

GSK Pharmaceuticals Ltd.

CMP Rs. 1,347.00
Accumulate

Q2CY09
Result Update

Hiren Samani | hiren@ppfas.com

GlaxoSmithKline Pharmaceuticals Ltd., the largest MNC pharmaceutical company operating in India reported stable set of numbers for the second quarter ended 30th June 2009. The MNC witnessed a top-line growth of 9.7% Y-o-Y from Rs. 4,209.2 Mn. in Q2CY08 to Rs. 4,619.5 Mn. in Q2CY09. With about 16% rise in Total Cost component, the pharma major reported an increase of close to 8% in Operating Profits over the same period last year. The company witnessed significant increase in Net Interest Income & Other Income components to the tune of 52% & 145% Y-o-Y respectively, thereby giving a boost to EBITDA margins by almost 270 bps to 44.3% for Q2CY09. GSK reported a 16.4% Y-o-Y increase in PAT before Extraordinary levels to Rs. 1,316.6 Mn. for Q2CY09 vis-à-vis Rs. 1,130.9 Mn. for the year ago period. However, the company made a payment of Rs. 58.8 Mn. towards Separation of temporary workmen at its Nashik factory, thereby impacting the bottom-line standing at Rs. 1,243.5 Mn. for the quarter ended 30th June 2009.

In comparison to the previous quarter ended 31st March 2009, GSK reported a flattish performance for the second quarter. Net Revenues stood at Rs. 4,619.5 Mn., rising by a mere 0.2% Q-o-Q. GSK passed on the benefit of Excise Duty reduction to the consumers, by lowering down the selling prices of its products, thereby impacting Gross Sales. However, Cost of Materials as a percentage of Sales was lower by more than 325 bps from 39.9% in Q1CY09 to 36.6% in Q2CY09. With increases coming in from other cost components, the company reported Operating Profits at Rs. 1,674.4 Mn. for Q2CY09. The OPM dipped by about 28 bps Q-o-Q from 36.5% in Q1CY09 to 36.2% in Q2CY09. GSK also saw a dip of 26% Q-o-Q in Net Interest Income. However, Other Income stood at Rs. 180 Mn. for Q2CY09 vis-à-vis NIL for Q1CY09, thereby helping the company report a 5% increase in PAT before Extraordinary levels, after paying Tax at an effective rate of 34.5% for the quarter. The company reported an Extraordinary Loss of Rs. 73.1 Mn. for the quarter as against an Extraordinary Profit of Rs. 178.4 Mn. for the previous quarter. This resulted in a dip of 13.2% Q-o-Q in Reported PAT levels from Rs. 1,432.7 Mn. in Q1CY09 to Rs. 1,243.5 Mn. in Q2CY09.

For the first half of the current year, GSK reported decent performance both in its top-line & bottom-line. Net Revenues increased by 9.2% from Rs. 8,451.4 Mn. for the first six months of 2008 to Rs. 9,229.3 Mn. for the same period this year. The company witnessed a 12% increase in PAT before Extraordinary levels from Rs. 2,296.6 Mn. to Rs. 2,570.9 Mn. on a comparable basis. Exceptional Income (net of tax) for the half year ended 30th June, 2009 include

- Profit on Sale of Property Rs. 60 Mn.
- Actuarial Gain on Employee Benefits Rs. 104.5 Mn.
- Cost of Separation for Temporary Workmen at Nashik factory Rs. 58.8 Mn.

Reported PAT for the first six months stood at Rs. 2,676.2 Mn. vis-à-vis Rs. 2,361.3 Mn. for the same period last year. EPS for the first six months stand at Rs. 31.6.

Our View

We maintain our positive stance on the MNC pharma major GSK. We believe that the company's performance is in line with our estimates. Recent product launches have been growing well & achieving competitive market share. The company also has a couple of launches lined up for the current calendar year. This we believe should help the company achieve better performance going forward. At CMP of Rs. 1,347, the scrip trades at 21.7x CY10E earnings of Rs. 62.2 per share. Maintain Accumulate.

Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCMY09	6MCMY08	Y-Y(%)
Net Revenues	4,619.5	4,609.8	0.2%	4,209.2	9.7%	9,229.3	8,451.4	9.2%
Cost of Materials	1,692.4	1,839.6	-8.0%	1,578.2	7.2%	3,532.0	3,253.3	8.6%
Gross Profit	2,927.1	2,770.2	5.7%	2,631.0	11.3%	5,697.3	5,198.1	9.6%
Staff Costs	528.9	434.7	21.7%	455.1	16.2%	963.6	858.0	12.3%
Recovery of Expenses	(14.7)	(19.3)	-23.8%	(29.5)	-50.2%	(34.0)	(46.8)	-27.4%
Excise Duty on Samples	6.4	(26.5)		5.9	8.5%	(20.1)	(28.2)	-28.7%
Exp. Relating to Service Income	(109.7)	(82.9)	32.3%	(82.3)	33.3%	(192.6)	(168.8)	14.1%
Other Expenses	841.8	780.5	7.9%	730.2	15.3%	1,622.3	1,449.9	11.9%
Total Expenditure	1,252.7	1,086.5	15.3%	1,079.4	16.1%	2,339.2	2,064.1	13.3%
Operating Profit	1,674.4	1,683.7	-0.6%	1,551.6	7.9%	3,358.1	3,134.0	7.2%
OPM (%)	36.2%	36.5%	(27.8)	36.9%	(61.6)	36.4%	37.1%	(69.7)
Interest Income (Net)	193.9	262.1	-26.0%	127.6	52.0%	456.0	251.7	81.2%
Other Income	180.0	0.0		73.4	145.2%	180.0	173.7	3.6%
EBITDA	2,048.3	1,945.8	5.3%	1,752.6	16.9%	3,994.1	3,559.4	12.2%
Depreciation	39.6	36.7	7.9%	39.0	1.5%	76.3	76.1	0.3%
EBIT	2,008.7	1,909.1	5.2%	1,713.6	17.2%	3,917.8	3,483.3	12.5%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	2,008.7	1,909.1	5.2%	1,713.6	17.2%	3,917.8	3,483.3	12.5%
Tax	692.1	654.8	5.7%	582.7	18.8%	1,346.9	1,190.7	13.1%
Current Tax (Incl. FBT)	696.3	644.0	8.1%	584.4	19.1%	1,340.3	1,200.9	11.6%
Deferred tax	(4.2)	10.8		(1.7)	147.1%	6.6	(10.2)	
PAT Before EI	1,316.6	1,254.3	5.0%	1,130.9	16.4%	2,570.9	2,292.6	12.1%
Extra-ordinary Income (EI)	(73.1)	178.4	-141.0%	17.7		105.3	68.7	53.3%
Reported PAT	1,243.5	1,432.7	-13.2%	1,148.6	8.3%	2,676.2	2,361.3	13.3%
Equity Capital	847.0	847.0		847.0		847.0	847.0	
EPS	14.7	16.9	-13.2%	13.6	8.3%	31.6	27.9	13.3%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCMY09	6MCMY08	Y-Y(%)
OPM (%)	36.2%	36.5%	(27.8)	36.9%	(61.6)	36.4%	37.1%	(69.7)
EBITDA (%)	44.3%	42.2%	213.0	41.6%	270.3	43.3%	42.1%	116.0
EBIT (%)	43.5%	41.4%	206.9	40.7%	277.2	42.4%	41.2%	123.4
PAT (%)	26.9%	31.1%	(416.1)	27.3%	(36.9)	29.0%	27.9%	105.7
Operational Parameters								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCMY09	6MCMY08	Y-Y(%)
RM Consumed	36.6%	39.9%	(327.0)	37.5%	(85.8)	38.3%	38.5%	(22.5)
Staff Cost	11.4%	9.4%	201.9	10.8%	63.7	10.4%	10.2%	28.8
Recovery of Expenses	-0.3%	-0.4%	10.0	-0.7%	38.3	-0.4%	-0.6%	18.5
Excise Duty on Samples	0.1%	-0.6%	71.3	0.1%	(0.2)	-0.2%	-0.3%	11.6
Expenses Relating to Service Income	-2.4%	-1.8%	(57.6)	-2.0%	(41.9)	-2.1%	-2.0%	(9.0)
Other Expenses	18.2%	16.9%	129.1	17.3%	87.5	17.6%	17.2%	42.2
Effective Tax Rate	34.5%	34.3%	15.6	34.0%	45.1	34.4%	34.2%	19.6

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	105.7	0.0
PAT	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,922.4	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%	27.1%	26.9%
Interest Cover (x)	-	-	-	-	-	-	-
EPS (Rs.)	38.7	59.9	65.1	64.6	69.8	58.1	62.2
P/E (x)	34.8	22.5	20.7	20.8	19.3	23.2	21.7
P/BV (x)	12.7	12.0	9.5	8.3	7.2	6.3	5.6
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	212.5	239.6
Market Cap (Rs. Mn.)	117,653.9	114,124.5	114,124.5	114,124.5	114,124.5	114,124.5	114,124.5
M Cap/Sales (x)	8.3	7.5	7.2	7.1	6.7	6.3	5.8
EV (Rs. Mn.)	116,977.0	113,697.1	113,821.7	112,632.5	104,613.6	110,473.8	110,789.0
EV/EBITDA (x)	26.0	22.4	19.4	17.5	14.6	14.8	13.6
EV/Sales (x)	8.3	7.5	7.2	7.0	6.2	6.1	5.7
ROCE (%)	46.1%	51.0%	46.8%	44.9%	44.3%	40.4%	39.2%
RONW (%)	29.3%	32.7%	30.5%	29.5%	29.4%	26.8%	26.0%
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	43.8	31.7
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%	46.5%	48.2%
Dividend Yield (%)	1.8%	2.1%	2.3%	2.7%	3.0%	2.0%	2.2%

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	17,155.1	19,450.8
Shareholders Funds	9,237.5	9,531.5	12,047.5	13,808.4	15,755.3	18,002.2	20,297.8
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
Total Liabilities	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,906.8	20,362.1
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	3,707.2	3,392.0
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	2,178.4	1,704.1
Miscellaneous Expenditure							
Total Assets	8,827.7	9,281.0	11,855.2	13,663.1	15,514.0	17,906.8	20,362.1
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	3,707.2
Profit After Tax	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,922.4	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	3,305.7	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	(5,860.1)	(315.2)
Closing Cash & Bank Balance	715.3	476.0	358.2	1,549.9	9,567.3	3,707.2	3,392.0

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

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

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

Now access PPFAS Reports on Bloomberg

<PPFS> <Go>

Parag Parikh Financial Advisory Services Limited

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

www.ppfas.com