



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst : Charulata Gaidhani (022) 67141446

Event Update @ Dalal & Broacha

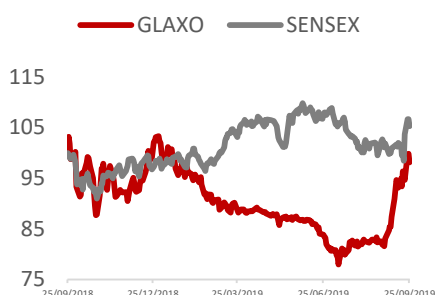
BUY

Current Price	1415
Target Price	1642
Upside/Downside	16%
52 Week Range	1545/1131

Key Share Data

Market Cap (Rs.bn)	239.72
Market Cap (US\$ mn)	3380
No of o/s shares (mn)	169.4
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	90
BSE Code	500660
NSE Code	GLAXO
Bloomberg	GLXO IN

Price performance



The recall of Ranitidine formulations has raised flags globally. GlaxoSmithKline Pharmaceuticals (GSK Pharma) recalled ZINETAC in India.

KTAs of our concall with the management

The company has voluntarily recalled ZINETAC (Ranitidine) from the Indian market, as a precautionary measure to alerts from regulatory bodies in the EU and USA.

1. The regulatory bodies suspected Ranitidine formulations contained N-Nitrosodimethylene (NDMA), a human carcinogen.
2. ZINETAC revenues comprise 6-7% to sales (Rs 200 crs, growing at 8-10%).
3. GSK manufactures Ranitidine Hydrochloride IP Tablets 150 mg and 300 mg (Zinetac) using API from Saraca Laboratories Limited and another supplier, SMS Lifesciences India Ltd, for supply to Indian market.
4. The company has sent samples from both the suppliers for testing, results for which are expected in 1 week or two.
5. Post the testing result, GSK Pharma expects remediation in 2-3 months with a relaunch thereafter.
6. The company does not expect any impact on profitability due to the recall.
7. GSK Pharma expects growth in view of its new strategy of focus on top 20 brands, widening reach through a digitized network and 1000 more MRs.
8. The company's plans to commercialize its Vemgal plant are on track.

Financial Outlook

We have marginally revised our estimates downwards (Sales/EBITDA (-2%/-4%) in view of the ZINETAC recall by GSK Pharma. The company however, stands to benefit from the reduction in corporate tax rates from FY20. Hence there is an upward revision in PAT.

We expect revenues to grow at 14% 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 20.8% in FY20 and 22.6% in FY21. We estimate EBITDA to grow at 24% CAGR to Rs 9.2 bn by FY21. In view of the increase in depreciation due to commercialization of the Vemgal plant, we expect PBT to grow at 17% CAGR to Rs 9 bn by FY21. In view of the lower tax rate now on, we expect PAT to increase at 26% CAGR to Rs 6.7 bn by FY21.

Outlook & Valuation

We believe the recall of ZINETAC from the Indian market has been a temporary setback for GSK Pharma. However, the other growth drivers of the company namely, focus on top 20 brands, therapies and a wider reach remain intact. 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. The stock has corrected on news of the recall. We believe investors can benefit from the correction in the stock price. At CMP, GSK Pharma trades at 36x FY21E EPS of Rs 39.3.

We recommend investors to BUY with a target price of Rs 1642.

% 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

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	35.6	16.8	19.5
FY18	28,956.5	(3.5)	5,058.1	17.5	3,331.1	14.4	3,509.1	4.2	41.4	34.2	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	56.9	19.7	25.8
FY20E	35,347.8	13.0	7,863.6	22.2	5,732.0	37.6	5,732.0	36.0	33.8	41.8	24.1	29.8
FY21E	40,649.9	15.0	9,711.0	23.9	6,663.1	16.2	6,663.1	16.2	39.3	36.0	25.5	31.6



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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	35,347.8	40,649.9	Net Profit	3,368.2	3,509.1	4,215.9	5,732.0	6,663.1
						Add: Dep. & Amort.	263.5	379.9	485.9	774.3	1,421.3
Raw materials	(13,977.5)	(12,413.1)	(13,580.3)	(14,669.3)	(16,666.5)	Cash profits	3,631.7	3,889.0	4,701.8	6,506.3	8,084.4
Employee costs	(4,830.1)	(5,234.0)	(5,372.0)	(6,177.8)	(7,104.5)	(Inc)/Dec in					
Other Expenses	(7,002.4)	(6,251.3)	(6,321.0)	(6,637.1)	(7,168.0)	-Sundry debtors	(442.4)	238.4	264.7	(538.3)	(261.5)
Cost of sales	(25,810.0)	(23,898.4)	(25,273.3)	(27,484.2)	(30,939.0)	-Inventories	1,000.7	(743.8)	136.9	(945.7)	(871.6)
Operating Profit	4,189.9	5,058.1	6,007.9	7,863.6	9,711.0	-Loans/advances	(455.6)	418.3	(286.9)	(101.8)	(112.0)
Depreciation	(263.5)	(379.9)	(485.9)	(774.3)	(1,421.3)	-Sundry creditors	(488.1)	2,269.3	(1,000.5)	563.7	629.2
PBIT	3,926.4	4,678.2	5,522.0	7,089.3	8,289.7	-Others	1,703.1	5,632.4	237.8	(3,747.6)	1,196.8
Other income	10.7	545.4	1,023.2	656.7	714.5	Change in working capital	1,317.7	7,814.6	(648.0)	(4,769.6)	581.0
Interest Income	717.5	-	(5.5)	-	-	CF from Oper. activities	4,949.4	11,703.6	4,053.8	1,736.7	8,665.4
Profit before tax	4,654.6	5,223.6	6,539.7	7,746.0	9,004.2	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)	(2,014.0)	(2,341.1)	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	5,732.0	6,663.1	Cash generated/(utilised)	(4,922.9)	4,694.8	(1,321.5)	(1,909.1)	2,161.6
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	9,804.9
Adjusted PAT	3,368.2	3,509.1	4,215.9	5,732.0	6,663.1	Cash at end of the year	8,996.1	12,964.1	11,714.0	9,804.9	11,966.5
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	22.2	23.9
Reserves	19,221.5	19,726.3	19,704.2	22,048.1	24,476.1	NPM	11.2	11.9	13.1	15.9	16.1
Net worth	20,068.5	20,573.3	21,398.3	23,742.2	26,170.1	Tax rate	(37.5)	(36.2)	(36.3)	(26.0)	(26.0)
Secured loans	-	-	-	-	-	Growth Ratios (%)					
Unsecured loans	9.9	5.8	1.8	1.8	1.8	Net Sales	5.7	(3.5)	8.0	13.0	15.0
Total debt	9.9	5.8	1.8	1.8	1.8	Operating Profit	(12.4)	20.7	18.8	30.9	23.5
Other non curr liab	35.0	22.6	22.1	22.1	22.1	PAT	(10.5)	4.2	20.1	36.0	16.2
CAPITAL EMPLOYED	20,113.4	20,601.7	21,422.2	23,766.1	26,194.0	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	33.8	39.3
Accumulated deprecia	(463.8)	(791.9)	(1,154.2)	(1,928.4)	(3,349.7)	Cash Earnings (CPS)	42.9	45.9	27.8	38.4	47.7
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	140.1	154.5
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	10.2	39.3
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)	35.6	34.2	56.9	41.8	36.0
Inventories	4,258.0	5,001.8	4,864.9	5,810.6	6,682.2	P/B(x)	6.0	5.8	11.2	10.1	9.2
Sundry debtors	1,708.0	1,469.6	1,204.9	1,743.2	2,004.7	EV/EBIDTA(x)	26.5	21.1	38.0	29.2	23.5
Cash & bank	8,996.1	12,964.1	11,714.0	9,804.9	11,966.5	EV/SALES(x)	3.7	3.7	7.3	6.5	5.6
Loans & advances	1,149.4	731.1	1,018.0	1,119.8	1,231.8	Div. Yield(%)	3.5	3.5	3.5	3.5	3.9
Other current assets	751.5	1,797.9	1,378.4	1,447.3	1,519.7	FCF Yield(%)	0.1	7.8	0.7	0.7	2.8
Sundry creditors	(2,789.3)	(5,058.6)	(4,058.1)	(4,621.8)	(5,251.1)	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	24.1	25.5
Provisions	(3,209.8)	(3,850.2)	(4,071.4)	(4,478.5)	(4,926.4)	ROCE	19.5	22.7	25.8	29.8	31.6
Working capital	6,938.0	3,091.4	2,489.3	5,349.8	6,930.4						
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	23,766.1	26,194.0						



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