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STOCK BROKING PVT. LTD.

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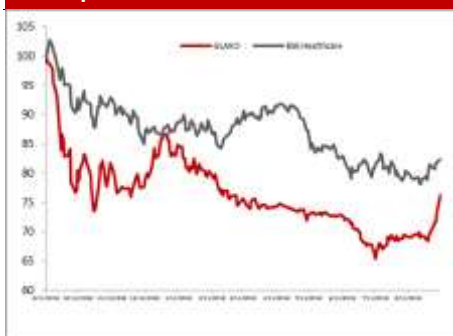
BUY

Current Price	1331
Target Price	1544
Upside/Downside	16%
52 Week Range	1812/1131

Key Share Data

Market Cap (Rs.bn)	221
Market Cap (US\$ mn)	3131
No of o/s shares (mn)	169.4
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	294
BSE Code	500660
NSE Code	GLAXO
Bloomberg	GLXO IN

Price performance



We met the management of GlaxoSmithKline Pharmaceuticals (GSK Pharma).

Better sales focus, digitization, new launches drive future growth

In FY19, GSK Pharma has restructured its business with an increased focus on the sales organization. The company has strategized to sharpen focus on key therapy areas and top 20 brands.

Key therapy focus of the company on anti infectives, dermatology, vaccines, respiratory, gastroenterology and anti-pyretic.

Top 20 products comprise 82% of FY19 sales, (earlier 70%). Key products include Augmentin, Calpol, Zinetac, Betnovate, Eltroxin, Ceftum and Synflorix, Infanrix in vaccines.

Along with sharpening key focus areas, the management increased its sales force by 1000 MRs to 3500 MRs. The revenue per MR was at Rs 8.9 mn in FY19 and is expected to increase to Rs 10.3 mn in FY20 and Rs 11.8mn in FY21. The company setup a digital network, to improve reach and services to healthcare professionals. The strategy resulted in an increase in touch points to 17 mn healthcare professionals.

The company was also facing internal constraints – supply chain issues globally, which have been ironed out in 2018, with normal supplies in 2019.

Financial Outlook

We expect revenues to grow at 15% CAGR to Rs 41 bn by FY21. In view of improved product mix, we expect EBITDA margins to increase from 19.2% in FY19 to 21.4% in FY20 and 23% in FY21. We estimate EBITDA to grow at 27% CAGR to Rs 9.6 bn by FY21. In view of the increase in depreciation due to commercialization of the Vemgal plant, we expect PBT to grow at 20% CAGR to Rs 9.4 bn by FY21. We expect PAT to increase at 20% CAGR to Rs 6 bn by FY21.

Outlook & Valuation

We believe GSK Pharma will benefit from the new strategy to widen reach. The better monsoon in FY20 will enable growth in anti infectives, gastroenterology and respiratory therapies. We expect margin improvement over 2-3 years, from widened reach to healthcare professionals and an improved manufacturing mix through the modernization of Nashik and the commercialization of its Vemgal plant. We believe investment in GSK Pharma will yield fruit with better returns over the next 2-3 years.

% Shareholding

	Jun-19	Mar-19
Promoters	75.0	75.0
FII	1.35	1.45
DII	11.13	11.08
Others	12.52	12.47
Total	100	100

We have valued the company using weighted average of DCF, 40x P/E and 25x EV/EBITDA and arrived at a target price of Rs 1544.

At CMP, GSK Pharma trades at 37x FY21E EPS of Rs 35.9.

We recommend investors to BUY with a target price of Rs 1544.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT excl EI	% Growth	Adj. PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17	29,999.9	5.7	4,189.9	14.0	2,910.9	(10.5)	3,368.2	(10.5)	39.8	33.5	16.8	19.5
FY18	28,956.5	(3.5)	5,058.1	17.5	3,331.1	14%	3,509.1	4.2	41.4	32.1	17.1	22.7
FY19	31,281.2	8.0	6,007.9	19.2	4,167.0	25%	4,215.9	20.1	24.9	53.5	19.7	25.8
FY20E	35,973.4	15.0	8,229.6	22.9	5,191.7	25%	5,191.7	23.1	30.6	43.4	22.4	32.1
FY21E	41,369.4	15.0	10,135.5	24.5	6,034.4	16%	6,034.4	16.2	35.6	37.4	24.1	34.8



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Modernization at Nashik, expected commercialization at Vemgal

1. During FY19, GSK Pharma has commissioned a new high containment facility at Nashik for the manufacture of its thyroid hormone, Eltroxin. This facility has a manufacturing and packaging capacity of 3.6 billion tablets. Eltroxin is amongst the top 10 products with annual sales of around Rs 2 bn in India.
2. The company expects to commercialize its plant at Vemgal in Karnataka by Q3FY20.
3. Currently imports of finished products comprise 21% of sales, the balance comprising manufacturing in-house (40%) and CMOs (39%). The modernization at Nashik and commercialization of Vemgal will increase in-house manufacturing, thus improving profitability.
4. GSK Pharma received approval for the sale of its land at Thane, for a consideration of Rs 8.80 bn. After excluding expenses of Rs 3.36 bn on the deal, the company has earned a profit on sale of Rs 5.52 bn. The improved cash flow will enable the Vemgal commercialization.

New patented specialty launches in FY19:

1. In vaccines, INFANRIX HEXA launched in April'18 has crossed Rs 1 bn (Market size Rs 2.75 bn) in Year 1.
2. NUCALA: In March 2019, GSK Pharma launched **NUCALA, which is a humanized monoclonal antibody indicated as an add-on treatment for severe refractory eosinophilic asthma. Nucala had annual sales of £ 347 mn in H1CY2019.** India has 30 mn patients with respiratory issues.
3. The company has plans to launch more patented products going forward and expects patented products to contribute 8-10% of sales over the next 5 years.



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GLAXOSMITHKLINE PHARMACEUTICALS FINANCIALS

P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Income from Operatio	29,999.9	28,956.5	31,281.2	35,973.4	41,369.4	Net Profit	3,368.2	3,509.1	4,215.9	5,191.7	6,034.4
Raw materials	(13,977.5)	(12,413.1)	(13,580.3)	(14,929.0)	(16,961.4)	Add: Dep. & Amort.	263.5	379.9	485.9	774.3	1,421.3
Employee costs	(4,830.1)	(5,234.0)	(5,372.0)	(6,177.8)	(7,104.5)	Cash profits	3,631.7	3,889.0	4,701.8	5,965.9	7,455.6
Other Expenses	(7,002.4)	(6,251.3)	(6,321.0)	(6,637.1)	(7,168.0)	(Inc)/Dec in					
Cost of sales	(25,810.0)	(23,898.4)	(25,273.3)	(27,743.8)	(31,233.9)	-Sundry debtors	(442.4)	238.4	264.7	(569.1)	(266.1)
Operating Profit	4,189.9	5,058.1	6,007.9	8,229.6	10,135.5	-Inventories	1,000.7	(743.8)	136.9	(1,048.5)	(887.0)
Depreciation	(263.5)	(379.9)	(485.9)	(774.3)	(1,421.3)	-Loans/advances	(455.6)	418.3	(286.9)	(101.8)	(112.0)
PBIT	3,926.4	4,678.2	5,522.0	7,455.3	8,714.2	-Sundry creditors	(488.1)	2,269.3	(1,000.5)	645.5	640.4
Other income	10.7	545.4	1,023.2	656.7	714.5	-Others	1,703.1	5,632.4	237.8	(3,747.6)	1,196.8
Interest Income	717.5	-	(5.5)	-	-	Change in working capital	1,317.7	7,814.6	(648.0)	(4,821.5)	572.1
						CF from Oper. activities	4,949.4	11,703.6	4,053.8	1,144.5	8,027.7
Profit before tax	4,654.6	5,223.6	6,539.7	8,112.0	9,428.7	CF from Inv. activities	(4,841.4)	(2,370.6)	(2,286.2)	(13.8)	(2,009.0)
Provision for tax	(1,743.7)	(1,892.5)	(2,372.7)	(2,920.3)	(3,394.3)	CF from Fin. activities	(5,030.9)	(4,638.2)	(3,089.1)	(3,632.0)	(4,494.9)
Reported PAT	2,910.9	3,331.1	4,167.0	5,191.7	6,034.4	Cash generated/(utilised)	(4,922.9)	4,694.8	(1,321.5)	(2,501.4)	1,523.9
Extraordinary Items	457.3	178.0	48.9	-	-	Cash at start of the year	13,919.0	8,996.1	12,964.1	11,714.0	9,212.7
Adjusted PAT	3,368.2	3,509.1	4,215.9	5,191.7	6,034.4	Cash at end of the year	8,996.1	12,964.1	11,714.0	9,212.7	10,736.6
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	847.0	847.0	1,694.1	1,694.1	1,694.1	OPM	14.0	17.5	19.2	22.9	24.5
Reserves	19,221.5	19,726.3	19,704.2	21,507.7	23,307.0	NPM	11.2	11.9	13.1	14.2	14.3
Net worth	20,068.5	20,573.3	21,398.3	23,201.8	25,001.0	Tax rate	(37.5)	(36.2)	(36.3)	(36.0)	(36.0)
Secured loans	-	-	-	-	-	Growth Ratios (%)					
Unsecured loans	9.9	5.8	1.8	1.8	1.8	Net Sales	5.7	(3.5)	8.0	15.0	15.0
Total debt	9.9	5.8	1.8	1.8	1.8	Operating Profit	(12.4)	20.7	18.8	37.0	23.2
Other non curr liab	35.0	22.6	22.1	22.1	22.1	PAT	(10.5)	4.2	20.1	23.1	16.2
CAPITAL EMPLOYED	20,113.4	20,601.7	21,422.2	23,225.7	25,024.9	Per Share (Rs.)					
Gross block	2,990.9	3,293.2	4,798.7	12,798.7	14,798.7	Net Earnings (EPS)	39.8	41.4	24.9	30.6	35.6
Accumulated deprecia	(463.8)	(791.9)	(1,154.2)	(1,928.4)	(3,349.7)	Cash Earnings (CPS)	42.9	45.9	27.8	35.2	44.0
Net block	2,527.1	2,501.3	3,644.5	10,870.2	11,449.0	Dividend	50.0	50.0	50.0	50.0	55.0
Capital WIP	5,732.2	9,229.0	10,026.4	2,000.0	2,000.0	Book Value	236.9	242.9	126.3	137.0	147.6
Total fixed assets	8,259.3	11,730.3	13,670.9	12,870.2	13,449.0	Free Cash Flow	1.3	110.2	10.4	6.7	35.5
Intangible assets	322.5	726.8	655.4	655.4	655.4	Valuation Ratios					
Investments	54.0	18.4	16.4	16.4	16.4	P/E(x)	33.5	32.1	53.5	43.4	37.4
Inventories	4,258.0	5,001.8	4,864.9	5,913.4	6,800.4	P/B(x)	5.6	5.5	10.5	9.7	9.0
Sundry debtors	1,708.0	1,469.6	1,204.9	1,774.0	2,040.1	EV/EBIDTA(x)	24.8	19.7	35.6	26.3	21.2
Cash & bank	8,996.1	12,964.1	11,714.0	9,212.7	10,736.6	EV/SALES(x)	3.5	3.4	6.8	6.0	5.2
Loans & advances	1,149.4	731.1	1,018.0	1,119.8	1,231.8	Div. Yield(%)	3.8	3.8	3.8	3.8	4.1
Other current assets	751.5	1,797.9	1,378.4	1,447.3	1,519.7	FCF Yield(%)	0.1	8.3	0.8	0.5	2.7
Sundry creditors	(2,789.3)	(5,058.6)	(4,058.1)	(4,703.6)	(5,344.0)	Return Ratios (%)					
Acceptances	(3,925.9)	(9,964.3)	(9,561.4)	(5,475.6)	(6,297.0)	ROE	16.8	17.1	19.7	22.4	24.1
Provisions	(3,209.8)	(3,850.2)	(4,071.4)	(4,478.5)	(4,926.4)	ROCE	19.5	22.7	25.8	32.1	34.8
Working capital	6,938.0	3,091.4	2,489.3	4,809.4	5,761.2						
Deferred Tax Assets	2,440.9	4,058.3	3,752.0	3,995.9	4,255.6						
Other non current ass	2,098.7	976.5	838.1	878.3	887.3						
CAPITAL DEPLOYED	20,113.4	20,601.7	21,422.2	23,225.7	25,024.9						



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