60.5	65.4
Adjusted PE (x)	53.2	44.8	38.1	34.4	30.2	27.7	25.2
P/E (x)	42.7	27.6	25.4	25.5	23.6	27.3	25.2
P/BV (x)	15.6	14.7	11.6	10.1	8.9	7.8	6.8
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	211.4	241.7
Market Cap (Rs. Mn.)	144,051.5	139,730.2	139,730.2	139,730.2	139,730.2	139,730.2	139,730.2
M Cap/Sales (x)	10.2	9.2	8.8	8.7	8.3	7.5	6.9
EV (Rs. Mn.)	143,374.6	139,302.8	139,427.4	138,238.2	130,219.3	123,763.0	126,054.2
EV/EBITDA (x)	31.9	27.4	23.8	21.5	18.2	16.0	14.9
EV/Sales (x)	10.2	9.2	8.8	8.6	7.7	6.6	6.2
ROCE (%)	46.1%	51.0%	46.8%	44.9%	44.3%	42.2%	40.5%
RONW (%)	29.3%	32.7%	30.5%	29.5%	29.4%	28.2%	27.1%
Debt/Equity Ratio (x)	0.0	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	48.0	48.0
Debtors T/o Days	19.7	16.2	13.9	8.6	12.5	10.0	10.0
Advances T/o Days	26.1	26.6	34.1	30.3	34.1	32.0	32.0
Creditors T/o Days	57.2	61.5	57.7	56.1	59.4	60.0	60.0
Working Cap T/o Days	7.6	(18.7)	(11.4)	(16.6)	155.5	257.6	190.1
Fixed Assets T/o (Gross)	5.5	6.0	6.2	6.0	6.0	6.6	7.2
DPS (Rs.)	24.0	28.0	31.0	36.0	40.0	30.0	30.0
Dividend Payout (%)	62.1%	46.8%	47.7%	55.7%	57.3%	49.6%	45.8%
Dividend Yield (%)	1.5%	1.7%	1.9%	2.2%	2.4%	1.8%	1.8%

Consolidated Financials

Balance Sheet							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Equity Capital	873.2	847.0	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	17,058.4	19,629.1
Shareholders Funds	9,237.5	9,531.5	12,047.5	13,808.4	15,755.3	17,905.4	20,476.1
Borrowed Funds	38.4	48.5	55.4	58.0	56.5	56.5	56.5
Deferred Tax Liability	(448.2)	(299.1)	(247.6)	(203.2)	(297.8)	(523.9)	(750.0)
Total Liabilities	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,438.0	19,782.6
Goodwill	126.5	84.3	42.2	0.0	0.0	0.0	0.0
Fixed Assets	917.1	971.3	946.4	929.2	1,003.7	940.0	869.5
Investments	7,492.1	9,004.4	11,359.2	13,464.7	7,295.2	3,295.2	8,295.2
Current Assets							
Inventory	2,303.9	2,223.2	2,467.9	2,112.1	2,329.8	2,460.2	2,680.4
Sundry Debtors	760.6	673.9	604.5	377.7	579.4	512.5	558.4
Other Current Assets	217.9	204.5	280.2	290.0	459.3	459.3	459.3
Loans & Advances	1,006.8	1,108.2	1,478.7	1,336.0	1,581.6	1,640.1	1,787.0
Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	16,023.7	13,732.4
Current Liabilities							
Sundry Creditors	2,210.3	2,559.3	2,500.4	2,471.0	2,757.3	3,075.2	3,350.5
Provisions	2,502.2	2,905.5	3,181.5	3,925.5	4,545.1	4,817.9	5,249.2
Net Current Assets	292.0	(779.1)	(492.6)	(730.8)	7,215.1	13,202.7	10,617.8
Total Assets	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,438.0	19,782.6

Cash Flow							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	943.2	715.3	476.0	358.2	1,549.9	9,567.3	16,023.7
Profit After Tax	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	5,122.9	5,543.5
Investment Income	(521.5)	(657.3)	(704.8)	(910.0)	(1,195.1)	(1,202.3)	(1,322.5)
Interest Paid	0.0	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	0.0
Depreciation	175.1	157.7	158.6	163.2	163.4	163.7	170.5
Deferred Taxation	125.5	163.4	53.3	106.1	(23.3)	(226.1)	(226.1)
Others	203.6	(70.7)	(155.3)	(67.1)	(109.5)	0.0	0.0
Change in Working Cap	124.5	831.8	(404.3)	1,430.0	71.5	468.7	293.7
CF - Operating Activities	3,483.9	5,496.3	4,457.5	6,197.7	4,817.8	4,326.9	4,459.0
Change in Fixed Assets	969.0	(113.3)	61.9	(98.5)	(199.6)	(100.0)	(100.0)
Change in Investments	(2,842.4)	(1,512.3)	(2,354.8)	(2,105.5)	6,169.5	4,000.0	(5,000.0)
Investment Income	521.5	657.3	704.8	910.0	1,195.1	1,202.3	1,322.5
CF - Investing Activities	(1,352.0)	(968.3)	(1,588.1)	(1,294.0)	7,165.1	5,102.3	(3,777.5)
Increase in Equity	0.0	(2,073.1)	(0.0)	(147.0)	(0.0)	0.0	(0.0)
Changes in Borrowings	9.8	10.1	6.8	2.6	(1.5)	0.0	0.0
Interest Paid	0.0	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)	(2,972.8)	(2,972.8)
CF - Financing Activities	(2,359.8)	(4,767.3)	(2,987.2)	(3,711.9)	(3,965.4)	(2,972.8)	(2,972.8)
Net Change in Cash	(227.8)	(239.4)	(117.8)	1,191.8	8,017.4	6,456.4	(2,291.3)
Closing Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	16,023.7	13,732.4

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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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