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GlaxoSmithKline Pharma: In sound health

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Sales growth and control on costs helped improve margins
Improved sales across its four business units helped GlaxoSmithKline Pharmaceuticals record an 18 per cent year-on-year growth in gross sales to Rs 453 crore for the December 2009 quarter. This, coupled with lower excise outgo, helped the company post a better-than-expected 20 per cent year-on-year jump in net sales.

Operating profit margins, too, were higher by 222 basis points at 32 per cent on the back of enhanced share of sales from drugs that are out of the price control regime, as well as lower expenditure. But, sales promotion and other expenses increased 18.6 per cent and employee costs were higher by 33 per cent (as the company is expanding its sales force), Glaxo managed to improve profitability by controlling costs. Raw material costs, as a percentage of sales, were down 432 basis points to 35 per cent.

Despite lower other income, higher operating profit and lower effective tax rates helped the company post a 20 per cent rise in net profit to Rs 106 crore.

Last year, the company launched Benitec (cardiology), Dermocalm (dermatology) Salbutamol (respiratory) and Eblanem in the antibiotic segment. The performance of its top brands, new launches and entry into new categories (oncology, cardiovascular) helped it hang on to its 5.3 per cent market share in 2009.

The company is looking to strengthen its presence in the dermatology segment, which contributes about 18 per cent to sales. The global acquisition of skincare company Stiefel Laboratories Inc by Glaxo's parent should expand its portfolio and help its Indian arm cement its lead in the domestic market, where it controls nearly a fifth of the dermatology market.

At Rs 1,578, the stock is trading at 23.3 times its 2010 estimated earnings per share of Rs 67 and growth prospects are fully priced in.

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