

GSK Pharma

Estimate change

TP change

Rating change



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Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	237 / 2.9
52-Week Range (INR)	1502 / 1228
1, 6, 12 Rel. Per (%)	-8/0/-24
12M Avg Val (INR M)	92

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	32.5	34.4	37.2
EBITDA	8.0	7.9	8.9
Adj. PAT	6.1	6.0	6.7
EBIT Margin (%)	22.7	21.1	22.2
Cons. Adj. EPS (INR)	35.9	35.7	39.8
EPS Gr. (%)	6.0	-0.8	11.6
BV/Sh. (INR)	110.0	121.4	133.6

Ratios

Net D:E	-0.6	-0.7	-0.6
RoE (%)	32.7	29.4	29.8
RoCE (%)	26.9	30.9	31.3
Payout (%)	67.0	74.3	72.6

Valuations

P/E (x)	39.0	39.3	35.2
EV/EBITDA (x)	27.4	27.5	24.5
Div. Yield (%)	1.4	1.6	1.7
FCF Yield (%)	1.4	2.8	1.8
EV/Sales (x)	6.8	6.3	5.9

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	75.0	75.0	75.0
DII	10.3	10.3	10.7
FII	2.4	2.3	2.2
Others	12.3	12.4	12.2

FII Includes depository receipts

CMP: INR1,400

TP: INR1,310 (-6%)

Neutral

Margin impacted by higher ad-spend/NLEM led lower prices

Guides for double-digit YoY revenue growth over the next 2-3 years

- Glaxo Pharma (GLXO) delivered lower-than-expected 1QFY24 results, largely impacted by NLEM-led adverse pricing on certain products in the portfolio. Having said this, GLXO's marketing efforts led to robust YoY volume growth of 8% for the quarter.
- We reduce our earnings estimate by 4%/2% for FY24/FY25, factoring a) increased investment for the Shangrix launch and b) gradual pick-up in the vaccines business. We continue to value GLXO at 31x 12M forward earnings to arrive at a price target of INR1,310.
- Although superior execution on new launches and existing brands is expected to mitigate the impact of adverse pricing to some extent, it appears that the current valuation already incorporates the potential earnings upside. We reiterate our Neutral stance on the stock.

Higher opex drags Margins

- GLXO revenue grew 2.2% YoY to INR7.6b (vs. est. of INR8b), led by volume growth of 8% and WPI price hike.
- Gross margin (GM) contracted 40bp YoY to 61%, due to higher RM cost.
- EBITDA margin contracted 110bp YoY to 19% (our est: 24%) due to lower GMs and an increase in employee expenses (up 140bp YoY as percentage of sales). This decline was partially offset by a decrease in 'other expenses' (down 60bp YoY as percentage of sales).
- EBITDA declined 3.4% YoY to INR1.4b (vs. est. of INR1.9b) on account of new product launch investments, led by Shingrix.
- GLXO recorded an exceptional income of INR1.7b, primarily attributed to the profit gained from the sale of surplus residential properties.
- Adjusted for the same, PAT for GLXO reduced 1% YoY to INR1.2b for the quarter (our est. INR 1.5b).

Key highlights from the management commentary

- GLXO has guided for a double-digit YoY growth over the next two-three years, largely driven by increased volume, new product launches, and the return of supply to normal levels.
- In 1QFY24, strong performance in Derma /Pain/Hormones was offset by muted performance in the Anti-infective/vaccines segment.
- The Hormones/Derma segment grew 14.8%/8.7% YoY for 1QFY24 compared to a growth of 11%/8% YoY at the industry level, as per IMS.
- GLXO launched 'Shingrix' in 1QFY24 and marked the company's entry into adult immunization category.
- The increased traction in products such as Nucala and Trelegy is driving growth in the specialty segment for GLXO.

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Quarterly Performance (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Chg.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	7,451	9,169	8,023	7,875	7,617	9,775	8,422	8,625	32,517	34,439	8,035	-5%
YoY Change (%)	3.7	-1.8	-1.7	-2.7	2.2	31.2	-8.1	7.5	-0.8	5.9	7.8	
Total Expenditure	5,962	6,599	5,736	6,177	6,178	7,205	6,409	6,740	24,474	26,531	6,107	
EBITDA	1,489	2,569	2,287	1,697	1,439	2,571	2,013	1,885	8,043	7,908	1,929	-25%
YoY Change (%)	12.2	-0.4	15.6	-3.1	-3.4	0.1	-12.0	11.1	5.3	-1.7	29.5	
Margins (%)	20.0	28.0	28.5	21.6	18.9	26.3	23.9	21.9	24.7	23.0	24.0	
Depreciation	158	164	164	172	164	163	166	164	658	656	165	
EBIT	1,331	2,406	2,123	1,526	1,276	2,408	1,847	1,721	7,385	7,252	1,764	
YoY Change (%)	15.6	0.0	18.0	-4.6	-4.2	0.1	-13.0	12.8	6.2	-1.8	32.5	
Margins (%)	17.9	26.2	26.5	19.4	16.7	24.6	21.9	20.0	22.7	21.1	21.9	
Interest	7	4	1	7	3	3	3	12	18	20	5	
Other Income	276	220	234	277	364	364	364	-162	1,006	930	233	
PBT before EO Expense	1,600	2,622	2,356	1,796	1,637	2,769	2,208	1,548	8,373	8,162	1,991	
Tax	438	687	597	565	487	720	563	352	2,288	2,122	538	
Rate (%)	27.4	26.2	25.3	31.5	29.8	26.0	25.5	22.7	25.1	26.0	27.0	
Adjusted PAT	1,162	1,934	1,759	1,230	1,150	2,049	1,645	1,196	6,086	6,040	1,453	-21%
YoY Change (%)	8.3	1.4	12.6	2.7	-1.1	5.9	-6.5	-2.8	6.0	-0.8	25.0	
Margins (%)	15.6	21.1	21.9	15.6	15.1	21.0	19.5	13.9	18.7	17.5	18.1	
One-off Expense/(Income)	0	0	114	-104	-173	0	0	0	10	-173	0	
Reported PAT	1,162	1,934	1,646	1,334	1,323	2,049	1,645	1,196	6,075	6,213	1,453	-9%

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Cost Break-up											
RM Cost (% of Sales)	38.5	39.8	35.9	43.8	38.9	40.0	40.5	42.5	38.5	39.8	41.0
Staff Cost (% of Sales)	20.3	15.5	19.1	18.9	21.7	17.7	17.8	17.4	20.3	15.5	18.0
Other Cost (% of Sales)	21.2	16.7	16.5	15.8	20.6	16.0	17.8	18.2	21.2	16.7	17.0
Gross Margins (%)	61.5	60.2	64.1	56.2	61.1	60.0	59.5	57.5	61.5	60.2	59.0
EBITDA Margins (%)	20.0	28.0	28.5	21.6	18.9	26.3	23.9	21.9	24.7	23.0	24.0
EBIT Margins (%)	17.9	26.2	26.5	19.4	16.7	24.6	21.9	20.0	22.7	21.1	21.9

E: MOFSL Estimates

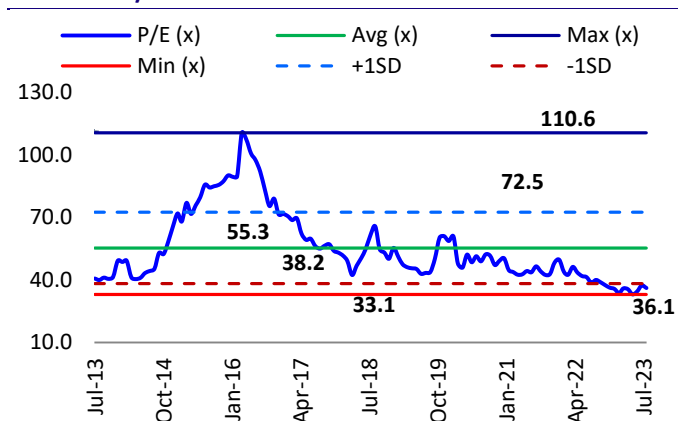
Strong brand recall/new launches to offset NLEM impact

- The General Medicine portfolio (80% of revenue) saw double-digit growth due to strong growth in key brands such as Augmentin, Ceftum, T-Bact, and CCM.
- Other products such as Nucala and Trelegy Ellipta would be an interesting product over the medium term in the Asthma segment.
- We expect the vaccine business (20% of revenue) to experience growth, driven by the stabilization of the National Immunization Program (NIP) and an accelerated expansion in the self-pay market.
- Additionally, due to focused efforts on the specialty products and differentiated launches, we expect a 7% revenue CAGR over FY23-25.

Reiterate Neutral

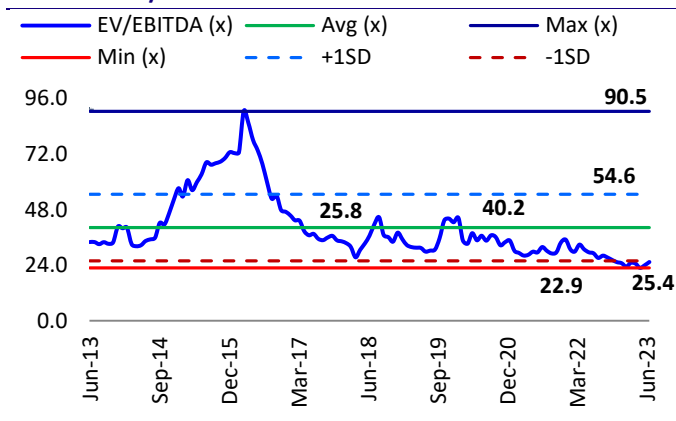
- We reduce our earnings estimate by 4%/2% for FY24/FY25 factoring a) the increased investment required for the Shangrix launch, and b) the gradual pick-up in the vaccines business. We continue to value GLXO at 31x 12M forward earnings to arrive at price target of INR1,310.
- Although superior execution on new launches and existing brands is expected to partially mitigate the impact of adverse pricing, we believe that the current valuation already adequately reflects the potential earnings upside. Maintain Neutral.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

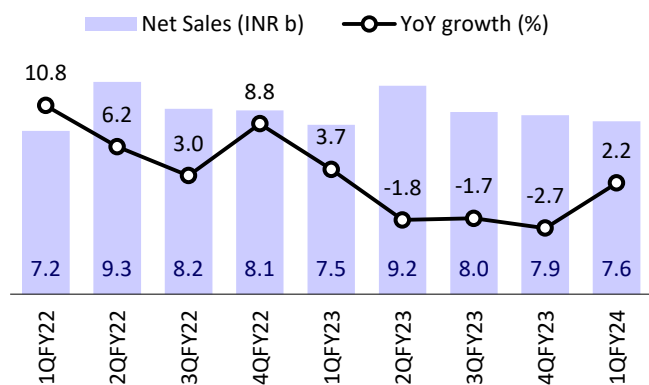
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

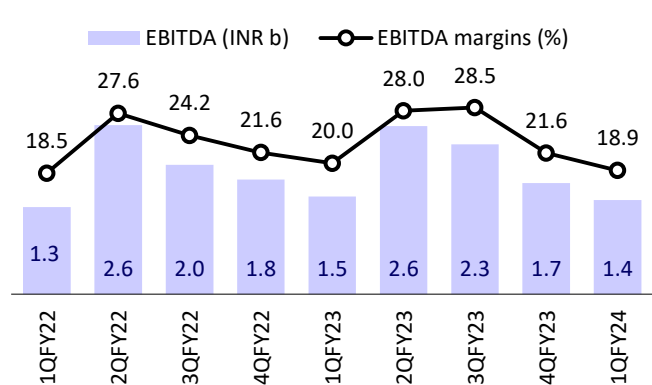
Story in charts

Exhibit 3: Sales grew 2% YoY in 1QFY24



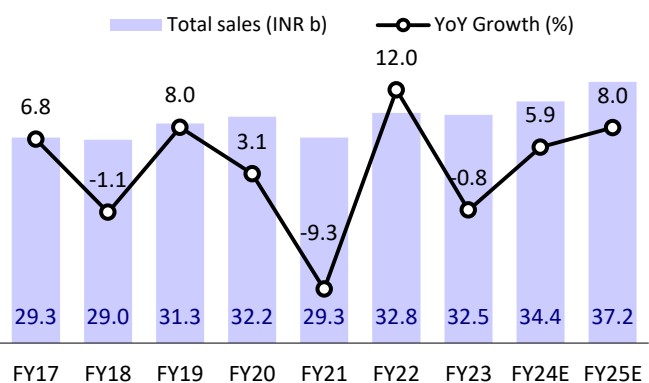
Source: Company, MOFSL

Exhibit 4: EBITDA margin declined 110bp YoY in 1QFY24



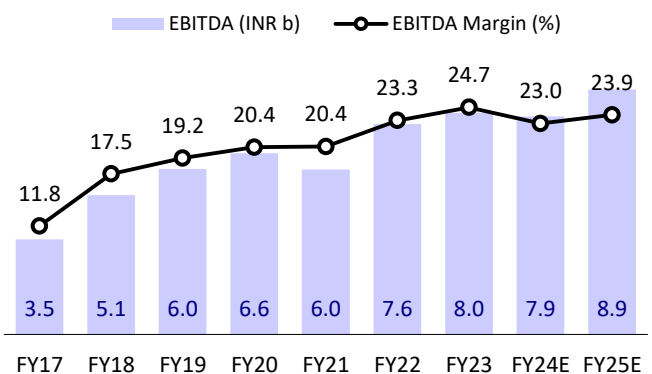
Source: Company, MOFSL

Exhibit 5: Revenue CAGR of 7% estimated over FY23-25



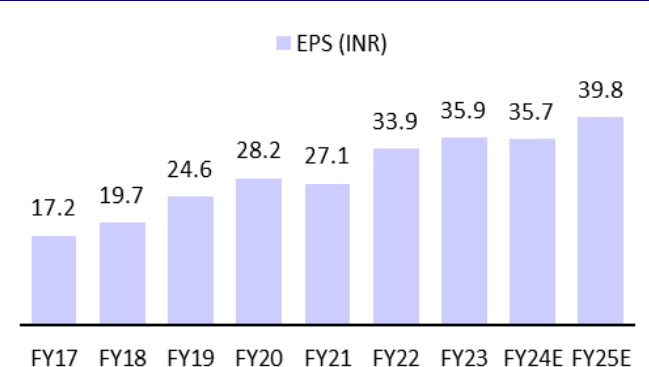
Source: Company, MOFSL

Exhibit 6: Expect margins to be on a slight downtrend over FY23-25



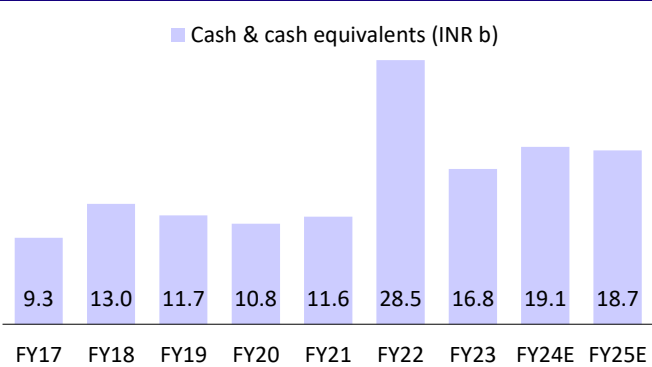
Source: Company, MOFSL

Exhibit 7: Earnings CAGR of ~5% estimated over FY23-25



Source: Company, MOFSL

Exhibit 8: 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	7,908	8,891
Change (%)	18.8	9.4	-9.0	27.7	5.3	-1.7	12.4
Margin (%)	19.2	20.4	20.4	23.3	24.7	23.0	23.9
Depreciation	486	827	786	682	658	656	645
EBIT	5,522	5,746	5,195	6,957	7,385	7,252	8,246
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	8,162	9,134
Tax	2,373	1,698	1,667	1,953	2,288	2,122	2,393
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	6,040	6,741
Change (%)	25.2	14.6	-3.8	24.9	6.0	-0.8	11.6
One-off income (net of tax)	-21	-3,843	-1,726	116	10	173	0
Reported PAT	4,454	932	2,873	5,858	6,096	6,213	6,741

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	18,849	20,915
Capital Reserve	17	17	17	17	17	17	17
Net Worth	21,398	18,206	14,991	26,630	18,634	20,560	22,626
Loans	2	0	0	0	0	0	0
Capital Employed	21,400	18,206	14,991	26,630	18,634	20,561	22,626
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	25,897	28,306
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	14,119	13,726
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	9,475	11,686
Deferred Tax Assets	622	1105	1031	1132	1336	1336	1336
Appl. of Funds	21,400	18,206	14,991	26,630	18,634	20,561	22,626

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	35.7	39.8
Cash EPS	27.5	33.1	31.8	37.9	39.8	39.5	43.6
BV/Share	126.3	107.5	88.5	157.2	110.0	121.4	133.6
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	74.3	72.6
Valuation							
P/E	56.9	49.7	51.6	41.3	39.0	39.3	35.2
Cash P/E	51.0	42.3	44.1	36.9	35.2	35.4	32.1
P/BV	11.1	13.0	15.8	8.9	12.7	11.5	10.5
EV/Sales	7.2	7.0	7.7	6.4	6.8	6.3	5.9
EV/EBITDA	37.5	34.4	37.7	27.3	27.4	27.5	24.5
Dividend Yield (%)	1.4	1.4	2.1	2.1	1.4	1.6	1.7

Return Ratios (%)

RoE	19.5	26.2	30.7	21.6	32.7	29.4	29.8
RoCE	19.9	24.3	27.9	27.7	26.9	30.9	31.3

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
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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	7,908	8,891
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	-2,122	-2,393
(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	7,192	4,804
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	7,192	4,804
(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	6,692	4,304
(Pur)/Sale of Investments	1	2	1	-3,655	-1,526	173	0
CF from investments	-1,535	-568	4,180	-4,055	-2,424	-327	-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	2,560	-395
Add: Beginning Balance	2,011	988	1,048	4,052	2,862	-10,425	-7,865
Closing Balance	988	1,048	4,052	2,862	-10,425	-7,865	-8,260
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	14,119	13,726

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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