

## GSK Pharmaceuticals Ltd.

CMP Rs. 1,178.50  
Accumulate

Q1CY09  
Result Update

Hiren Samani | hiren@ppfas.com

### First Quarter Performance Review

GlaxoSmithKline Pharmaceuticals Ltd., the largest MNC pharmaceutical company operating in India reported excellent set of numbers for the first quarter ended 31st March 2009. The MNC major witnessed its Net Operating Revenues increase by 23% Q-o-Q from Rs. 3,748.7 Mn. in Q4CY08 to Rs. 4,609.8 Mn. in Q1CY09. The company saw its Cost of Materials increase by more than 24% compared to Q4CY08. However, with significant savings coming from other cost components, GSK reported a Q-o-Q jump of 51.4% in Operating Profits to Rs. 1,683.7 Mn. The Operating Profit Margins stood at 36.5%, an increase of 686 bps over Q4CY08. GSK reported a Q-o-Q jump of more than 40% in PAT Before Extraordinary levels to Rs. 1,254.3 Mn. in Q1CY09 from Rs. 891.6 Mn. in Q4CY08. However, with a decline of 85% in Extraordinary Income to Rs. 178.4 Mn. as against Rs. 1,193.7 Mn., the Reported PAT for Q1CY09 stood at Rs. 1,432.7 Mn., a Q-o-Q decline of 31.3%. Extraordinary Income of Rs. 178.4 Mn. constituted of Profit on Sale of Property & Actuarial Gain on Employee Benefits.

In comparison to Q1CY08, GSK reported decent numbers for Q1CY09. The pharmaceutical company saw its top-line grow by 8.7% Y-o-Y from Rs. 4,242.2 Mn. for Q1CY08 to Rs. 4,609.8 Mn. for Q1CY09. With a Y-o-Y increase of 10.3% in Total Expenditure, the Operating Profits increased by 6.4%. The company witnessed more than 100% jump in Interest Income to Rs. 262.1 Mn. for Q1CY09 from Rs. 124.1 Mn. for Q1CY08, thereby leading to 8% increase in PAT before Extraordinary levels. However, with almost 3.5 times jump in Extraordinary Income, GSK reported a Y-o-Y increase of 18.1% in its bottom-line for the first quarter ended 31st March 2009. The EPS for the quarter stood at Rs. 16.9.

### Operating Highlights

In the first quarter ended March 2009, GSK launched Cervarix, a vaccine for protecting women against Cervical Cancer, which has received encouraging initial response from the markets. During the second half of 2009, it plans to launch Mycamine, a critical care anti-fungal through the in-licensing agreement with Astellas, Japan. Other products in the pipeline include Infanrix Hexa, Allermist & Eltrombopag, all to be launched during the calendar year 2009.

During 2008, GSK made a successful entry in the field of Oncology with the launch of its patented product Tykerb, which the company expects to become its second best product & achieve first year sales of close to Rs. 100 Mn. Also it launched Benitec, a combination made from Olmesartan, through its in-licensing deal with Daiichi Sankyo. It also launched three other vaccines in the Indian domestic market. GSK declared a total of Rs. 40 per share as dividend for the year ended December 2008.

### About the Company

GlaxoSmithKline Pharmaceuticals Ltd. is a 50.67% subsidiary of the British drug giant GlaxoSmithKline Plc., one of the leading research-based pharmaceutical, biological & healthcare companies. The Indian subsidiary is among the top three pharmaceutical companies in India & also leads the MNC pharma companies operating in India. GSK operates in therapeutic areas like Anti-Infectives, Dermatology, Gynaecology, Oncology, Diabetes, CVS & Respiratory diseases. It also commands a dominant position in the Indian vaccines market.

### Our View

Looking at the first quarter performance & the planned launches from the company's product pipeline, we expect GSK to achieve better results for the full year & expect a full year EPS of Rs. 59. Further healthy cash position on the balance sheet & decent dividend yields add to its favor. At CMP of Rs. 1,178.50, the scrip trades at 20x CY09E & 18.9x CY10E earnings. Maintain ACCUMULATE.

## Standalone Quarterly Financials

Earnings Statement					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
Net Revenues	4,609.8	3,748.7	23.0%	4,242.2	8.7%
Cost of Materials	1,839.6	1,482.1	24.1%	1,675.1	9.8%
Gross Profit	2,770.2	2,266.6	22.2%	2,567.1	7.9%
Staff Costs	434.7	425.2	2.2%	402.9	7.9%
Recovery of Expenses	(19.3)	(22.3)	-13.5%	(17.3)	11.6%
Excise Duty on Samples	(26.5)	(10.9)	143.1%	(34.1)	-22.3%
Expenses Relating to Service Income	(82.9)	(97.9)	-15.3%	(86.5)	-4.2%
Other Expenses	780.5	860.6	-9.3%	719.7	8.4%
Total Expenditure	1,086.5	1,154.7	-5.9%	984.7	10.3%
Operating Profit	1,683.7	1,111.9	51.4%	1,582.4	6.4%
OPM (%)	36.5%	29.7%	686.3	37.3%	(77.7)
Interest Income (Net)	262.1	297.6	-11.9%	124.1	111.2%
Other Income	0.0	6.6		100.3	-100.0%
EBITDA	1,945.8	1,416.1	37.4%	1,806.8	7.7%
Depreciation	36.7	47.3	-22.4%	37.1	-1.1%
EBIT	1,909.1	1,368.8	39.5%	1,769.7	7.9%
Interest	0.0	0.0		0.0	
PBT	1,909.1	1,368.8	39.5%	1,769.7	7.9%
Tax	654.8	477.2	37.2%	608.0	7.7%
Current Tax (Incl. FBT)	644.0	480.7	34.0%	616.5	4.5%
Deferred tax	10.8	(3.5)		(8.5)	
PAT	1,254.3	891.6	40.7%	1,161.7	8.0%
Extra-ordinary Income	178.4	1,193.1	-85.0%	51.0	249.8%
Reported PAT	1,432.7	2,084.7	-31.3%	1,212.7	18.1%
Equity Capital	847.0	847.0		847.0	
EPS	16.9	24.6	-31.3%	14.3	18.1%
Ratio Analysis					
Profitability					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
OPM (%)	36.5%	29.7%	686.3	37.3%	(77.7)
EBITDA (%)	42.2%	37.8%	443.4	42.6%	(38.1)
EBIT (%)	41.4%	36.5%	490.0	41.7%	(30.3)
PAT (%)	31.1%	55.6%	(2,453.2)	28.6%	249.3
Operational Parameters					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
RM Consumed	39.9%	39.5%	37.0	39.5%	42.0
Staff Cost	9.4%	11.3%	(191.3)	9.5%	(6.8)
Recovery of Expenses	-0.4%	-0.6%	17.6	-0.4%	(1.1)
Excise Duty on Samples	-0.6%	-0.3%	(28.4)	-0.8%	22.9
Expenses Relating to Service Income	-1.8%	-2.6%	81.3	-2.0%	24.1
Other Expenses	16.9%	23.0%	(602.6)	17.0%	(3.4)
Effective Tax Rate	34.3%	34.9%	(56.4)	34.4%	(5.7)

## Consolidated Financials

Earnings Statement							
Particulars (Rs. Mn)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Total Revenues	14,096.8	15,185.4	15,819.9	16,082.1	16,934.1	18,141.6	19,592.9
- Growth (%)		7.7%	4.2%	1.7%	5.3%	7.1%	8.0%
Total Expenditure	10,133.5	10,761.9	10,659.2	10,574.5	10,980.3	11,807.3	12,799.2
Operating Profit	3,963.3	4,423.5	5,160.7	5,507.5	5,953.8	6,334.3	6,793.8
Forex Gain/(Loss)	11.4	3.3	(1.4)	18.7	24.6	24.6	24.6
Other Income	521.5	657.3	704.8	910.0	1,195.1	1,109.6	1,334.6
EBITDA	4,496.2	5,084.1	5,864.1	6,436.2	7,173.5	7,468.5	8,153.0
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	170.5	170.5
EBIT	4,278.9	4,884.3	5,663.4	6,230.8	7,010.1	7,298.0	7,982.5
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	7,298.0	7,982.5
Tax	1,572.6	1,767.3	1,991.3	2,164.1	2,381.4	2,481.3	2,714.0
PAT Before EI	2,706.3	3,117.0	3,672.1	4,066.7	4,628.7	4,816.7	5,268.4
- Growth (%)		15.2%	17.8%	10.7%	13.8%	4.1%	9.4%
Extra-ordinary Items	670.4	1,954.4	1,837.9	1,408.7	1,282.1	178.4	0.0
PAT	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,995.1	5,268.4
Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	28.1%	29.1%	32.6%	34.2%	35.2%	34.9%	34.7%
EBITDA (%)	31.9%	33.5%	37.1%	40.0%	42.4%	41.2%	41.6%
PBIT (%)	30.4%	32.2%	35.8%	38.7%	41.4%	40.2%	40.7%
PAT Before EI (%)	19.2%	20.5%	23.2%	25.3%	27.3%	26.6%	26.9%
PAT (%)	24.0%	33.4%	34.8%	34.0%	34.9%	27.5%	26.9%
Interest Cover (x)	-	-	-	-	-	-	-
EPS (Rs.)	38.7	59.9	65.1	64.6	69.8	59.0	62.2
P/E (x)	30.5	19.7	18.1	18.2	16.9	20.0	18.9
P/BV (x)	11.1	10.5	8.3	7.2	6.3	5.5	4.9
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	213.4	240.5
Market Cap (Rs. Mn.)	102,909.5	99,822.4	99,822.4	99,822.4	99,822.4	99,822.4	99,822.4
M Cap/Sales (x)	7.3	6.6	6.3	6.2	5.9	5.5	5.1
EV (Rs. Mn.)	102,232.6	99,395.0	99,519.6	98,330.4	90,311.5	96,277.4	96,592.6
EV/EBITDA (x)	22.7	19.6	17.0	15.3	12.6	12.9	11.8
EV/Sales (x)	7.3	6.5	6.3	6.1	5.3	5.3	4.9
ROCE (%)	46.1%	51.0%	46.8%	44.9%	44.3%	40.3%	39.1%
RONW (%)	29.3%	32.7%	30.5%	29.5%	29.4%	26.6%	25.9%
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	52.0	52.0
Debtors T/o Days	19.7	16.2	13.9	8.6	12.5	11.0	11.0
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	58.0	58.0
Working Cap T/o Days	7.6	(18.7)	(11.4)	(16.6)	155.5	41.7	29.8
Fixed Assets T/o (Gross)	5.5	6.0	6.2	6.0	6.0	6.4	6.9
DPS (Rs.)	24.0	28.0	31.0	36.0	40.0	27.0	30.0
Dividend Payout (%)	62.1%	46.8%	47.7%	55.7%	57.3%	45.8%	48.2%
Dividend Yield (%)	2.0%	2.4%	2.6%	3.1%	3.4%	2.3%	2.5%

## 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	17,227.8	19,523.5
Shareholders Funds	9,237.5	9,531.5	12,047.5	13,808.4	15,755.3	18,074.9	20,370.5
Minority Interest							
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)	(151.9)	7.8
<b>Total Liabilities</b>	<b>8,827.7</b>	<b>9,281.0</b>	<b>11,855.2</b>	<b>13,663.1</b>	<b>15,514.0</b>	<b>17,979.5</b>	<b>20,434.8</b>
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	933.2	862.8
Investments	7,492.1	9,004.4	11,359.2	13,464.7	7,295.2	14,795.2	17,795.2
Current Assets							
Inventory	2,303.9	2,223.2	2,467.9	2,112.1	2,329.8	2,584.6	2,791.3
Sundry Debtors	760.6	673.9	604.5	377.7	579.4	546.7	590.5
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	1,590.5	1,717.7
Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	3,779.9	3,464.7
Current Liabilities							
Sundry Creditors	2,210.3	2,559.3	2,500.4	2,471.0	2,757.3	2,882.8	3,113.4
Provisions	2,502.2	2,905.5	3,181.5	3,925.5	4,545.1	3,827.1	4,133.3
Net Current Assets	292.0	(779.1)	(492.6)	(730.8)	7,215.1	2,251.1	1,776.8
Miscellaneous Expenditure							
<b>Total Assets</b>	<b>8,827.7</b>	<b>9,281.0</b>	<b>11,855.2</b>	<b>13,663.1</b>	<b>15,514.0</b>	<b>17,979.5</b>	<b>20,434.8</b>
Cash Flow							
Particulars (Rs. Mn)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	943.2	715.3	476.0	358.2	1,549.9	9,567.3	3,779.9
Profit After Tax	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,995.1	5,268.4
Investment Income	(521.5)	(657.3)	(704.8)	(910.0)	(1,195.1)	(1,109.6)	(1,334.6)
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	170.5	170.5
Deferred Taxation	125.5	163.4	53.3	106.1	(23.3)	146.0	159.6
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	(823.5)	159.0
CF - Operating Activities	3,483.9	5,496.3	4,457.5	6,197.7	4,817.8	3,378.4	4,423.0
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	(7,500.0)	(3,000.0)
Investment Income	521.5	657.3	704.8	910.0	1,195.1	1,109.6	1,334.6
CF - Investing Activities	(1,352.0)	(968.3)	(1,588.1)	(1,294.0)	7,165.1	(6,490.4)	(1,765.4)
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)	(2,675.5)	(2,972.8)
CF - Financing Activities	(2,359.8)	(4,767.3)	(2,987.2)	(3,711.9)	(3,965.4)	(2,675.5)	(2,972.8)
Net Change in Cash	(227.8)	(239.4)	(117.8)	1,191.8	8,017.4	(5,787.4)	(315.2)
Closing Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	3,779.9	3,464.7

# 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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## Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Hiren Samani	Analyst - Investment Research	hiren@ppfas.com	91 22 2284 6555 Extn 206

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130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

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