

GSK Pharma

Estimate change

TP change

Rating change



Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	218.8 / 2.7
52-Week Range (INR)	1528 / 1228
1, 6, 12 Rel. Per (%)	1/-2/-27
12M Avg Val (INR M)	80

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	32.5	34.4	37.2
EBITDA	8.0	8.3	9.1
Adj. PAT	6.1	6.3	6.9
EBIT Margin (%)	22.7	22.1	22.7
Cons. Adj. EPS (INR)	35.9	37.3	40.7
EPS Gr. (%)	6.0	3.7	9.2
BV/Sh. (INR)	110.0	122.0	135.1

Ratios

Net D:E	-0.6	-0.7	-0.6
RoE (%)	32.7	30.6	30.1
RoCE (%)	26.9	32.2	31.7
Payout (%)	67.0	71.1	71.0

Valuations

P/E (x)	36.0	34.8	31.8
EV/EBITDA (x)	25.2	24.2	22.0
Div. Yield (%)	1.5	1.7	1.9
FCF Yield (%)	1.5	3.2	2.0
EV/Sales (x)	6.2	5.8	5.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	75.0	75.0	75.0
DII	10.3	10.3	10.7
FII	2.3	2.3	2.2
Others	12.4	12.4	12.1

FII Includes depository receipts

CMP: INR1,295

TP: INR1,220 (-6%)

Neutral

Downward revision in realization adversely impacts earnings

Better volume off-take remains the key for growth revival

- Glaxo Pharma (GLXO) delivered a miss on 4QFY23 earnings, largely due to the adverse impact of the recent National list of essential medicine (NLEM) pricing on existing products as well as newly included ones. Having said this, GLXO continues to improve the performance of both the general medicines category and the specialty category.
- We cut our earnings estimate by 6%/5% for FY24/FY25 to factor in a) reduction in prices of Ceftum/T-Bact, due to their addition into the NLEM list, b) inflation-linked price hike on NLEM portfolio, and c) higher marketing spend on new launches. We value GLXO at 31x 12M forward earnings to arrive at a price target of INR1220.
- The considerable increase in the share of products under NLEM (900bp YoY as a percentage of sales) and a gradual increase in volume off-take is expected to keep revenue growth as well as profitability under check over the next 12-15 months. Further, the valuation does not adequately factor in the impact on earnings. We reiterate our **Neutral** stance on the stock.

Sales decline for third consecutive quarter on a YoY basis

- GSK Pharma (GLXO) revenues declined 3% YoY to INR7.9b (v/s est. of INR8.8b).
- Gross margin (GM) contracted 40bp YoY to 56.2%, due to higher RM cost.
- EBITDA margin was flat YoY at 21.6% (our est: 27.9%) as lower GMs and higher employee expenses (up 160bp YoY as a percentage of sales) were offset by lower 'other expenses' (down 190bp YoY as a percentage of sales)
- EBITDA declined 3% YoY to INR1.7b (v/s est. of INR2.5b).
- However, adj. PAT for GLXO grew 3% YoY to INR1.2b for the quarter (v/s our est. of INR 1.8b) due to higher 'other income'.
- In FY23, revenue was flat YoY at INR32.5b, while EBITDA/PAT grew 5%/6% YoY to INR8b/INR6b.

Key highlights from the management commentary

- GLXO has guided for a single-digit YoY growth over FY23-25, largely driven by volume. EBITDA margin is expected to expand FY25 onwards.
- In FY23, sales stood flat YoY as strong performance in anti-infectives /dermatology was offset by muted performance in the vaccines segment.
- Anti-infective/pain analgesics segment grew 36%/16.5% YoY for 4QFY23 compared to a growth of 28%/11% YoY at the industry level.
- In FY23, GLXO launched Shingrix in India to prevent Herpes zoster. Every person over the age of 50, particularly those with impaired immune systems, can receive protection from this painful condition by using Shingrix.
- The introduction of new product portfolios such as Nucala and Trelegy is driving growth in the specialty segment for GLXO.

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Quarterly performance (consolidated)

Y/E March (Standalone)	FY22				FY23				FY22	FY23	Chg.	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	7,184	9,341	8,159	8,096	7,451	9,169	8,023	7,875	32,780	32,517	8,793	-10%
YoY Change (%)	10.8	6.2	3.0	8.8	3.7	-1.8	-1.7	-2.7	12.0	-0.8	8.6	
Total Expenditure	5,857	6,761	6,181	6,344	5,962	6,599	5,736	6,177	25,142	24,474	6,337	
EBITDA	1,327	2,581	1,978	1,752	1,489	2,569	2,287	1,697	7,639	8,043	2,456	-31%
YoY Change (%)	16.3	26.0	9.5	11.8	12.2	-0.4	15.6	-3.1	27.7	5.3	40.2	
Margins (%)	18.5	27.6	24.2	21.6	20.0	28.0	28.5	21.6	23.3	24.7	27.9	
Depreciation	175	174	179	154	158	164	164	172	682	658	165	
EBIT	1,152	2,406	1,799	1,599	1,331	2,406	2,123	1,526	6,957	7,385	2,291	
YoY Change (%)	24.8	31.6	10.3	15.0	15.6	0.0	18.0	-4.6	33.9	6.2	43.3	
Margins (%)	16.0	25.8	22.1	19.7	17.9	26.2	26.5	19.4	21.2	22.7	26.1	
Interest	8	4	6	3	7	4	1	7	20	18	3	
Other Income	317	150	103	188	276	220	234	277	757	1,006	150	
PBT before EO Expense	1,461	2,552	1,897	1,784	1,600	2,622	2,356	1,796	7,694	8,373	2,437	
Tax	388	644	335	585	438	687	597	565	1,953	2,288	622	
Rate (%)	26.6	25.2	17.7	32.8	27.4	26.2	25.3	31.5	48.6	25.1	25.5	23%
Adjusted PAT	1,073	1,908	1,562	1,198	1,162	1,934	1,759	1,230	5,742	6,086	1,816	-32%
YoY Change (%)	36.3	35.7	21.3	-2.3	8.3	1.4	12.6	2.7	24.9	6.0	51.5	
Margins (%)	14.9	20.4	19.1	14.8	15.6	21.1	21.9	15.6	17.5	18.7	20.6	
One-off Expense/(Income)	-138	-134	59	-11,404	0	0	114	-104	-11,618	10	0	
Reported PAT	1,211	2,042	1,504	12,602	1,162	1,934	1,646	1,334	17,360	6,075	1,816	-27%

Source: MOFSL, Company

Exhibit 1: Key performance indicators

Y/E March	FY22				FY23				FY22	FY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Cost Break-up											
RM Cost (% of Sales)	41.2	41.6	39.2	43.4	38.5	39.8	35.9	43.8	41.4	38.5	37.6
Staff Cost (% of Sales)	23.4	17.1	17.5	17.3	20.3	15.5	19.1	18.9	18.6	20.3	17.6
Other Cost (% of Sales)	17.0	13.6	19.1	17.7	21.2	16.7	16.5	15.8	16.8	21.2	16.9
Gross Margins(%)	58.8	58.4	60.8	56.6	61.5	60.2	64.1	56.2	58.6	61.5	62.4
EBITDA Margins(%)	18.5	27.6	24.2	21.6	20.0	28.0	28.5	21.6	23.3	24.7	27.9
EBIT Margins(%)	16.0	25.8	22.1	19.7	17.9	26.2	26.5	19.4	21.2	22.7	26.1

Source: MOFSL, Company

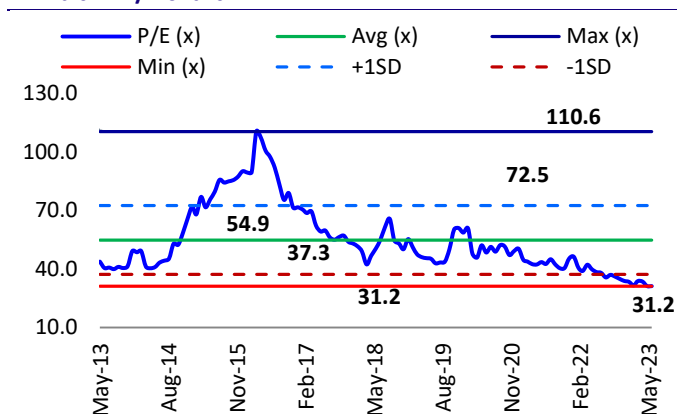
Market share gains/new launches to offset NLEM impact

- We expect a focused effort on select brands, differentiated launches, innovation and gradual recovery in Pain/vaccines therapy to drive 5% sales CAGR over FY23-25.
- Particularly, Nucala would be an interesting product over the medium term in the Asthma segment.
- The General Medicine portfolio saw a double-digit underlying growth, with Augmentin becoming the leading brand in IPM, as per IQVIA. GLXO continued to maintain its market leadership in therapies such as Dermatology and Pain.

Reiterate Neutral

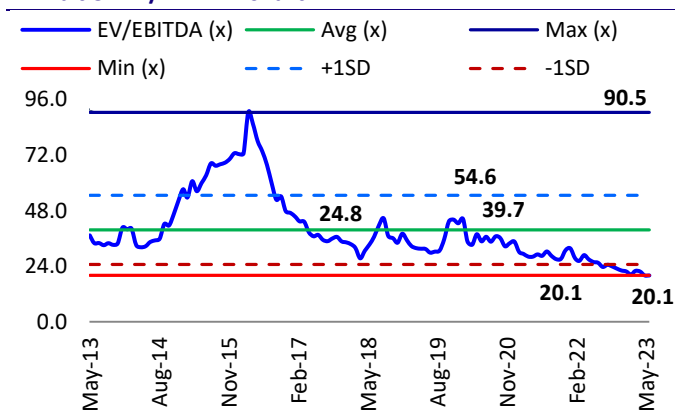
- We cut our earnings estimate by 6%/5% for FY24/FY25 to factor a) the reduction in the prices of Ceftum/T-Bact, due to their addition into the NLEM list, which is offset to some extent by inflation-linked price revisions, and b) higher marketing spend on new launches. We value GLXO at 31x 12M forward earnings to arrive at a price target of INR1220.
- The considerable increase in the share of products under NLEM (900bp YoY as % of sales) and a gradual increase in volume off-take are expected to keep revenue growth as well as profitability under check over the next 12-15 months. Further, the valuation does not adequately factor in the impact on earnings. We reiterate our **Neutral** stance on the stock.

Exhibit 2: P/E chart



Source: MOFSL, Company, Bloomberg

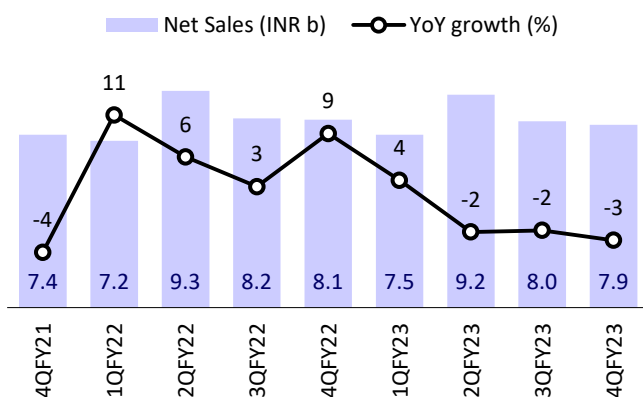
Exhibit 3: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

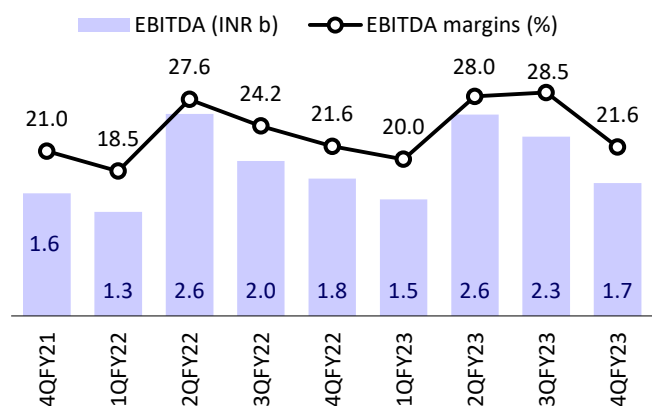
Story in charts

Exhibit 4: Sales declined 3% YoY in 4QFY23



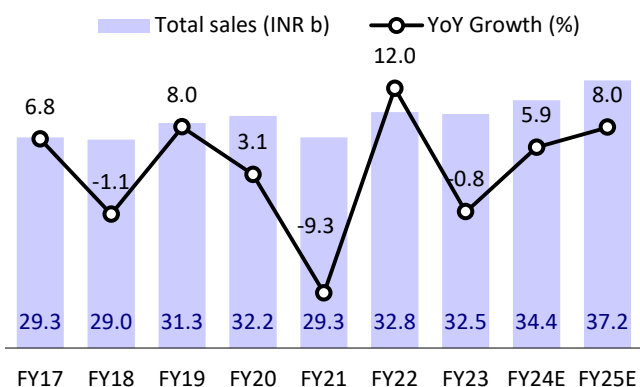
Source: Company, MOFSL

Exhibit 5: EBITDA margin was flat YoY in 4QFY23



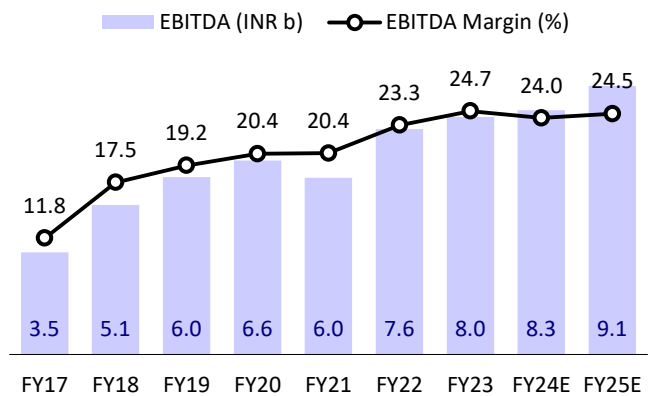
Source: Company, MOFSL

Exhibit 6: Revenue CAGR of 5% estimated over FY23-25



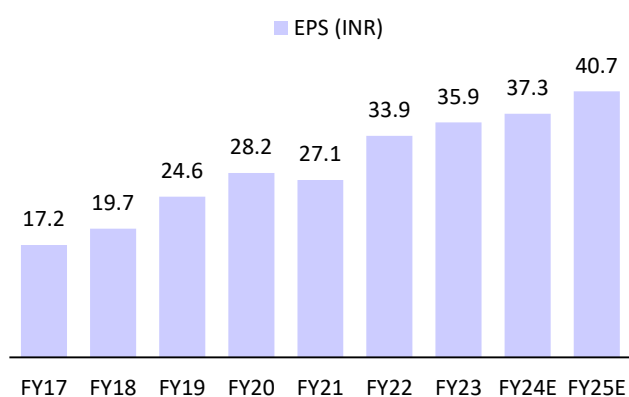
Source: Company, MOFSL

Exhibit 7: Expect flattish margins over FY23-25



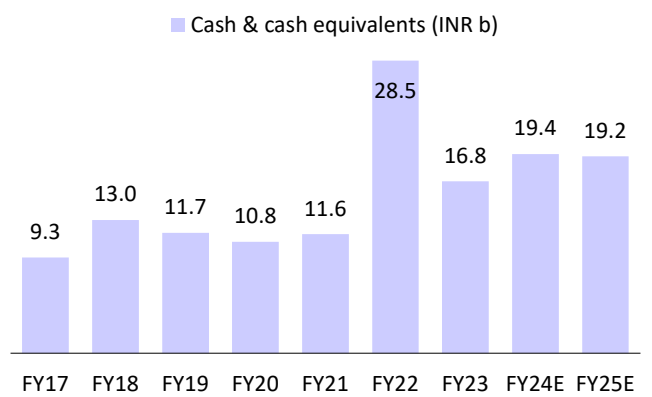
Source: Company, MOFSL

Exhibit 8: Earnings CAGR of ~6% estimated over FY23-25



Source: Company, MOFSL

Exhibit 9: Cash likely to be distributed to stakeholders



Source: Company, MOFSL

Financials and valuations

Income Statement

(INR m)

Y/E December	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	31,281	32,244	29,256	32,780	32,517	34,439	37,194
Change (%)	8.0	3.1	-9.3	12.0	-0.8	5.9	8.0
EBITDA	6,008	6,573	5,981	7,639	8,043	8,276	9,100
Change (%)	18.8	9.4	-9.0	27.7	5.3	2.9	9.9
Margin (%)	19.2	20.4	20.4	23.3	24.7	24.0	24.5
Depreciation	486	827	786	682	658	656	645
EBIT	5,522	5,746	5,195	6,957	7,385	7,620	8,454
Int. and Fin. Charges	6	63	35	20	18	20	22
Other Income - Rec.	1,023	790	1,106	758	1,007	930	910
PBT	6,540	6,472	6,266	7,695	8,374	8,530	9,342
Tax	2,373	1,698	1,667	1,953	2,288	2,218	2,448
Tax Rate (%)	36.3	26.2	26.6	25.4	27.3	26.0	26.2
Adj PAT	4,167	4,775	4,596	5,739	6,086	6,312	6,895
Change (%)	25.2	14.6	-3.8	24.9	6.0	3.7	9.2
One-off income (net of tax)	-21	-3,843	-1,726	116	10	0	0
Reported PAT Before Disc. Operations	4,454	932	2,873	5,858	6,096	6,312	6,895

Balance Sheet

(INR m)

Y/E December	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,694	1,694	1,694	1,694	1,694	1,694	1,694
Reserves	19,687	16,495	13,280	24,919	16,923	18,949	21,168
Capital Reserve	17	17	17	17	17	17	17
Net Worth	21,398	18,206	14,991	26,630	18,634	20,660	22,879
Loans	2	0	0	0	0	0	0
Capital Employed	21,400	18,206	14,991	26,630	18,634	20,660	22,879
Gross Block	5,590	10,190	6,740	7,740	8,740	9,240	9,740
Less: Accum. Deprn.	1,278	2,105	2,891	3,573	4,230	4,886	5,532
Net Fixed Assets	4,300	7,566	3,843	3,294	4,510	4,354	4,208
Capital WIP	10,026	1,201	132	305	203	203	203
Investments	17	15	14	3,668	5,194	5,194	5,194
Curr. Assets	24,148	21,469	26,114	37,934	23,245	25,997	28,559
Inventory	4,865	4,830	5,467	5,347	4,600	5,063	5,468
Account Receivables	1,205	998	2,156	2,052	1,924	1,894	2,046
Cash & Bank Balance	11,714	10,832	11,580	24,845	11,559	14,219	13,979
Others	6,364	4,808	6,911	5,689	5,162	4,821	7,067
Curr. Liability & Prov.	17,713	13,149	16,143	19,703	15,853	16,422	16,620
Account Payables	13,642	7,763	11,006	13,801	9,127	9,299	8,927
Provisions	4,071	5,386	5,137	5,902	6,726	7,123	7,693
Net Current Assets	6,435	8,319	9,971	18,231	7,392	9,575	11,939
Deferred Tax Assets	622	1105	1031	1132	1336	1336	1336
Appl. of Funds	21,400	18,206	14,991	26,630	18,634	20,660	22,879

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	24.6	28.2	27.1	33.9	35.9	37.3	40.7
Cash EPS	27.5	33.1	31.8	37.9	39.8	41.1	44.5
BV/Share	126.3	107.5	88.5	157.2	110.0	122.0	135.1
DPS	20.0	20.0	30.0	30.0	20.0	22.0	24.0
Payout (%)	97.9	85.4	133.1	106.6	67.0	71.1	71.0
Valuation							
P/E	52.6	45.9	47.7	38.2	36.0	34.8	31.8
Cash P/E	47.1	39.2	40.8	34.2	32.5	31.5	29.1
P/BV	10.3	12.0	14.6	8.2	11.8	10.6	9.6
EV/Sales	6.6	6.5	7.1	5.8	6.2	5.8	5.4
EV/EBITDA	34.6	31.7	34.7	25.0	25.2	24.2	22.0
Dividend Yield (%)	1.5	1.5	2.3	2.3	1.5	1.7	1.9
Return Ratios (%)							
RoE	19.5	26.2	30.7	21.6	32.7	30.6	30.1
RoCE	19.9	24.3	27.9	27.7	26.9	32.2	31.7
Working Capital Ratios							
Fixed Asset Turnover (x)	8.3	5.4	5.1	9.2	8.3	7.8	8.7
Debtor (Days)	14	11	27	23	22	20	20
Inventory (Days)	57	55	68	60	52	54	54
Creditor days	159	88	137	154	102	99	88
Leverage Ratio							
Debt/Equity	-0.5	-0.6	-0.8	-0.9	-0.6	-0.7	-0.6

Cash Flow Statement

(INR m)

Y/E December	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Oper. Profit/(Loss) bef. Tax	5,987	2,730	4,255	7,755	8,053	8,276	9,100
Interest/Div. Recd.	1,023	790	1,106	758	1,007	930	910
Direct Taxes Paid	-1,958	-2,180	-1,594	-2,053	-2,491	-2,218	-2,448
(Inc)/Dec in WC	-619	-2,766	-904	5,006	-2,447	476	-2,604
CF from Operations	4,434	-1,427	2,864	11,465	4,121	7,465	4,958
EO expense	-21	-3,843	-1,726	116	10	0	0
CF frm Op. incl EO exp.	4,095	4,905	5,384	12,143	4,111	7,465	4,958
(inc)/dec in FA	-2,367	4,225	4,519	-1,173	-898	-500	-500
Free Cash Flow	1,707	5,287	8,177	11,086	3,223	6,965	4,458
(Pur)/Sale of Investments	1	2	1	-3,655	-1,526	0	0
CF from investments	-1,535	-568	4,180	-4,055	-2,424	-500	-500
Change in Equity capital	847	-	0	0	0	0	0
Inc/(Dec) in Debt	-4	-2	0	0	0	0	0
Interest Paid	-6	-63	-35	-20	-18	-20	-22
Dividend Paid	-4,080	-4,078	-6,117	-6,117	-4,078	-4,486	-4,894
CF from Fin. Activity	-3,583	-4,276	-6,560	-9,278	-14,975	-4,305	-4,700
Inc/Dec of Cash	-1,023	60	3,004	-1,190	-13,287	2,660	-242
Add: Beginning Balance	2,011	988	1,048	4,052	2,862	-10,425	-7,765
Closing Balance	988	1,048	4,052	2,862	-10,425	-7,765	-8,007
Bank balances other than cash	10,725	9,784	7,528	21,983	21,983	21,983	21,983
Closing Balance	11,714	10,832	11,580	24,845	11,559	14,219	13,979

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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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