

GSK Pharmaceuticals Ltd.

CMP Rs. 1,578.3
Accumulate

Q3CY09
Result Update

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Third Quarter Performance Review

GlaxoSmithKline Pharmaceuticals Ltd. (GSK) reported good sequential numbers for the third quarter ended 30th September 2009. The MNC reported a top-line growth of almost 12% Q-o-Q from Rs. 5,118.1 Mn. for Q3CY09 as against Rs. 4,574.1 Mn. for Q2CY09. With more than 13% rise in Total Expenditures, Operating Income was higher by 16% Q-o-Q at Rs. 1,888.2 Mn. for Q3CY09 vis-à-vis Rs. 1,629 Mn. for the previous quarter. OPM also improved by about 128 bps, supported by lower Raw Material Consumption as a percentage of Sales. GSK however, witnessed a Q-o-Q drop of 13.2% in Net Interest Income to Rs. 168.4 Mn. & a significant drop of 71.3% in Other Income to Rs. 64.7 Mn. The company paid a Total Tax of Rs. 670.6 Mn. at a lower effective rate of 32.2%. This helped the MNC pharma report a Q-o-Q increase of 13.5% in its bottom-line from Rs. 1,243.5 Mn. in Q2CY09 to Rs. 1,410.8 Mn. in Q3CY09. PAT margins improved to 27.6% for Q3CY09. EPS for the quarter stood at Rs. 16.7 vis-à-vis Rs. 14.7 for the previous quarter.

In comparison to the same quarter last year, the MNC pharma reported decent numbers this quarter. The top-line improved by 12% Y-o-Y from Rs. 4,569.5 Mn. in Q3CY08 to Rs. 5,118.1 Mn. in Q3CY09. Staff Costs & Other Expenses increased by more than 26% & 30% respectively, compared to the same quarter last year. GSK reported an increase of 11.3% Y-o-Y in Operating Income. Despite a more than 53% drop in Other Income component, the company was able to report 8.6% growth in PAT before Extraordinary Levels to Rs. 1,410.8 Mn. in Q3CY09 from Rs. 1,299.4 Mn. in Q3CY08. However, Reported PAT increased by just 7% Y-o-Y due to the Extraordinary Income of Rs. 20.3 Mn. the company reported in the same quarter last year.

For the first nine months ended 30th September 2009, the performance was as follows:

- Net Revenues stood at Rs. 14,263.7 Mn. for nine months ended 30th September 2009, marking a growth of 10.4% over comparable period last year.
- Operating profits increased by 9.2% Y-o-Y to Rs. 5,162.6 Mn. The company was able to maintain its Operating Profits Margins (OPM) at above the 36% mark.
- GSK witnessed a sharp increase of 55% Y-o-Y in Net Interest Income that stood at Rs. 624.4 Mn. for first nine months of the current year.
- The company reported a rise of 10.8% Y-o-Y in PAT before Extraordinary levels to Rs. 3,981.7 Mn. for the first nine months of CY09 from Rs. 3,592 Mn. in the same period last year.
- The first nine months EPS was at Rs. 48.3 vis-à-vis Rs. 43.5 on a comparable basis.

During the third quarter, GSK published the results of three clinical studies conducted for its Cervical Cancer vaccine-Cervarix confirming that the vaccine offers protection against five of the most common cancer-causing virus types & generates higher immune response compared to other available vaccines. This confirms the importance of the role of Cervarix & would prove positive for the company. Along with Cervarix, other recent launches of Tykerb for breast cancer & Benitec, an anti-hypertensive drug have made steady progress during the quarter.

Our View

We continue to be positive on the MNC pharma major GSK & remain bullish about its future growth prospects. We expect the company to easily achieve our EPS target of Rs. 58.1 for full year 2009. Recent product launches by the company have been growing well & achieving competitive market share, which should help the company achieve better performance going forward. At a CMP of Rs. 1,578.3, the scrip trades at 25.4x CY10E earnings of Rs. 62.2 per share. Maintain Accumulate.

Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Net Revenues	5,118.1	4,574.1	11.9%	4,569.5	12.0%	14,263.7	12,919.6	10.4%
Cost of Materials	1,806.0	1,692.4	6.7%	1,740.7	3.8%	5,338.0	4,994.0	6.9%
Gross Profit	3,312.1	2,881.7	14.9%	2,828.8	17.1%	8,925.7	7,925.6	12.6%
Staff Costs	561.6	528.9	6.2%	444.3	26.4%	1,525.2	1,302.3	17.1%
Recovery of Expenses	(3.1)	(14.7)	-78.9%	(10.5)	-70.5%	(37.1)	(57.3)	-35.3%
Excise Duty on Samples	(7.5)	6.4		(9.7)	-22.7%	(27.6)	(37.9)	-27.2%
Expenses Relating to Service Income	(142.5)	(109.7)	29.9%	(67.3)	111.7%	(335.1)	(236.1)	41.9%
Other Expenses	1,015.4	841.8	20.6%	775.5	30.9%	2,637.7	2,225.4	18.5%
Total Expenditure	1,423.9	1,252.7	13.7%	1,132.3	25.8%	3,763.1	3,196.4	17.7%
Operating Profit	1,888.2	1,629.0	15.9%	1,696.5	11.3%	5,162.6	4,729.2	9.2%
OPM (%)	36.9%	35.6%	127.9	37.1%	(23.4)	36.2%	36.6%	(41.1)
Interest Income (Net)	168.4	193.9	-13.2%	150.9	11.6%	624.4	402.6	55.1%
Other Income	64.7	225.4	-71.3%	139.5	-53.6%	328.4	414.5	-20.8%
EBITDA	2,121.3	2,048.3	3.6%	1,986.9	6.8%	6,115.4	5,546.3	10.3%
Depreciation	39.9	39.6	0.8%	40.0	-0.3%	116.2	116.1	0.1%
EBIT	2,081.4	2,008.7	3.6%	1,946.9	6.9%	5,999.2	5,430.2	10.5%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	2,081.4	2,008.7	3.6%	1,946.9	6.9%	5,999.2	5,430.2	10.5%
Tax	670.6	692.1	-3.1%	647.5	3.6%	2,017.5	1,838.2	9.8%
Current Tax (Incl. FBT)	684.3	696.3	-1.7%	657.1	4.1%	2,024.6	1,858.0	9.0%
Deferred tax	(13.7)	(4.2)	226.2%	(9.6)	42.7%	(7.1)	(19.8)	-64.1%
PAT Before EI	1,410.8	1,316.6	7.2%	1,299.4	8.6%	3,981.7	3,592.0	10.8%
Extra-ordinary Income (EI)	0.0	(73.1)		20.3		105.3	89.0	18.3%
Reported PAT	1,410.8	1,243.5	13.5%	1,319.7	6.9%	4,087.0	3,681.0	11.0%
Equity Capital	847.0	847.0		847.0		847.0	847.0	
EPS	16.7	14.7	13.5%	15.6	6.9%	48.3	43.5	11.0%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
OPM (%)	36.9%	35.6%	127.9	37.1%	(23.4)	36.2%	36.6%	(41.1)
EBITDA (%)	41.4%	44.8%	(333.3)	43.5%	(203.5)	42.9%	42.9%	(5.5)
EBIT (%)	40.7%	43.9%	(324.7)	42.6%	(193.9)	42.1%	42.0%	2.9
PAT (%)	27.6%	27.2%	37.9	28.9%	(131.6)	28.7%	28.5%	16.2
Operational Parameters								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
RM Consumed	35.3%	37.0%	(171.3)	38.1%	(280.7)	37.4%	38.7%	(123.1)
Staff Cost	11.0%	11.6%	(59.0)	9.7%	125.0	10.7%	10.1%	61.3
Recovery of Expenses	-0.1%	-0.3%	26.1	-0.2%	16.9	-0.3%	-0.4%	18.3
Excise Duty on Samples	-0.1%	0.1%	(28.6)	-0.2%	6.6	-0.2%	-0.3%	10.0
Expenses Relating to Service Income	-2.8%	-2.4%	(38.6)	-1.5%	(131.1)	-2.3%	-1.8%	(52.2)
Other Expenses	19.8%	18.4%	143.6	17.0%	286.8	18.5%	17.2%	126.7
Effective Tax Rate	32.2%	34.5%	(223.6)	33.3%	(103.9)	33.6%	33.9%	(22.2)

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)	40.8	26.4	24.3	24.4	22.6	27.2	25.4
P/BV (x)	14.9	14.0	11.1	9.7	8.5	7.4	6.6
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	212.5	239.6
Market Cap (Rs. Mn.)	137,821.0	133,686.6	133,686.6	133,686.6	133,686.6	133,686.6	133,686.6
M Cap/Sales (x)	9.8	8.8	8.5	8.3	7.9	7.4	6.8
EV (Rs. Mn.)	137,144.2	133,259.2	133,383.8	132,194.7	124,175.8	130,035.9	130,351.1
EV/EBITDA (x)	30.5	26.2	22.7	20.5	17.3	17.4	16.0
EV/Sales (x)	9.7	8.8	8.4	8.2	7.3	7.2	6.7
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 (%)	1.5%	1.8%	2.0%	2.3%	2.5%	1.7%	1.9%

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

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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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