

GSK Pharma

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	254 / 3.4
52-Week Range (INR)	1805 / 1033
1, 6, 12 Rel. Per (%)	-10/-21/-5
12M Avg Val (INR M)	127

Financials & valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	32.2	31.6	35.4
EBITDA	6.6	6.7	7.9
Adj. PAT	4.8	4.7	5.9
EBIT Margin (%)	17.8	18.4	20.9
Cons. Adj. EPS (INR)	28.2	27.6	35.0
EPS Gr. (%)	14.6	-2.1	26.8
BV/Sh. (INR)	107.5	110.2	122.2

Ratios

Net D:E	-0.6	-0.4	-0.5
RoE (%)	26.2	25.1	28.6
RoCE (%)	24.3	25.5	27.6
Payout (%)	85.4	87.2	68.8

Valuations

P/E (x)	53.2	54.3	42.9
EV/EBITDA (x)	37.0	36.9	30.8
Div. Yield (%)	1.3	1.3	1.3
FCF Yield (%)	2.1	0.8	2.3
EV/Sales (x)	7.5	7.8	6.9

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	75.0	75.0	75.0
DII	11.3	12.1	11.0
FII	1.0	0.2	0.5
Others	12.8	12.7	13.5

FII Includes depository receipts

CMP: INR1,500 **TP: INR1,410 (-6%)** **Neutral**

Better operating leverage drives profitability

Sales outlook on gradual uptrend

- GSK Pharma's (GLXO) 2QFY21 performance was better than estimates. Compared to sharp YoY decline in 1QFY21 sales, GLXO's sales were steady in 2QFY21, which implies recovery in its base business.
- We increase our EPS estimates by 2.5%/3.2% for FY21/FY22E to factor in the gradual sales revival post lifting of the COVID-led lockdown and improving productivity. We value GLXO at 37x 12M forward earnings (25% discount to its three-year average) to arrive at TP of INR1,410. Maintain Neutral.

EBITDA margin highest over past 20 quarters

- GLXO's revenues in 2QFY21 were flat YoY at INR8.8b (v/s est. INR7.8b).
- Gross Margin (GM) was steady YoY at 58.2%.
- However, EBITDA margin expanded 130bp YoY to 23.3% due to lower other expenditure (-190bp YoY as % of sales), which was offset to some extent by higher employee cost (+80bp YoY as % of sales).
- EBITDA grew 5.6% YoY to INR2b (v/s est. INR1.6b).
- GLXO decided to proceed with the sale of Vemgal site (built for Ranitidine products) and has classified the assets as 'held for sale.'
- Consequently, the company recognized financial impact of INR641.3m to reflect the estimated realizable value of assets, associated costs and impact of provision reversal on account of Zinetac recall in 2QFY21.
- Adjusting for the same, PAT was steady at INR1.4b (v/s est. INR1.1b).
- In 1HFY21, revenue/EBITDA/PAT declined 9%/11%/15% YoY to INR15.3b/INR3.2b/INR2.2b.

Key highlights

- Adjusting for tail-end portfolio rationalization, YoY sales grew 3% in 2QFY21.
- GLXO's key brands continue to outperform industry due to enhanced marketing efforts. This coupled with product rationalization and cost efficiency has enabled better profitability for GLXO.
- During the quarter, GLXO launched Fluarix-Tetra, which is the world's first inactivated Quadrivalent Influenza vaccine.
- Additionally, GLXO has filed for products such as (a) Shingrix (vaccine to prevent Shingles), (b) Nucala (to treat pediatric indication related to Hypereosinophilic syndrome), and (c) Rotarix liquid (vaccine to prevent rotavirus gastroenteritis). It is awaiting approval for the same from the Indian Drug Regulatory Authority.
- Moreover, GLXO's parent has an R&D pipeline containing 37 potential new medicines and 15 new vaccines under various stages of development.

Valuation and view

- We raise our EPS estimate by 2.5%/3.2% for FY21/FY22E to factor in better traction in sales, led by better patient-doctor-Medical representative (MR) connect and expect 13% earnings CAGR over FY20-22E.
- We value GLXO at 37x 12M forward earnings to arrive at TP of INR1,410. We maintain **Neutral** as current valuations adequately factor in the upside.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR m)

Y/E March (Standalone)	FY20				FY21E				FY20	FY21E	Chg.	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE	(%)	
Net Sales	7,880	8,820	7,786	7,758	6,486	8,793	8,253	8,067	32,244	31,599	7,850	12.0
YoY Change (%)	7.1	8.0	-5.7	3.3	-17.7	-0.3	6.0	4.0	3.1	-2.0	-11.0	
Total Expenditure	6,227	6,880	6,542	6,022	5,345	6,745	6,479	6,361	25,671	24,930	6,264	
EBITDA	1,653	1,940	1,244	1,736	1,141	2,049	1,774	1,706	6,573	6,669	1,586	29.2
YoY Change (%)	21.9	17.5	-9.3	6.5	-31.0	5.6	42.6	-1.7	9.4	1.5	-18	
Depreciation	191	227	183	226	218	220	210	208	827	855	190	
EBIT	1,462	1,713	1,061	1,510	923	1,829	1,564	1,498	5,746	5,814	1,396	
YoY Change (%)	17.7	11.5	-15.2	1.2	-36.9	6.8	47.5	-0.8	4.1	1.2	-19	
Interest	9	9	30	15	11	9	10	16	63	46	20	
Other Income	308	159	165	158	152	90	140	190	790	573	109	
PBT before EO Expense	1,761	1,863	1,196	1,653	1,065	1,911	1,694	1,672	6,472	6,341	1,485	
Tax	626	457	268	385	278	505	447	436	1,698	1,665	380	
Rate (%)	35.5	24.5	22.4	23.3	26.1	26.4	26.4	26.1	18.9	26.3	25.6	
Adjusted PAT	1,173	1,406	927	1,269	787	1,406	1,247	1,236	4,775	4,676	1,105	27.3
YoY Change (%)	27.0	24.9	9.3	0.1	-32.9	0.0	34.5	-2.6	14.6	-2.1	-21.4	
Margins (%)	14.9	15.9	11.9	16.4	12.1	16.0	15.1	15.3	14.8	14.8	14.1	
One-off Expense/(Income)	38	-3,622	7,539	-113	-320	641	0	0	3,843	321	0	
Reported PAT	1,135	5,028	-6,612	1,382	1,107	765	1,247	1,236	932	4,355	1,105	-30.8

Key performance Indicators (Consolidated)

Y/E March	FY20				FY21E				FY20	FY21E	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Cost Break-up											
RM Cost (% of Sales)	42.0	41.9	42.1	36.0	39.7	41.8	41.0	40.0	40.6	39.7	39.5
Staff Cost (% of Sales)	18.1	16.7	21.4	22.1	23.4	17.5	19.0	19.0	19.5	23.4	19.5
Other Cost (% of Sales)	18.9	19.3	20.5	19.5	19.3	17.4	18.5	19.8	19.6	19.3	20.8
Gross Margins(%)	58.0	58.1	57.9	64.0	60.3	58.2	59.0	60.0	59.4	60.3	60.5
EBITDA Margins(%)	21.0	22.0	16.0	22.4	17.6	23.3	21.5	21.1	20.4	21.1	20.2
EBIT Margins(%)	18.6	19.4	13.6	19.5	14.2	20.8	19.0	18.6	17.8	18.4	17.8

Key exhibits on Secondary sales data provided by AIOCD

GSK Pharma's secondary sales witnessed 10.2% YoY decline in Jul-Sep'20 quarter. Dip in sales of Augmentin, Calpol, Ceftum and Betnesol brands dragged overall sales.

Exhibit 1: Top 10 Drugs

Drug	Therapy	Value (INR m)	MAT Sep - 20		Growth (%)	
			Growth (%)	Mkt Share (%)	Last 3M	Sep - 20
Total		38050	(4.8)	100.0	(10.2)	(7.8)
Augmentin	Anti-Infectives	4498	4.8	11.8	(8.0)	(11.7)
Synflorix	Vaccines	2812	1.3	7.4	7.8	34.9
Calpol	Pain / Analgesics	2342	(0.9)	6.2	(24.9)	(21.1)
Betnovate C	Derma	2127	0.9	5.6	7.5	(10.9)
Eltroxin	Hormones	2115	7.8	5.6	0.8	(0.1)
Betnovate N	Derma	1976	0.5	5.2	1.4	18.0
T Bact	Derma	1952	19.0	5.1	18.7	11.8
Ceftum	Anti-Infectives	1649	0.3	4.3	(10.8)	2.7
Infanrix Hexa	Vaccines	1212	39.7	3.2	18.1	(9.1)
Betnesol	Hormones	1127	(5.3)	3.0	(16.5)	(17.2)

*3M: Jul 2020- Sep 2020

Source: AIOCD, MOFSL

Growth in Derma and VMN therapies was to a certain extent off-set by decline in Anti-infective, Vaccines, Pain-Analgesics and Hormones.

Exhibit 2: Therapy Mix (%)

	Share	MAT Growth (%)	3M*	Sep - 20
Total	100.0	(4.8)	(10.2)	(7.8)
Derma	25.2	5.0	5.2	3.8
Anti-Infectives	23.0	(0.1)	(12.5)	(10.7)
Vaccines	17.2	(8.1)	(3.7)	7.4
Pain / Analgesics	9.2	2.2	(16.3)	(13.1)
Hormones	8.5	1.8	(5.9)	(7.3)
Vitamins / Minerals / Nutrients	6.2	2.9	11.4	12.9

Source: AIOCD, MOFSL

Volume decline of 11.5% YoY was off-set by price growth of 6.4% YoY on a MAT basis in Sep'20.

Exhibit 3: Brand-wise growth distribution

	% of sales	MAT Growth (%)	Growth Contribution (%)
Total	100.0	(4.8)	100.0
Top 10 Brands	57.3	4.8	(52.5)
11 to 25 Brands	21.0	(16.7)	83.6
26 to 50 Brands	14.1	0.2	(0.5)
Above 50 Brands	7.6	(31.5)	69.4

Source: AIOCD, MOFSL

Exhibit 4: Acute v/s Chronic (MAT growth)

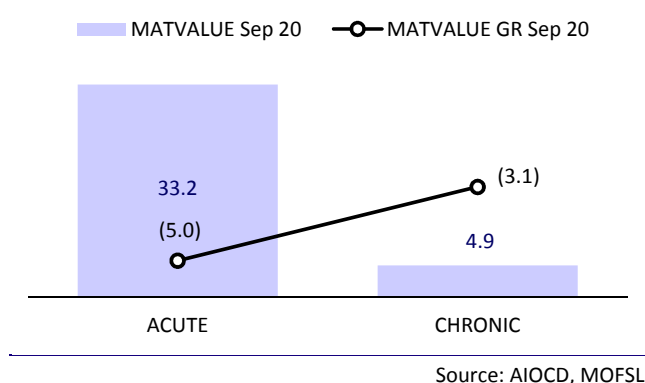
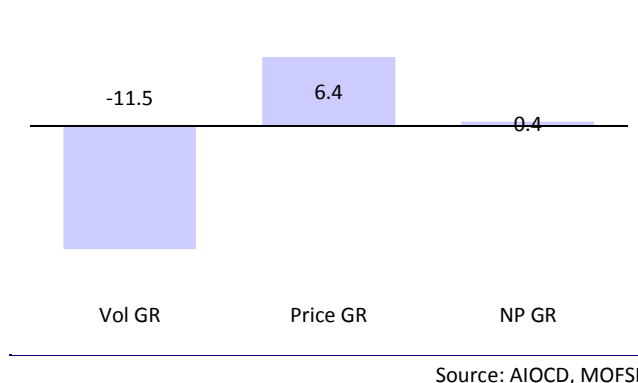


Exhibit 5: Growth Distribution (%) (MAT Sep'20)



Valuation and view

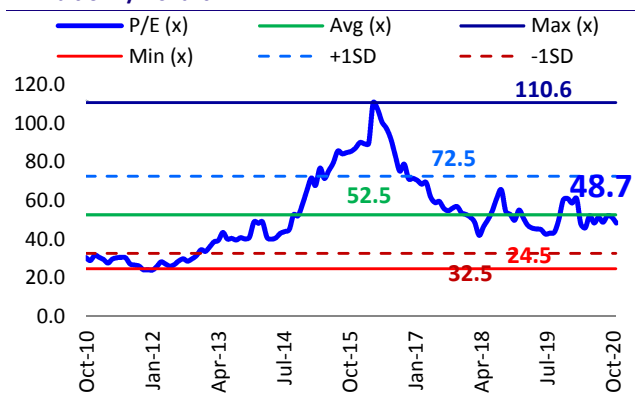
Gradual revival in sales coupled with benefit of superior product portfolio

GLXO has exhibited healthy recovery in its domestic formulation (DF) segment in 2QFY21. The low margin product rationalization has improved its focus on high value brands. This coupled with better sales outlook due to easing of the COVID-led lockdown has enabled GLXO's key brands to gain market share. It has interesting products under development/approved, but yet to be launched. With niche introductions, increased market share in existing products and the COVID-led dent in FY21 performance, we expect GLXO to garner 6% sales CAGR over FY20-23E to INR38b.

Valuation and view:

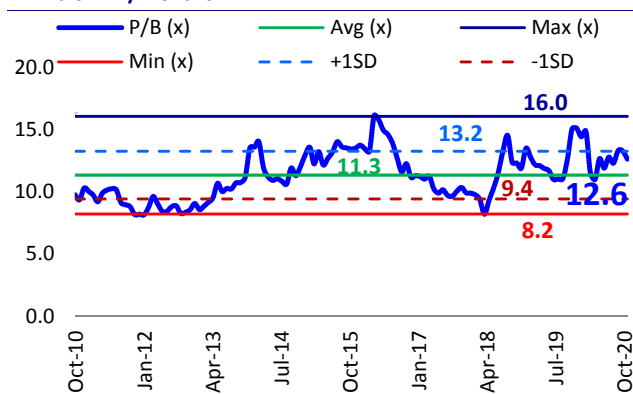
We increase our EPS estimate by 2.5%/3.2% for FY21/FY22E to factor in improved traction post unlocking of the COVID-19-led lockdown. We expect 13% earnings CAGR over FY20-23E, led by revival in sales and 300bp margin expansion on better operating leverage. Accordingly, we arrive at TP of INR1,410, valuing GLXO at 37x 12M forward earnings. We maintain **Neutral** as the valuation adequately factors in the upside.

Exhibit 6: P/E chart



Source: MOFSL, Company, Bloomberg

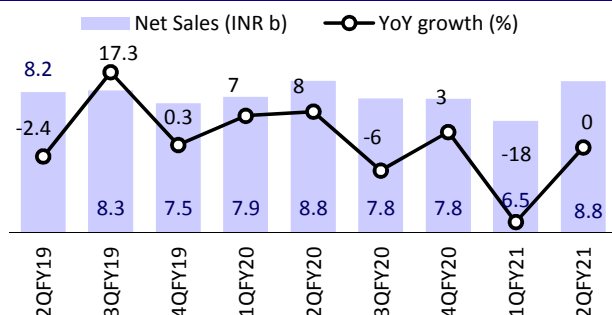
Exhibit 7: P/B chart



Source: MOFSL, Company, Bloomberg

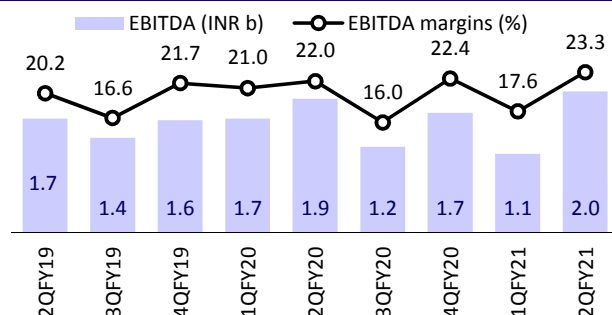
Story in charts

Exhibit 8: 2QFY21 witnessed flat revenues on YoY basis



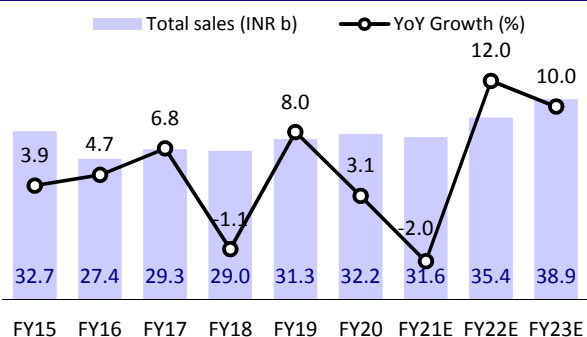
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded ~130bp YoY



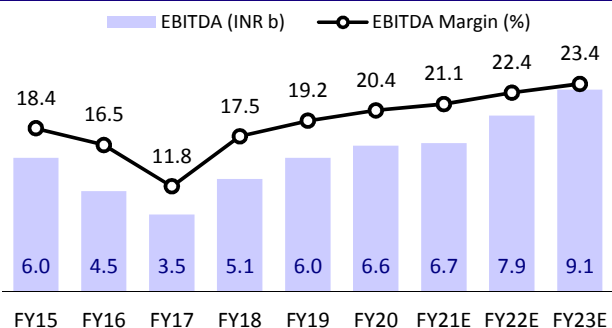
Source: Company, MOFSL

Exhibit 10: Expect revenue CAGR of ~6% over FY20-23E



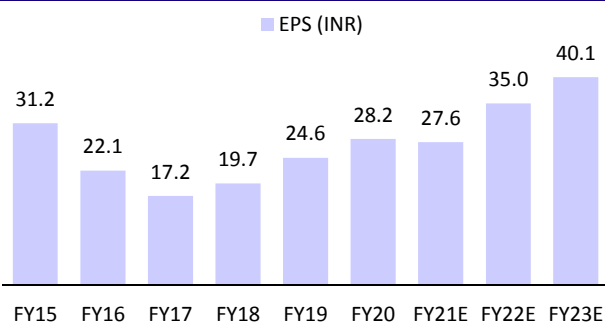
Source: Company, MOFSL

Exhibit 11: Margin to be on an uptrend over FY20-23E



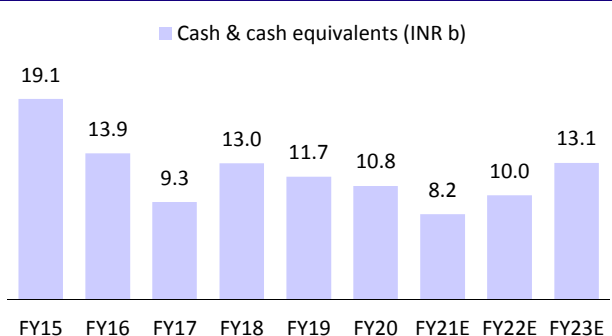
Source: Company, MOFSL

Exhibit 12: Earnings to exhibit ~13% CAGR over FY20-23E



Source: Company, MOFSL

Exhibit 13: Expect cash to be distributed to stakeholders



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)		
Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	32,725	27,411	29,265	28,957	31,281	32,244	31,599	35,391	38,930
Change (%)	3.9	4.7	6.8	-1.1	8.0	3.1	-2.0	12.0	10.0
EBITDA	6,009	4,516	3,455	5,058	6,008	6,573	6,669	7,927	9,104
Change (%)	-3.1	-6.1	-23.5	46.4	18.8	9.4	1.5	18.9	14.8
Margin (%)	18.4	16.5	11.8	17.5	19.2	20.4	21.1	22.4	23.4
Depreciation	254	248	264	380	486	827	855	526	571
EBIT	5,756	4,269	3,192	4,678	5,522	5,746	5,814	7,401	8,533
Int. and Fin. Charges	0	0	0	2	6	63	46	95	95
Other Income - Rec.	2,320	1,500	1,463	545	1,023	790	573	600	630
PBT	8,076	5,769	4,655	5,222	6,540	6,472	6,341	7,906	9,068
Tax	2,793	2,026	1,744	1,893	2,373	1,698	1,665	1,977	2,267
Tax Rate (%)	34.6	35.1	37.5	36.2	36.3	26.2	26.3	25.0	25.0
Adj PAT	5,283	3,742	2,911	3,329	4,167	4,775	4,676	5,930	6,801
Change (%)	11.1	-29.2	-22.2	14.4	25.2	14.6	-2.1	26.8	14.7
One-off Expense (net of tax)	519	-135	457	178	-21	-3,843	-321	0	0
Reported PAT	5,802	3,607	3,368	3,507	4,454	932	4,355	5,930	6,801
Change (%)	-7.5	-22.3	-22.2	14.4	25.2	-79.1	367.3	36.2	14.7
Margin (%)	17.7	13.2	11.5	12.1	14.2	2.9	13.8	16.8	17.5

Balance Sheet							(INR m)		
Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	847	847	847	847	1,694	1,694	1,694	1,694	1,694
Reserves	17,426	20,969	19,204	19,709	19,687	16,495	16,954	18,987	21,892
Capital Reserve	17	17	17	17	17	17	17	17	17
Net Worth	18,290	21,832	20,069	20,573	21,398	18,206	18,665	20,698	23,603
Loans	26	16	10	6	2	0	0	0	0
Capital Employed	18,316	21,848	20,078	20,579	21,400	18,206	18,665	20,698	23,603
Gross Block	3,212	2,284	3,313	4,020	5,590	10,190	11,190	12,190	13,190
Less: Accum. Deprn.	1,981	243	464	792	1,278	2,105	2,960	3,486	4,057
Net Fixed Assets	1,231	2,040	2,850	3,228	4,300	7,566	8,230	8,704	9,133
Capital WIP	1,152	2,677	5,732	9,229	10,026	1,201	451	-299	-1,049
Investments	1	1	1	18	17	15	15	15	15
Curr. Assets	28,942	24,820	20,540	25,962	24,148	21,469	21,094	24,163	28,298
Inventory	3,756	5,259	4,258	5,002	4,865	4,830	5,372	5,663	5,723
Account Receivables	1,003	1,266	1,708	1,470	1,205	998	1,580	1,840	2,141
Cash & Bank Balance	19,106	13,919	9,321	12,964	11,714	10,832	8,138	9,936	13,038
Others	5,077	4,376	5,253	6,527	6,364	4,808	6,004	6,724	7,397
Curr. Liability & Prov.	13,841	8,700	9,960	18,896	17,713	13,149	12,230	12,990	13,899
Account Payables	4,434	5,393	6,750	15,046	13,642	7,763	6,952	7,078	7,397
Provisions	9,406	3,307	3,210	3,850	4,071	5,386	5,278	5,911	6,503
Net Current Assets	15,101	16,119	10,580	7,066	6,435	8,319	8,864	11,173	14,399
Deferred Tax Assets	831	1011	916	1037	622	1105	1105	1105	1105
Appl. of Funds	18,316	21,848	20,078	20,579	21,400	18,206	18,665	20,698	23,603

Financials and valuations

Ratios

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EPS	31.2	22.1	17.2	19.7	24.6	28.2	27.6	35.0	40.1
Cash EPS	32.7	23.6	18.7	21.9	27.5	33.1	32.7	38.1	43.5
BV/Share	108.0	128.9	118.5	121.4	126.3	107.5	110.2	122.2	139.3
DPS	62.5	50.0	30.0	35.0	20.0	20.0	20.0	20.0	20.0
Payout (%)	120.6	136.2	175.1	91.9	97.9	85.4	87.2	68.8	60.0
Valuation									
P/E	60.1	67.9	87.3	76.3	61.0	53.2	54.3	42.9	37.4
Cash P/E	57.4	63.7	80.0	68.5	54.6	45.4	45.9	39.4	34.5
P/BV	13.9	11.6	12.7	12.4	11.9	14.0	13.6	12.3	10.8
EV/Sales	9.0	8.8	8.4	8.3	7.7	7.5	7.8	6.9	6.2
EV/EBITDA	48.9	53.2	70.9	47.7	40.3	37.0	36.9	30.8	26.5
Dividend Yield (%)	4.2	3.3	2.0	2.3	1.3	1.3	1.3	1.3	1.3
Return Ratios (%)									
RoE	23.1	17.1	14.5	16.2	19.5	26.2	25.1	28.6	28.8
RoCE	21.9	18.6	13.9	16.4	19.9	24.3	25.5	27.6	27.7
Working Capital Ratios									
Fixed Asset Turnover (x)	23.5	16.8	12.0	9.5	8.3	5.4	4.0	4.2	4.4
Debtor (Days)	14	17	21	19	14	11	18	19	20
Inventory (Days)	52	70	53	63	57	55	62	58	54
Creditor days	49	72	84	190	159	88	80	73	69
Leverage Ratio									
Debt/Equity	-1.0	-0.6	-0.5	-0.6	-0.5	-0.6	-0.4	-0.5	-0.6

Cash Flow Statement

(INR m)

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Oper. Profit/(Loss) bef. Tax	6,528	4,381	3,912	5,236	5,987	2,730	6,669	7,927	9,104
Interest/Div. Recd.	2,320	1,500	1,463	545	1,023	790	573	600	630
Direct Taxes Paid	-2,703	-2,207	-1,649	-2,013	-1,958	-2,180	-1,665	-1,977	-2,267
(Inc)/Dec in WC	410	-6,205	942	7,156	-619	-2,766	-3,238	-512	-124
CF from Operations	6,555	-2,531	4,669	10,925	4,434	-1,427	2,339	6,039	7,343
EO expense	519	-135	457	178	-21	-3,843	0	0	0
CF frm Op. incl EO exp.	3,376	1,389	2,344	4,728	4,095	4,905	2,339	6,039	7,343
(inc)/dec in FA	-603	-596	-4,085	-4,255	-2,367	4,225	-250	-250	-250
Free Cash Flow	3,292	657	-1,284	651	1,707	5,287	2,089	5,789	7,093
(Pur)/Sale of Investments	576	-0	0	-18	1	2	0	0	0
CF from investments	1,800	4,990	3,006	-1,042	-1,535	-568	-250	-250	-250
Change in Equity capital	0	-	0	0	847	-	0	0	0
Inc/(Dec) in Debt	-10	-10	-6	-4	-4	-2	0	0	0
Interest Paid	0	-	0	-2	-6	-63	-46	-95	-95
Dividend Paid	-6,374	-5,097	-5,097	-3,058	-4,080	-4,078	-4,078	-4,078	-4,078
CF from Fin. Activity	-4,970	-6,383	-5,108	-3,066	-3,583	-4,276	-4,783	-3,991	-3,991
Inc/Dec of Cash	207	-4	243	620	-1,023	60	-2,694	1,797	3,102
Add: Beginning Balance	946	1,153	1,149	1,391	2,011	988	1,048	-1,646	151
Closing Balance	1,153	1,149	1,391	2,011	988	1,048	-1,646	151	3,253
Bank balances other than cash	17,953	12,770	7,930	10,953	10,725	9,784	9,784	9,784	9,784
Closing Balance	19,106	13,919	9,321	12,964	11,714	10,832	8,138	9,935	13,037

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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