



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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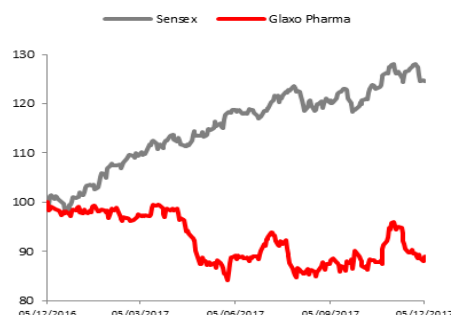
## BUY

Current Price	2450
<b>Target Price</b>	<b>3030</b>
Upside/Downside	23%
52 Week Range	2795/2309

## Key Share Data

Market Cap (Rs.bn)	209.0
Market Cap (US\$ mn)	3266.2
No of o/s shares (mn)	10.0
Face Value	84.7
Monthly Avg.vol (BSE+NSE) Nos'000	2174.0
BSE Code	500660.0
NSE Code	GLAXO
Bloomberg	GLXO IN Equity

## Price performance



% Shareholding	Sep-17	Jun-17
Promoters	75	75
FII	1.78	1.81
DII	10.55	10.38
Others	12.67	12.81
<b>Total</b>	<b>100</b>	<b>100</b>

## Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT excl EI	% Growth	Adj. PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15 (15M)	33,045.2	30.2	6,389.2	19.3	5,342.4	-5%	4,823.6	70.5	56.9	43.3	26.4	33.5
FY16	28,379.2	(14.1)	4,782.8	16.9	3,738.4	-30%	3,761.5	(22.0)	44.4	55.6	17.2	20.7
FY17	29,999.9	5.7	4,189.9	14.0	2,910.9	-22%	3,368.2	(10.5)	39.8	62.1	16.8	19.5
FY18E	34,367.9	14.6	6,487.3	18.9	4,142.3	42%	8,582.3	154.8	101.3	24.4	36.2	25.9
FY19E	39,522.9	15.0	8,354.4	21.1	5,444.1	31%	5,444.1	(36.6)	64.3	38.4	22.5	31.9

We met the management of GlaxoSmithKline Pharmaceuticals Ltd (GSK Pharma). The robust profitability improvement in Q2FY18 is likely to continue with operational efficiencies, better volumes through widening reach and new launches in pharmaceuticals and vaccines.

## Key takeaways

- GSK Pharma continues to lead the market in its top brands.
- With the implementation of GST and a wider reach, GSK Pharma Q2FY18 revenues grew 5%, with 12% volume growth. While pharmaceuticals grew 12%, vaccines grew 15% during the quarter. The company achieved EBITDA margins of 23%, the highest in the last 15 quarters.
- The company plans to improve profitability through operational efficiencies, better volumes and new product launches in pharmaceuticals as well as vaccines.
- GSK Pharma plans to launch new respiratory products, which are the forte of its parent.
- The company also plans to launch new vaccines, like its measles vaccine launched in July'16.
- GSK Pharma also plans to launch first to market products in India.
- GSK Pharma has sold its land at Thane to Oberoi developers for a consideration of Rs 555 crs.
- The company's plans for a manufacturing facility at Vemgal, Karnataka with a capex of Rs 10 bn are on track. GSK Pharma expects construction to be completed by Q4FY18, with commercialization by Q4FY19.

## Outlook & Valuation

We are positive on the developments at GSK Pharma. We expect the company to deliver double digit volume growth over next 3-5 years riding on new product launches, in licensing opportunities as well as increasing per capita income. The recovery in performance through better profitability will help arrest the decline in earnings over the last three years.

At Rs 2450, GSK Pharma trades at 38x FY19E of Rs 64.3. We have valued GSK Pharma as a weighted average of DCF and P/E multiple of 40x FY19E, it being the largest pharmaceutical multinational in India that brings in new products to the Indian market. We recommend investors to BUY GSK Pharma with a target price of Rs 3030, indicating an upside of 24%.



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## GLAXOSMITHKLINE PHARMACEUTICALS FINANCIALS

P&L (Rs mn)	FY15 (15M)	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY15 (15M)	FY16	FY17	FY18E	FY19E
Income from Operatio	33,045.2	28,379.2	29,999.9	34,367.9	39,522.9	Net Profit	4,823.6	3,761.5	3,368.2	8,582.3	5,444.1
						Add: Dep. & Amort.	253.5	249.5	263.5	349.1	630.1
Raw materials	(15,104.5)	(12,330.9)	(13,977.5)	(15,118.4)	(17,227.2)	<b>Cash profits</b>	<b>5,077.1</b>	<b>4,011.0</b>	<b>3,631.7</b>	<b>8,931.4</b>	<b>6,074.2</b>
Employee costs	(4,930.2)	(4,433.7)	(4,830.1)	(5,409.7)	(6,221.2)	(Inc)/Dec in					
Other Expenses	(6,621.3)	(6,831.8)	(7,002.4)	(7,352.5)	(7,720.1)	-Sundry debtors	(39.2)	(262.4)	(442.4)	1.2	(259.9)
<b>Cost of sales</b>	<b>(26,656.0)</b>	<b>(23,596.4)</b>	<b>(25,810.0)</b>	<b>(27,880.6)</b>	<b>(31,168.5)</b>	-Inventories	(286.1)	(1,502.9)	1,000.7	(1,204.6)	(831.9)
<b>Operating Profit</b>	<b>6,389.2</b>	<b>4,782.8</b>	<b>4,189.9</b>	<b>6,487.3</b>	<b>8,354.4</b>	-Loans/advances	(1,046.6)	3,459.6	(130.4)	(82.4)	(90.7)
Depreciation	(253.5)	(249.5)	(263.5)	(349.1)	(630.1)	-Sundry creditors	224.1	197.0	(488.1)	524.3	462.2
PBIT	6,135.7	4,533.3	3,926.4	6,138.2	7,724.3	-Others	2,032.5	(5,155.6)	1,703.1	462.9	499.4
Other income	12.7	20.3	10.7	49.9	24.3	Change in working capital	884.6	(3,264.3)	1,642.9	(298.6)	(220.9)
Interest Income	1,986.7	1,207.3	717.5	387.0	500.0	<b>CF from Oper. activities</b>	<b>5,961.7</b>	<b>746.7</b>	<b>5,274.6</b>	<b>8,632.8</b>	<b>5,853.2</b>
Profit before tax	8,135.1	5,760.9	4,654.6	6,575.1	8,248.6	<b>CF from Inv. activities</b>	<b>(917.0)</b>	<b>(2,643.4)</b>	<b>(3,799.3)</b>	<b>1,732.2</b>	<b>(7,000.0)</b>
Provision for tax	(2,792.7)	(2,022.5)	(1,743.7)	(2,432.8)	(2,804.5)	<b>CF from Fin. activities</b>	<b>(6,354.4)</b>	<b>(1,968.1)</b>	<b>(5,009.1)</b>	<b>(5,113.6)</b>	<b>(5,123.9)</b>
<b>Reported PAT</b>	<b>5,342.4</b>	<b>3,738.4</b>	<b>2,910.9</b>	<b>4,142.3</b>	<b>5,444.1</b>	<b>Cash generated/(utilised)</b>	<b>(1,309.8)</b>	<b>(3,864.8)</b>	<b>(3,533.8)</b>	<b>5,251.4</b>	<b>(6,270.7)</b>
Extraordinary Items	(518.8)	23.1	457.3	4,440.0	-	Cash at start of the year	20,415.8	19,106.1	13,919.0	9,321.3	14,364.4
<b>Adjusted PAT</b>	<b>4,823.6</b>	<b>3,761.5</b>	<b>3,368.2</b>	<b>8,582.3</b>	<b>5,444.1</b>	Cash at end of the year	19,106.1	13,919.0	9,321.3	14,364.4	7,864.7
<b>Balance Sheet</b>	<b>FY15 (15M)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Ratios</b>	<b>FY15 (15M)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Equity capital	847.0	847.0	847.0	847.0	847.0	OPM	19.3	16.9	14.0	18.9	21.1
Reserves	17,442.8	20,985.4	19,221.5	22,848.9	23,338.0	NPM	14.6	13.2	11.2	24.9	13.8
<b>Net worth</b>	<b>18,289.8</b>	<b>21,832.4</b>	<b>20,068.5</b>	<b>23,695.9</b>	<b>24,185.0</b>	Tax rate	(34.3)	(35.1)	(37.5)	(37.0)	(34.0)
Secured loans	-	-	-	-	-	<b>Growth Ratios (%)</b>					
Unsecured loans	26.3	16.0	9.9	9.9	9.9	Net Sales	30.2	(14.1)	5.7	14.6	15.0
Total debt	26.3	16.0	9.9	9.9	9.9	Operating Profit	26.8	(25.1)	(12.4)	54.8	28.8
Other non curr liab	-	56.8	35.0	35.0	35.0	PAT	70.5	(22.0)	(10.5)	154.8	(36.6)
<b>CAPITAL EMPLOYED</b>	<b>18,316.0</b>	<b>21,905.2</b>	<b>20,113.4</b>	<b>23,740.8</b>	<b>24,229.9</b>	<b>Per Share (Rs.)</b>					
Gross block	3,211.9	2,283.6	2,990.9	3,990.9	12,990.9	Net Earnings (EPS)	56.9	44.4	39.8	101.3	64.3
Accumulated deprecia	(1,981.1)	(243.2)	(463.8)	(812.8)	(1,442.9)	Cash Earnings (CPS)	59.9	47.4	42.9	105.4	71.7
Net block	1,230.8	2,040.4	2,527.1	3,178.0	11,548.0	Dividend	62.5	50.0	50.0	50.0	50.0
Capital WIP	1,152.2	2,676.7	5,732.2	3,000.0	1,000.0	Book Value	215.9	257.8	236.9	279.8	285.5
<b>Total fixed assets</b>	<b>2,383.0</b>	<b>4,717.1</b>	<b>8,259.3</b>	<b>6,178.0</b>	<b>12,548.0</b>	Free Cash Flow	59.6	(22.4)	17.4	122.4	(13.5)
Intangible assets u/d	-	-	322.5	322.5	322.5	<b>Valuation Ratios</b>					
Investments	0.6	60.4	54.0	54.0	54.0	<b>P/E(x)</b>	<b>43.3</b>	<b>55.6</b>	<b>62.1</b>	<b>24.4</b>	<b>38.4</b>
Inventories	3,755.8	5,258.7	4,258.0	5,462.6	6,294.5	P/B(x)	11.4	9.6	10.4	8.8	8.6
Sundry debtors	1,003.2	1,265.6	1,708.0	1,706.8	1,966.8	EV/EBIDTA(x)	29.7	40.8	47.7	30.0	24.1
Cash & bank	19,106.1	13,919.0	9,321.3	14,364.4	7,864.7	EV/SALES(x)	5.7	6.9	6.7	5.7	5.1
Loans & advances	4,153.4	693.8	824.2	906.6	997.3	Div. Yield(%)	2.5	2.0	2.0	2.0	2.0
Other current assets	923.6	685.1	751.5	841.7	942.7	<b>FCF Yield(%)</b>	<b>2.4</b>	<b>(0.9)</b>	<b>0.7</b>	<b>5.0</b>	<b>(0.5)</b>
Sundry creditors	(3,080.4)	(3,277.4)	(2,789.3)	(3,313.6)	(3,775.8)	<b>Return Ratios (%)</b>					
Acceptances	(1,353.9)	(2,058.9)	(3,925.9)	(4,318.5)	(4,750.3)	ROE	26.4	17.2	16.8	36.2	22.5
Provisions	(9,406.3)	(3,307.3)	(3,209.8)	(3,370.3)	(3,538.8)	ROCE	33.5	20.7	19.5	25.9	31.9
<b>Working capital</b>	<b>15,101.4</b>	<b>13,178.6</b>	<b>6,938.0</b>	<b>12,279.8</b>	<b>6,000.9</b>						
Deferred Tax Assets	831.0	2,570.0	2,440.9	2,599.6	2,768.5						
Other non current ass	-	1,379.1	2,098.7	2,306.9	2,536.0						
<b>CAPITAL DEPLOYED</b>	<b>18,316.0</b>	<b>21,905.2</b>	<b>20,113.4</b>	<b>23,740.8</b>	<b>24,229.9</b>						



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