



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

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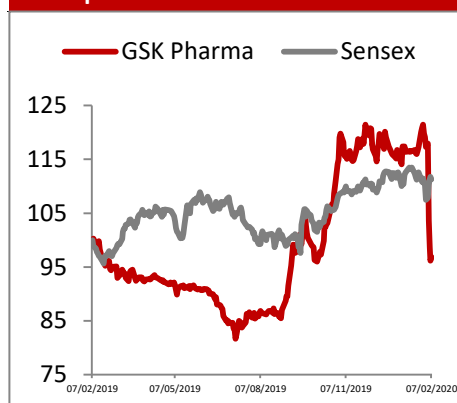
HOLD

Current Price	1353
Target Price	Under Review
Upside/Downside	
52 Week Range	1745/1131

Key Share Data

Market Cap (Rs.bn)	220.44
Market Cap (US\$ mn)	3090.86
No of o/s shares (mn)	169
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	67
BSE Code	500660
NSE Code	GLAXO
Bloomberg	GLXO IN

Price performance



GlaxoSmithKline Pharmaceuticals (GSK PHARMA) Q3FY20 results were far below estimates. The revenues were impacted due to the voluntary recall of ranitidine (ZINETAC) and exceptional impairment charges towards the Vemgal plant. Its parent GlaxoSmithKline Inc., which has reduced manufacturing by 25% over the last 3 years and has devised its strategy of a split into pharmaceuticals and consumer health, triggered the impairment.

ZINETAC (Ranitidine) recall impacts revenues and profits

Q3FY20 revenues fell 6% to Rs 7786 mn, underlying growth 6% implying ZINETAC revenues of Rs 963 mn.

Key brands (top 20 – 63% of sales) grew 12%, of which prescription products (65% of key brands) increased 8% whereas vaccines (35% of key brands) grew 20%.

Gross profit increased 2% yoy to Rs 4508 mn, with improvement in gross margins 58% (+430 bps yoy/flat qoq), due to a better pricing environment.

Employee costs increased 33% to Rs 1667 mn, due to wage inflation and incentives. With 11% lower other expenses in view of cost controls, EBITDA for the quarter was 9% lower at Rs 1244 mn.

EBITDA margins at 16% (- 60 bps yoy/-600 bps qoq). PBT excluding exceptional decreased 14% yoy to Rs 1225 mn in view of higher depreciation.

Impairment of Vemgal plant

The company has taken an impairment of Rs 7.37 bn (6.4bn towards its Vemgal facility for manufacturing ZINETAC and Rs 0.97 bn towards other assets). The plant has a carrying value of Rs 4.6 bn. The management has announced its intention to sell the plant in the near future.

Outlook & Valuation

The Vemgal impairment was an unexpected move by GSK Pharma. However, the Vemgal plant sale/ alternate utilisation are an important factor going forward.

We are cautious of the developments at GSK Pharma and would like to observe the company's performance over the next few quarters.

We roll forward our estimates to FY22. At CMP Rs. 1353, GSK PHARMA trades at a P/E multiple of 33x FY22E and EV/EBITDA of 23x FY22E.

We have lowered our rating from BUY to HOLD in view of the impairment and proposed sale of the Vemgal facility and the lower than industry growth of its balance (ex. key brands) product portfolio.

% Shareholding

	Dec-19	Sept-19
Promoters	75.0	75.0
FII	0.51	1.35
DII	11.02	11.17
Others	13.47	12.48
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT excl EI	% Growth	Adj. PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY18	28,956.5	(3.5)	5,058.1	17.5	3,331.1	#REF!	3,509.1	4.2	41.4	31.9	17.1	22.7
FY19	31,281.2	8.0	6,007.9	19.2	4,167.0	25.1	4,215.9	20.1	24.9	53.2	19.7	25.8
FY20E	32,532.4	4.0	6,136.2	18.9	4,458.2	7.0	930.6	(77.9)	5.5	240.9	4.9	28.3
FY21E	36,436.3	12.0	7,575.2	20.8	5,757.1	29.1	5,757.1	518.7	34.0	38.9	28.1	34.5
FY22E	40,808.7	12.0	9,093.9	22.3	6,847.4	18.9	6,847.4	18.9	40.4	32.7	29.7	36.7



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1. For 9MFY20 adjusted sales growth was at 13%, 7% volume growth and 6% by price.
 - a. Key brands (top 20 ~ 55% of sales) grew 21% to Rs 14790 mn, implying a 6% growth in the balance portfolio.
 - b. Key prescription products (65% of key brands) Rs 9630 mn + 18%.
 - c. Vaccines (35% of key brands) Rs 5160 mn +26%.
 - d. Key brands like Augmentin (+21%), Calpol (+20%), Betnovate are growing better than industry.
 - e. The company's new launches of patented products NUCALA and Menveo vaccine are growing well.
2. The focus on key therapies of anti infectives, dermatology and vaccines continues.
3. Due to the global recall of Ranitidine, there has been a 28% decline in prescriptions for Ranitidine in India.
4. The company has taken impairment for ZINETAC for Rs 6400 mn and Rs 970 mn from other assets, in view of the carrying value of the plant at Rs 4600 mn.
5. The company has invested in a digital platform for widening its reach across India and its distribution network.
6. GSK Pharma's Nashik facility has been modernized and has capacities for the next 5 years.
7. The company aims at improving operational efficiencies.
8. The company expects 1% EBITDA margin improvement every year, going forward.
9. GSK Pharma plans to launch its vaccine for Shingles (SHRINGIX) in the Indian market, and plans to bring in more innovative products from GSK Global's pipeline. Time to India market for innovator drugs has improved from 7-8 years to around 2-3 years.

Excerpts from GlaxoSmithKline Inc., CY2019 earnings call:

- GSK Inc. has worked out a two-year plan to split the company into two namely New GSK (Pharma and Vaccines) and New Consumer Healthcare.
- In Pharma and vaccines, GSK Inc., plans to build R & D capabilities and increase capital allocation across R & D.
- GSK Inc. has worked towards improving efficiencies and support across the group. In support, the parent has been working towards a leaner organization. **GSK Pharma India** has worked on a leaner sales focus organization in FY19, with expenses of Rs 200 mn as an exceptional item.
- GSK Inc., has been reviewing the divestment of non-core assets for the dermatology business. As per the company, the said review excludes India and Pakistan.



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Particulars	Q3FY20	Q2FY20	Q1FY20	Q3FY19	% YOY	% QOQ	9MFY20	9MFY19	% change
Net Sales	7785.9	8821.0	7880.2	8253.5	-6%	-12%	24487.1	23773.0	3%
Other Operating income	0.0	0.0	0.0	0.0			0.0	0.0	
Total income	7785.9	8821.0	7880.2	8253.5	-6%	-12%	24487.1	23773.0	3%
Raw Material Consumed	(3278)	(3699)	(3308)	(3826)			-10284	-10484	
Employee Expenses	(1667)	(1475)	(1482)	(1256)			-4624	-3911	
Other Expenses	(1598)	(1705)	(1489)	(1799)			-4792	-4950	
Total Exp	(6542)	(6879)	(6279)	(6880)	-5%	-5%	(19700.0)	(19344.6)	2%
PBDIT	1243.9	1942.4	1600.8	1373.2	-9%	-36%	4787.1	4428.4	8%
OPM (%)	16.0%	22.0%	20.3%	16.6%			19.5%	18.6%	
Other Income	165.0	156.1	305.4	164.2			626.5	490.2	
Depreciation	(183.3)	(227.0)	(190.6)	(120.4)			-600.9	(349.1)	115%
Profit before tax	1225.6	1871.5	1715.6	1417.0	-14%	-35%	4812.7	4569.5	32%
Tax - normal	(85.6)	(455.9)	(625.7)	(568.1)			-1167.2	(1622.2)	-10%
Adjusted PAT	1140.0	1415.6	1089.9	848.9	34%	-19%	3645.5	2947.3	55%
Exceptional Items*	(7539.0)	4011.4	0.0	281.3			-3527.6	80.6	
Tax on exceptional	(182.8)	(389.9)							
PAT incl. exceptional	(6581.8)	5037.1	1089.9	1130.2	-682%	-231%	117.9	3027.9	-95%
NPM (%)	14.6%	16.0%	13.8%	10.3%			0.5%	12.7%	
Number of shares	169.41	169.41	169.40	169.40			169.41	169.40	
EPS (Rs)	-38.85	29.73	6.43	6.67			0.70	17.87	
Adj EPS (Rs)	6.73	8.36	6.43	5.01			21.52	17.40	



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GLAXOSMITHKLINE PHARMACEUTICALS FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Income from Operatio	28,956.5	31,281.2	32,532.4	36,436.3	40,808.7	Net Profit	3,509.1	4,215.9	930.6	5,757.1	6,847.4
Raw materials	(12,413.1)	(13,580.3)	(13,663.6)	(15,303.3)	(17,139.7)	Add: Dep. & Amort.	379.9	485.9	768.3	509.9	615.9
Employee costs	(5,234.0)	(5,372.0)	(6,285.2)	(6,788.1)	(7,466.9)	Cash profits	3,889.0	4,701.8	1,698.9	6,267.0	7,463.3
Other Expenses	(6,251.3)	(6,321.0)	(6,447.4)	(6,769.8)	(7,108.3)	(Inc)/Dec in					
Cost of sales	(23,898.4)	(25,273.3)	(26,396.3)	(28,861.1)	(31,714.8)	-Sundry debtors	238.4	264.7	(399.4)	(192.5)	(215.6)
Operating Profit	5,058.1	6,007.9	6,136.2	7,575.2	9,093.9	-Inventories	(743.8)	136.9	(37.2)	(588.3)	(658.8)
Depreciation	(379.9)	(485.9)	(768.3)	(509.9)	(615.9)	-Loans/advances	418.3	(286.9)	(101.8)	(112.0)	(123.2)
PBIT	4,678.2	5,522.0	5,367.9	7,065.3	8,478.0	-Sundry creditors	2,269.3	(1,000.5)	246.9	516.6	578.6
Other income	545.4	1,023.2	656.7	714.5	775.3	-Others	5,632.4	237.8	(3,747.6)	1,196.8	1,361.2
Interest Income	-	(5.5)	-	-	-	Change in working capital	7,814.6	(648.0)	(4,039.2)	820.7	942.1
						CF from Oper. activities	11,703.6	4,053.8	(2,340.3)	7,087.7	8,405.5
Profit before tax	5,223.6	6,539.7	6,024.5	7,779.8	9,253.3	CF from Inv. activities	(2,370.6)	(2,286.2)	6,498.8	(2,009.0)	443.0
Provision for tax	(1,892.5)	(2,372.7)	(1,566.4)	(2,022.8)	(2,405.9)	CF from Fin. activities	(4,638.2)	(3,089.1)	(3,632.0)	(4,494.9)	(4,511.8)
Reported PAT	3,331.1	4,167.0	4,458.2	5,757.1	6,847.4	Cash generated/(utilised)	4,694.8	(1,321.5)	526.4	583.8	4,336.7
Extraordinary Items	178.0	48.9	(3,527.6)	-	-	Cash at start of the year	8,996.1	12,964.1	11,714.0	12,240.5	12,824.3
Adjusted PAT	3,509.1	4,215.9	930.6	5,757.1	6,847.4	Cash at end of the year	12,964.1	11,714.0	12,240.5	12,824.3	17,161.0
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Equity capital	847.0	1,694.1	1,694.1	1,694.1	1,694.1	OPM	17.5	19.2	18.9	20.8	22.3
Reserves	19,726.3	19,704.2	17,246.6	18,768.6	21,380.8	NPM	11.9	13.1	2.8	15.5	16.5
Net worth	20,573.3	21,398.3	18,940.7	20,462.6	23,074.9	Tax rate	(36.2)	(36.3)	(26.0)	(26.0)	(26.0)
Secured loans	-	-	-	-	-	Growth Ratios (%)					
Unsecured loans	5.8	1.8	1.8	1.8	1.8	Net Sales	(3.5)	8.0	4.0	12.0	12.0
Total debt	5.8	1.8	1.8	1.8	1.8	Operating Profit	20.7	18.8	2.1	23.5	20.0
Other non curr liab	22.6	22.1	22.1	22.1	22.1	PAT	4.2	20.1	(77.9)	518.7	18.9
CAPITAL EMPLOYED	20,601.7	21,422.2	18,964.6	20,486.5	23,098.8	Per Share (Rs.)					
Gross block	3,293.2	4,798.7	5,798.7	7,798.7	9,798.7	Net Earnings (EPS)	41.4	24.9	5.5	34.0	40.4
Accumulated deprecia	(791.9)	(1,154.2)	(1,922.5)	(2,432.4)	(3,048.3)	Cash Earnings (CPS)	45.9	27.8	10.0	37.0	44.1
Net block	2,501.3	3,644.5	3,876.2	5,366.3	6,750.4	Dividend	50.0	50.0	50.0	50.0	50.0
Capital WIP	9,229.0	10,026.4	2,487.4	2,487.4	-	Book Value	242.9	126.3	111.8	120.8	136.2
Total fixed assets	11,730.3	13,670.9	6,363.6	7,853.7	6,750.4	Free Cash Flow	110.2	10.4	24.5	30.0	52.2
Intangible assets	726.8	655.4	655.4	655.4	655.4	Valuation Ratios					
Investments	18.4	16.4	16.4	16.4	16.4	P/E(x)	31.9	53.2	240.9	38.9	32.7
Inventories	5,001.8	4,864.9	4,902.1	5,490.4	6,149.3	P/B(x)	5.4	10.5	11.8	11.0	9.7
Sundry debtors	1,469.6	1,204.9	1,604.3	1,796.9	2,012.5	EV/EBIDTA(x)	19.6	35.4	34.5	27.9	22.8
Cash & bank	12,964.1	11,714.0	12,240.5	12,824.3	17,161.0	EV/SALES(x)	3.4	6.8	6.5	5.8	5.1
Loans & advances	731.1	1,018.0	1,119.8	1,231.8	1,355.0	Div. Yield(%)	3.8	3.8	3.8	3.8	3.8
Other current assets	1,797.9	1,378.4	1,447.3	1,519.7	1,595.7	FCF Yield(%)	8.3	0.8	1.9	2.3	3.9
Sundry creditors	(5,058.6)	(4,058.1)	(4,305.0)	(4,821.6)	(5,400.2)	Return Ratios (%)					
Acceptances	(9,964.3)	(9,561.4)	(5,475.6)	(6,297.0)	(7,241.5)	ROE	17.1	19.7	4.9	28.1	29.7
Provisions	(3,850.2)	(4,071.4)	(4,478.5)	(4,926.4)	(5,419.0)	ROCE	22.7	25.8	28.3	34.5	36.7
Working capital	3,091.4	2,489.3	7,055.0	6,818.1	10,212.7						
Deferred Tax Assets	4,058.3	3,752.0	3,995.9	4,255.6	4,532.2						
Other non current ass	976.5	838.1	878.3	887.3	931.7						
CAPITAL DEPLOYED	20,601.7	21,422.2	18,964.6	20,486.5	23,098.8						



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT, Media, Telecom
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141435	Mid-Caps
Mr. Avinash Tanawade	Avinash.tanawade@dalal-broacha.com	022 67141449	Banking & Financial Services
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141432	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021 Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092 E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com