

GSK Pharmaceuticals Ltd.	CMP Rs. 1180.0 Accumulate	Q4CY08 Result Update
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The MNC pharma major recorded good set of numbers for the fourth quarter ended December 2008. GlaxoSmithKline Pharmaceuticals Ltd. reported a Y-o-Y growth of 10.1% in its top-line & 14.6% in Profit before Tax & Extraordinary Items, on a comparable basis, since the company had divested its Fine Chemicals business last year. The company earned an Extraordinary Income of Rs. 1,193.1 Mn. for the quarter ended December 2008, that include Profit on Sale/Redemption of Investments & actuarial provision on employee benefits.

In comparison to the quarter ended September, the December quarter has always been dismal in terms of the top-line & bottom-line performance for the pharmaceutical sector & so has been the case with GSK. Net Revenues stood at Rs. 3,748.7 Mn. for Q4CY08, a decline of more than 19% Q-o-Q. Similarly, the PAT before Extraordinary Items declined by 32.4% to Rs. 891.6 Mn. for Q4CY08. However, the Reported PAT stood at Rs. 2,084.7 Mn. owing to the large Extraordinary Income of Rs. 1,193.1 Mn. earned during the December quarter. The company also witnessed a dip in Operating Margins from 38% in Q3CY08 to 29.7% in Q4CY08. The reported EPS for the quarter ended December 2008 stood at Rs. 24.6.

GSK Pharmaceutical Ltd. recommended a dividend of Rs. 22 per equity share for the calender year ended 2008, compared to Rs. 18 distributed last year. Also continuing the practice of rewarding its shareholders, the company has recommended a special dividend of Rs. 18 per equity share for 2008, similar to the last year.

Operating Performance

The last year has been a successful one for GSK. The company made a successful entry in the field of Oncology with the launch of its patented product Tykerb. GSK expects Tykerb to become its second best product & achieve first year sales of close to Rs. 100 Mn. Also the company signed two in-licensing deals with leading Japanese pharmaceutical companies, Astellas & Daiichi Sankyo. During 2008, GSK launched Benitec, a combination made from Olmesartan, through the deal with Daiichi Sankyo. The company also launched three other vaccines in the Indian Domestic market, thereby increasing its vaccine portfolio.

GSK is well on course to introduce a couple of other drugs in the Indian market during the year 2009. During the second half of 2009, it plans to launch Mycamine, a critical care anti-fungal through the agreement with Astellas, Japan. Other products in the pipeline include Cervarix, Infanrix Hexa, Allermist & Eltrombopag, all to be launched during the current calender year.

The pharmaceutical major expects to achieve double digit top-line growth in the next 2-3 years, while maintaining its Gross Profit Margins.

About GSK Pharmaceuticals Ltd.

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, Diabetes, CVS & Respiratory diseases. It also commands a dominant position in the Indian vaccines market.

Our View

We remain positive about the future growth prospects of GSK Pharmaceuticals Ltd. Further healthy cash position on the balance sheet & decent dividend yields add to its favor. At CMP of Rs. 1,180, the scrip trades at 20.2x CY09E & 18.5x CY10E earnings. Maintain ACCUMULATE.

Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q4CY08	Q3CY08	Q-Q(%)	Q4CY07	Y-Y(%)	12MCY08	12MCY07	Y-Y(%)
Net Revenues	3,748.7	4,637.1	-19.2%	3,392.7	10.5%	16,735.9	15,808.1	5.9%
Cost of Materials	1,482.1	1,740.7	-14.9%	1,362.4	8.8%	6,476.1	6,284.6	3.0%
Gross Profit	2,266.6	2,896.4	-21.7%	2,030.3	11.6%	10,259.8	9,523.5	7.7%
Staff Costs	425.2	444.3	-4.3%	288.2	47.5%	1,727.5	1,512.6	14.2%
Recovery of Expenses	(22.3)	(10.5)	112.4%	(8.0)	178.8%	(79.6)	(64.5)	23.4%
Excise Duty on Samples	(10.9)	(9.7)	12.4%	0.4		(48.8)	68.4	
Expenses Relating to Service Income	(97.9)	(67.3)	45.5%	(94.6)	3.5%	(334.0)	(216.3)	54.4%
Other Expenses	860.6	775.5	11.0%	820.1	4.9%	3,085.5	3,000.8	2.8%
Total Expenditure	1,154.7	1,132.3	2.0%	1,006.1	14.8%	4,350.6	4,301.0	1.2%
Operating Profit	1,111.9	1,764.1	-37.0%	1,024.2	8.6%	5,909.2	5,222.5	13.1%
OPM (%)	29.7%	38.0%	(838.2)	30.2%	(52.7)	35.3%	33.0%	227.2
Interest Income (Net)	297.6	150.9	97.2%	108.2	175.0%	700.2	452.3	54.8%
Other Income	6.6	102.7	-93.6%	178.5	-96.3%	457.6	598.6	-23.6%
EBITDA	1,416.1	2,017.7	-29.8%	1,310.9	8.0%	7,067.0	6,273.4	12.7%
Depreciation	47.3	40.0	18.3%	50.2	-5.8%	163.4	161.6	1.1%
EBIT	1,368.8	1,977.7	-30.8%	1,260.7	8.6%	6,903.6	6,111.8	13.0%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	1,368.8	1,977.7	-30.8%	1,260.7	8.6%	6,903.6	6,111.8	13.0%
Tax	477.2	658.0	-27.5%	432.0	10.5%	2,331.0	2,114.6	10.2%
Current Tax (Incl. FBT)	480.7	667.6	-28.0%	373.5	28.7%	2,354.3	1,993.0	18.1%
Deferred tax	(3.5)	(9.6)	-63.5%	58.5		(23.3)	121.6	
PAT	891.6	1,319.7	-32.4%	828.7	7.6%	4,572.6	3,997.2	14.4%
Extra-ordinary Income	1,193.1	0.0		(19.7)		1,193.1	1,379.4	-13.5%
Reported PAT	2,084.7	1,319.7	58.0%	809.0	157.7%	5,765.7	5,376.6	7.2%
Equity Capital	847.0	847.0		847.0		847.0	847.0	
EPS	24.6	15.6	58.0%	9.6	157.7%	68.1	63.5	7.2%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q4CY08	Q3CY08	Q-Q(%)	Q4CY07	Y-Y(%)	12MCY08	12MCY07	Y-Y(%)
OPM (%)	29.7%	38.0%	(838.2)	30.2%	(52.7)	35.3%	33.0%	227.2
EBITDA (%)	37.8%	43.5%	(573.6)	38.6%	(86.3)	42.2%	39.7%	254.2
EBIT (%)	36.5%	42.6%	(613.6)	37.2%	(64.5)	41.3%	38.7%	258.8
PAT (%)	55.6%	28.5%	2,715.2	23.8%	3,176.6	34.5%	34.0%	43.9
Operational Parameters								
YE March (Rs. Mn.)	Q4CY08	Q3CY08	Q-Q(%)	Q4CY07	Y-Y(%)	12MCY08	12MCY07	Y-Y(%)
RM Consumed	39.5%	37.5%	199.8	40.2%	(62.0)	38.7%	39.8%	(106.0)
Staff Cost	11.3%	9.6%	176.1	8.5%	284.8	10.3%	9.6%	75.4
Recovery of Expenses	-0.6%	-0.2%	(36.8)	-0.2%	(35.9)	-0.5%	-0.4%	(6.8)
Excise Duty on Samples	-0.3%	-0.2%	(8.2)	0.0%		-0.3%	0.4%	
Expenses Relating to Service Income	-2.6%	-1.5%	(116.0)	-2.8%	17.7	-2.0%	-1.4%	(62.7)
Other Expenses	23.0%	16.7%	623.3	24.2%	(121.5)	18.4%	19.0%	(54.6)
Effective Tax Rate	34.9%	33.3%	159.2	34.3%	59.6	33.8%	34.6%	(83.4)

Consolidated Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08A	CY09E	CY10E
Total Revenues	14,096.8	15,185.4	15,819.9	16,082.1	16,934.1	18,141.5	19,592.8
- Growth (%)		7.7%	4.2%	1.7%	5.3%	7.1%	8.0%
Total Expenditure	10,133.5	10,761.9	10,659.2	10,530.1	10,980.1	11,807.1	12,798.9
Operating Profit	3,963.3	4,423.5	5,160.7	5,552.0	5,954.0	6,334.5	6,793.9
Forex Gain/(Loss)	11.4	3.3	(1.4)	18.7	0.0	0.0	0.0
Other Income	521.5	657.3	704.8	910.0	1,219.6	1,328.6	1,553.6
EBITDA	4,496.2	5,084.1	5,864.1	6,480.7	7,173.6	7,663.1	8,347.5
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	161.2	161.2
EBIT	4,278.9	4,884.3	5,663.4	6,275.3	7,010.2	7,501.9	8,186.3
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	6,275.3	7,010.2	7,501.9	8,186.3
Tax	1,572.6	1,767.3	1,991.3	2,179.2	2,381.4	2,550.6	2,783.3
PAT Before EI	2,706.3	3,117.0	3,672.1	4,096.1	4,628.8	4,951.2	5,403.0
- Growth (%)		15.2%	17.8%	11.5%	13.0%	7.0%	9.1%
Extra-ordinary Items	670.4	1,954.4	1,837.9	1,379.4	1,282.1	0.0	0.0
PAT	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,951.2	5,403.0

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08E	CY09E	CY10E
OPM (%)	28.1%	29.1%	32.6%	34.5%	35.2%	34.9%	34.7%
EBITDA (%)	31.9%	33.5%	37.1%	40.3%	42.4%	42.2%	42.6%
PBIT (%)	30.4%	32.2%	35.8%	39.0%	41.4%	41.4%	41.8%
PAT Before EI (%)	19.2%	20.5%	23.2%	25.5%	27.3%	27.3%	27.6%
PAT (%)	24.0%	33.4%	34.8%	34.0%	34.9%	27.3%	27.6%
Interest Cover (x)	-	-	-	-	-	-	-
Adjusted EPS (Rs.)	31.0	36.8	43.4	48.4	54.6	58.5	63.8
EPS (Rs.)	38.7	59.9	65.1	64.6	69.8	58.5	63.8
Adjusted PE (x)	38.1	32.1	27.2	24.4	21.6	20.2	18.5
P/E (x)	30.5	19.7	18.1	18.3	16.9	20.2	18.5
P/BV (x)	11.2	10.5	8.3	7.2	6.3	5.5	4.9
BVPS (Rs.)	105.8	112.5	142.2	163.0	186.0	212.9	241.6
Market Cap (Rs. Mn.)	103,040.5	99,949.5	99,949.5	99,949.5	99,949.5	99,949.5	99,949.5
M Cap/Sales (x)	7.3	6.6	6.3	6.2	5.9	5.5	5.1
EV (Rs. Mn.)	102,363.6	99,522.0	99,646.6	98,457.5	98,935.2	98,816.0	99,001.8
EV/EBITDA (x)	22.8	19.6	17.0	15.2	13.8	12.9	11.9
EV/Sales (x)	7.3	6.6	6.3	6.1	5.8	5.4	5.1
ROCE (%)	46.1%	51.0%	46.8%	45.3%	44.3%	41.5%	39.9%
RONW (%)	29.3%	32.7%	30.5%	29.7%	29.4%	27.5%	26.4%
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	52.0	52.0	52.0
Debtors T/o Days	19.7	16.2	13.9	8.6	11.0	11.0	11.0
Advances T/o Days	26.1	26.6	34.1	30.3	32.0	32.0	32.0
Creditors T/o Days	57.2	61.5	57.7	56.1	58.0	58.0	58.0
Working Cap T/o Days	7.6	(18.7)	(11.4)	(16.6)	(10.6)	(10.2)	(15.9)
Fixed Assets T/o (Gross)	5.5	6.0	6.2	6.0	6.3	6.8	7.3
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%	46.2%	47.0%
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	CY08E	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	14,908.5	17,184.2	19,614.3
Shareholders Funds	9,237.5	9,531.5	12,047.5	13,808.4	15,755.5	18,031.2	20,461.3
Minority Interest							
Borrowed Funds	38.4	48.5	55.4	58.0	58.0	58.0	58.0
Deferred Tax Liability	(448.2)	(299.1)	(247.6)	(203.2)	(226.5)	(76.5)	87.2
Total Liabilities	8,827.7	9,281.0	11,855.2	13,663.1	15,587.0	18,012.7	20,606.5
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	865.8	804.6	743.4
Investments	7,492.1	9,004.4	11,359.2	13,464.7	15,214.7	17,714.7	20,714.7
Current Assets							
Inventory	2,303.9	2,223.2	2,467.9	2,112.1	2,412.5	2,584.5	2,791.3
Sundry Debtors	760.6	673.9	604.5	377.7	510.3	546.7	590.5
Other Current Assets	217.9	204.5	280.2	290.0	290.0	290.0	290.0
Loans & Advances	1,006.8	1,108.2	1,478.7	1,336.0	1,484.6	1,590.5	1,717.7
Cash & Bank Balance	715.3	476.0	358.2	1,549.9	1,072.2	1,191.5	1,005.6
Current Liabilities							
Sundry Creditors	2,210.3	2,559.3	2,500.4	2,471.0	2,690.9	2,882.8	3,113.4
Provisions	2,502.2	2,905.5	3,181.5	3,925.5	3,572.4	3,827.1	4,133.3
Net Current Assets	292.0	(779.1)	(492.6)	(730.8)	(493.6)	(506.7)	(851.6)
Miscellaneous Expenditure							
Total Assets	8,827.7	9,281.0	11,855.2	13,663.1	15,587.0	18,012.7	20,606.5

Cash Flow							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08E	CY09E	CY10E
Opening Cash & Bank	943.2	715.3	476.0	358.2	1,549.9	1,072.2	1,191.5
Profit After Tax	3,376.8	5,071.5	5,510.0	5,475.5	5,910.9	4,951.2	5,403.0
Investment Income	(521.5)	(657.3)	(704.8)	(910.0)	(1,219.6)	(1,328.6)	(1,553.6)
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	161.2	161.2
Deferred Taxation	125.5	163.4	53.3	121.2	(23.3)	150.0	163.7
Others	203.6	(70.7)	(155.3)	(82.2)	0.0	0.0	0.0
Change in Working Cap	124.5	831.8	(404.3)	1,430.0	(715.0)	132.3	159.0
CF - Operating Activities	3,483.9	5,496.3	4,457.5	6,197.7	4,116.4	4,066.2	4,333.3
Change in Fixed Assets	969.0	(113.3)	61.9	(98.5)	(100.0)	(100.0)	(100.0)
Change in Investments	(2,842.4)	(1,512.3)	(2,354.8)	(2,105.5)	(1,750.0)	(2,500.0)	(3,000.0)
Investment Income	521.5	657.3	704.8	910.0	1,219.6	1,328.6	1,553.6
CF - Investing Activities	(1,352.0)	(968.3)	(1,588.1)	(1,294.0)	(630.4)	(1,271.4)	(1,546.4)
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	0.0	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)	(3,963.8)	(2,675.5)	(2,972.8)
CF - Financing Activities	(2,359.8)	(4,767.3)	(2,987.2)	(3,711.9)	(3,963.8)	(2,675.5)	(2,972.8)
Net Change in Cash	(227.8)	(239.4)	(117.8)	1,191.8	(477.8)	119.3	(185.9)
Closing Cash & Bank Balance	715.3	476.0	358.2	1,549.9	1,072.2	1,191.5	1,005.6

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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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