

GSK Pharma

Estimate change



TP change



Rating change



CMP: INR1,449

TP: INR1,480 (+2%)

Neutral

Vaccines witness pick-up in growth

Exploring strategies to enhance reach/coverage

- Glaxo Pharma (GLXO) delivered in-line revenue. However, EBITDA/PAT was better than expected, driven by lower raw material cost and increased benefit from marketing activities.
- We raise our earnings estimate by 5%/3% for FY24/FY25, factoring a) improved outlook on vaccine, and b) market share gain in key promoted brands. We value GLXO at 32x 12M forward earnings to arrive at a price target of INR1,480.
- We expect GLXO to deliver 7% revenue CAGR, in line with industry growth over the next two years. The pick-up in vaccines off-take and consistent leadership for brands in anti-infectives/dermatology categories would improve growth prospects for GLXO. Considering limited upside from the current valuation, we maintain our Neutral stance on the stock.

Therapy mix/lower RM cost led better profitability YoY

- GSK Pharma (GLXO) revenue grew 4.4% YoY to INR9.6b (in line).
- Gross margin (GM) expanded 280bp YoY at 63%, due to a change in product mix and lower RM cost.
- Consequently, EBITDA margin expanded 220bp YoY to 30% (our est: 26.1%) due to higher GMs, lower employee expenses (down 300bp YoY as % of sales), partly offset by an increase in other expenses (up 90bp YoY as % of sales).
- EBITDA grew 12.7% YoY to INR2.9b (vs. est. of INR2.5b).
- Adj. PAT for GLXO grew 12.5% YoY to INR2.2b for the quarter (our est. INR2b).
- During 1HFY24, Revenue/EBITDA/PAT grew 3%/7%/7% YoY to INR17b/INR4b/INR3b.

Key highlights from the management commentary

- GLXO indicated a double-digit YoY growth over the next two-three years, driven by investments in focused brands, the launch of specialty products, volume growth, and market share gain.
- In 2QFY24, strong performance in vaccines was offset by muted performance in the Anti-infective/Pain/Hormones as per IMS.
- The vaccine segment grew 21.3% YoY for 2QFY24 compared to a growth of 17.6% YoY at the industry level, as per IMS. Also, during Sept'23, the vaccine portfolio outperformed the IPM by 14.7%.
- With the launch of Shringix in 1QFY24, GLXO is witnessing a gradual rampup of the drug in the Indian market.
- The increasing demand for products including Trelegy and Nucala is propelling GLXO's specialty portfolio growth.

| | |
|-----------------------|-------------|
| Bloomberg | GLXO IN |
| Equity Shares (m) | 169 |
| M.Cap.(INRb)/(USDb) | 245.5 / 2.9 |
| 52-Week Range (INR) | 1624 / 1227 |
| 1, 6, 12 Rel. Per (%) | -5/7/1 |
| 12M Avg Val (INR M) | 96 |

Financials & valuations(INR b)

| Y/E MARCH | FY23 | FY24E | FY25E |
|----------------------|-------|-------|-------|
| Sales | 32.5 | 34.8 | 37.6 |
| EBITDA | 8.0 | 8.5 | 9.4 |
| Adj. PAT | 6.1 | 6.5 | 7.1 |
| EBIT Margin (%) | 22.7 | 22.5 | 23.4 |
| Cons. Adj. EPS (INR) | 35.9 | 38.1 | 42.1 |
| EPS Gr. (%) | 6.0 | 6.1 | 10.5 |
| BV/Sh. (INR) | 110.0 | 123.8 | 138.4 |

Ratios

| | | | |
|------------|------|------|------|
| Net D:E | -0.6 | -0.7 | -0.6 |
| RoE (%) | 32.7 | 30.8 | 30.4 |
| RoCE (%) | 26.9 | 32.7 | 32.2 |
| Payout (%) | 67.0 | 69.4 | 68.6 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 40.4 | 38.0 | 34.4 |
| EV/EBITDA (x) | 28.5 | 26.6 | 24.0 |
| Div. Yield (%) | 1.4 | 1.5 | 1.7 |
| FCF Yield (%) | 1.3 | 2.9 | 1.9 |
| EV/Sales (x) | 7.0 | 6.5 | 6.0 |

Shareholding pattern (%)

| As On | Sep-23 | Jun-23 | Sep-22 |
|----------|--------|--------|--------|
| Promoter | 75.0 | 75.0 | 75.0 |
| DII | 10.0 | 10.3 | 10.5 |
| FII | 2.5 | 2.4 | 2.2 |
| Others | 12.5 | 12.3 | 12.3 |

FII Includes depository receipts

Quarterly Performance (Consolidated)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | | Chg. (%) |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|-------|----------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | |
| Net Sales | 7,451 | 9,169 | 8,023 | 7,875 | 7,617 | 9,570 | 8,586 | 9,000 | 32,517 | 34,773 | 9,588 | 0% |
| YoY Change (%) | 3.7 | -1.8 | -1.7 | -2.7 | 2.2 | 4.4 | 7.0 | 14.3 | -0.8 | 6.9 | 4.6 | |
| Total Expenditure | 5,962 | 6,599 | 5,736 | 6,177 | 6,178 | 6,675 | 6,371 | 7,073 | 24,474 | 26,297 | 7,085 | |
| EBITDA | 1,489 | 2,569 | 2,287 | 1,697 | 1,439 | 2,895 | 2,215 | 1,927 | 8,043 | 8,476 | 2,502 | 16% |
| YoY Change (%) | 12.2 | -0.4 | 15.6 | -3.1 | -3.4 | 12.7 | -3.1 | 13.5 | 5.3 | 5.4 | -2.6 | |
| Margins (%) | 20.0 | 28.0 | 28.5 | 21.6 | 18.9 | 30.3 | 25.8 | 21.4 | 24.7 | 24.4 | 26.1 | |
| Depreciation | 158 | 164 | 164 | 172 | 164 | 181 | 166 | 146 | 658 | 656 | 163 | |
| EBIT | 1,331 | 2,406 | 2,123 | 1,526 | 1,276 | 2,714 | 2,049 | 1,782 | 7,385 | 7,820 | 2,339 | |
| YoY Change (%) | 15.6 | 0.0 | 18.0 | -4.6 | -4.2 | 12.8 | -3.5 | 16.8 | 6.2 | 5.9 | -2.8 | |
| Margins (%) | 17.9 | 26.2 | 26.5 | 19.4 | 16.7 | 28.4 | 23.9 | 19.8 | 22.7 | 22.5 | 24.4 | |
| Interest | 7 | 4 | 1 | 7 | 3 | 4 | 4 | 9 | 18 | 20 | 3 | |
| Other Income | 276 | 220 | 234 | 277 | 364 | 282 | 282 | 2 | 1,006 | 930 | 364 | |
| PBT before EO Expense | 1,600 | 2,622 | 2,356 | 1,796 | 1,637 | 2,992 | 2,327 | 1,775 | 8,373 | 8,730 | 2,701 | |
| Tax | 438 | 687 | 597 | 565 | 487 | 817 | 593 | 373 | 2,288 | 2,270 | 702 | |
| Rate (%) | 27.4 | 26.2 | 25.3 | 31.5 | 29.8 | 27.3 | 25.5 | 21.0 | 25.1 | 26.0 | 26.0 | |
| Adjusted PAT | 1,162 | 1,934 | 1,759 | 1,230 | 1,150 | 2,175 | 1,734 | 1,402 | 6,086 | 6,460 | 1,998 | 9% |
| YoY Change (%) | 8.3 | 1.4 | 12.6 | 2.7 | -1.1 | 12.5 | -1.5 | 14.0 | 6.0 | 6.1 | 3.3 | |
| Margins (%) | 15.6 | 21.1 | 21.9 | 15.6 | 15.1 | 22.7 | 20.2 | 15.6 | 18.7 | 18.6 | 20.8 | |
| 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 | 2,175 | 1,734 | 1,402 | 6,075 | 6,633 | 1,998 | 9% |

Key performance Indicators (Consolidated)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E |
|-------------------------|------|------|------|------|-------|------|------|------|------|-------|-------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| Cost Break-up | | | | | | | | | | | |
| RM Cost (% of Sales) | 38.5 | 39.8 | 35.9 | 43.8 | 38.9 | 37.0 | 38.0 | 42.9 | 38.5 | 39.8 | 40.0 |
| Staff Cost (% of Sales) | 20.3 | 15.5 | 19.1 | 18.9 | 21.7 | 15.2 | 17.2 | 17.2 | 20.3 | 15.5 | 17.7 |
| Other Cost (% of Sales) | 21.2 | 16.7 | 16.5 | 15.8 | 20.6 | 17.5 | 19.0 | 18.5 | 21.2 | 16.7 | 16.2 |
| Gross Margins(%) | 61.5 | 60.2 | 64.1 | 56.2 | 61.1 | 63.0 | 62.0 | 57.1 | 61.5 | 60.2 | 60.0 |
| EBITDA Margins(%) | 20.0 | 28.0 | 28.5 | 21.6 | 18.9 | 30.3 | 25.8 | 21.4 | 24.7 | 24.4 | 26.1 |
| EBIT Margins(%) | 17.9 | 26.2 | 26.5 | 19.4 | 16.7 | 28.4 | 23.9 | 19.8 | 22.7 | 22.5 | 24.4 |

E: MOFSL Estimates

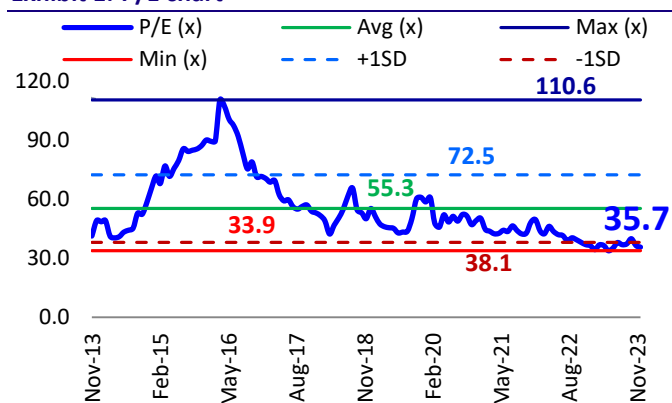
New initiatives/revival of vaccine segment to drive growth over medium term

- The General Medicine portfolio (80% of revenue) drives the overall sales growth with Neosproin/Infanrix Hexa growing at a faster pace than the respective therapy.
- Also, with the inclusion of products in the NLEM, GLXO is actively working on mitigating the impact of NLEM-led price reductions. This effort involves increasing sales volume, implementing inflation-linked price hikes, and adopting cost optimization strategy.
- Besides this, with addition of Nucala and Trelegy Ellipta in the specialty segment, GLXO is focusing on innovative offerings in the respiratory segment, which serves as an additional growth driver.
- Accordingly, we expect a 7% revenue CAGR to INR37.6b over FY23-25.

Reiterate Neutral

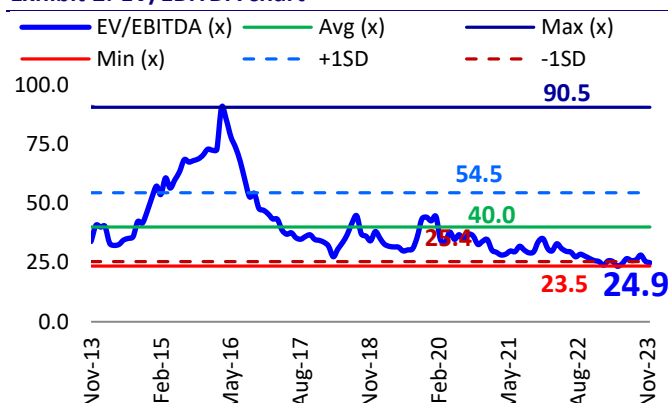
- We raise our earnings estimate by 5%/3% for FY24/FY25 factoring a) improved outlook on vaccine, and b) market share gain in key promoted brands. We value GLXO at 32x 12M forward earnings to arrive at a price target of INR1,480.
- We expect GLXO to deliver 7% revenue CAGR, in line with industry growth over the next two years. The pick-up in vaccines off-take and consistent leadership for brands in anti-infectives/dermatology categories would improve growth prospects for GLXO. Considering the limited upside potential from the current valuation, we maintain our Neutral stance on the stock.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

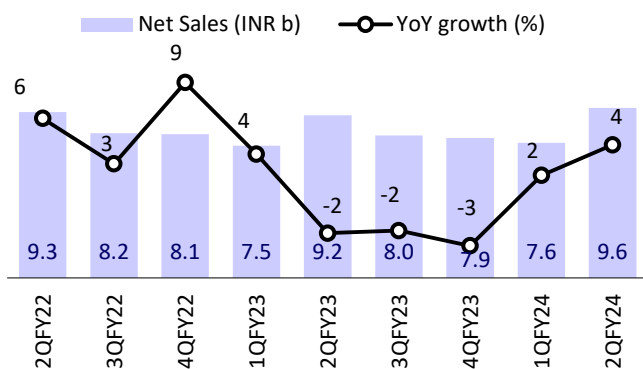
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

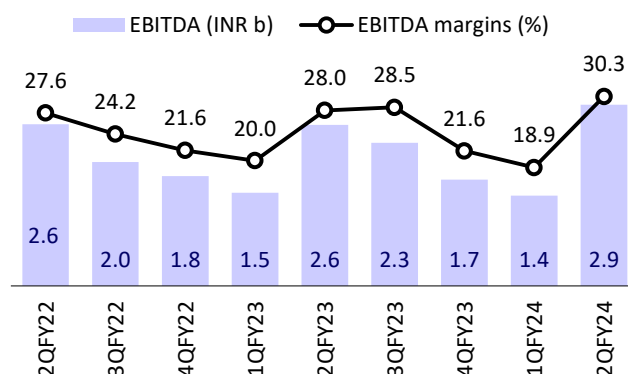
Story in charts

Exhibit 3: Sales grew 4% YoY in 2QFY24



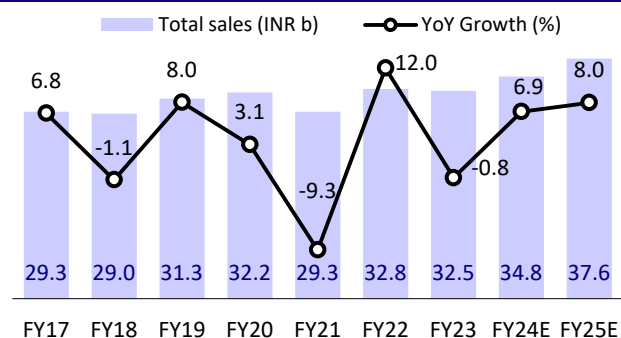
Source: Company, MOFSL

Exhibit 4: EBITDA margin declined 220bp YoY in 2QFY24



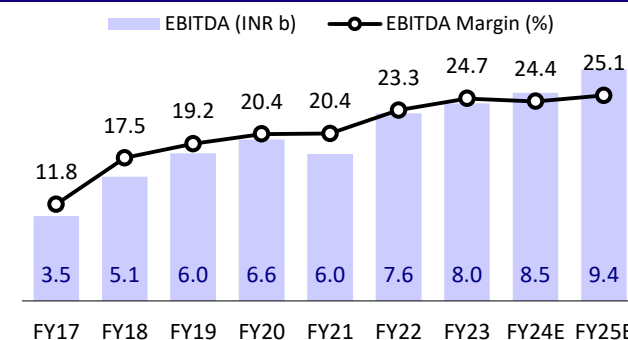
Source: Company, MOFSL

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



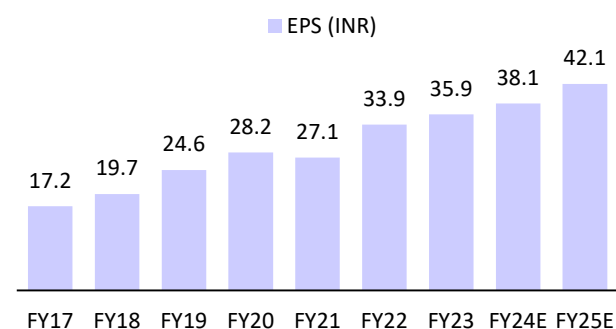
Source: Company, MOFSL

Exhibit 6: Expect margins to be stable over FY23-25



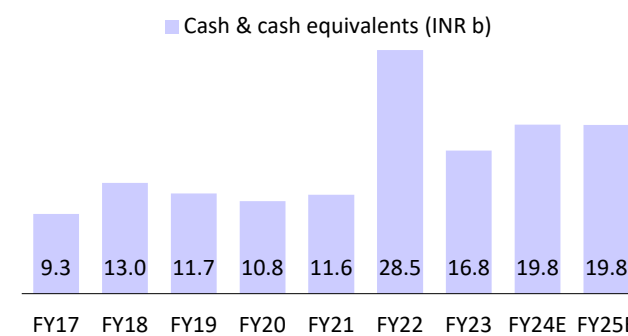
Source: Company, MOFSL

Exhibit 7: Earnings CAGR of ~8% 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 | 34,773 | 37,555 |
| Change (%) | 8.0 | 3.1 | -9.3 | 12.0 | -0.8 | 6.9 | 8.0 |
| EBITDA | 6,008 | 6,573 | 5,981 | 7,639 | 8,043 | 8,476 | 9,427 |
| Change (%) | 18.8 | 9.4 | -9.0 | 27.7 | 5.3 | 5.4 | 11.2 |
| Margin (%) | 19.2 | 20.4 | 20.4 | 23.3 | 24.7 | 24.4 | 25.1 |
| Depreciation | 486 | 827 | 786 | 682 | 658 | 656 | 645 |
| EBIT | 5,522 | 5,746 | 5,195 | 6,957 | 7,385 | 7,820 | 8,782 |
| 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 | 8,730 | 9,670 |
| Tax | 2,373 | 1,698 | 1,667 | 1,953 | 2,288 | 2,270 | 2,534 |
| 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 | 6,460 | 7,136 |
| Change (%) | 25.2 | 14.6 | -3.8 | 24.9 | 6.0 | 6.1 | 10.5 |
| One-off income (net of tax) | -21 | -3,843 | -1,726 | 116 | 10 | 173 | 0 |
| Reported PAT Before Disc. Operations | 4,454 | 932 | 2,873 | 5,858 | 6,096 | 6,633 | 7,136 |

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 | 19,270 | 21,731 |
| Capital Reserve | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Net Worth | 21,398 | 18,206 | 14,991 | 26,630 | 18,634 | 20,981 | 23,442 |
| Loans | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Employed | 21,400 | 18,206 | 14,991 | 26,630 | 18,634 | 20,981 | 23,442 |
| 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 | 26,477 | 29,283 |
| Inventory | 4,865 | 4,830 | 5,467 | 5,347 | 4,600 | 5,112 | 5,521 |
| Account Receivables | 1,205 | 998 | 2,156 | 2,052 | 1,924 | 1,913 | 2,066 |
| Cash & Bank Balance | 11,714 | 10,832 | 11,580 | 24,845 | 11,559 | 14,585 | 14,561 |
| Others | 6,364 | 4,808 | 6,911 | 5,689 | 5,162 | 4,868 | 7,135 |
| Curr. Liability & Prov. | 17,713 | 13,149 | 16,143 | 19,703 | 15,853 | 16,581 | 16,781 |
| Account Payables | 13,642 | 7,763 | 11,006 | 13,801 | 9,127 | 9,389 | 9,013 |
| Provisions | 4,071 | 5,386 | 5,137 | 5,902 | 6,726 | 7,193 | 7,768 |
| Net Current Assets | 6,435 | 8,319 | 9,971 | 18,231 | 7,392 | 9,896 | 12,502 |
| Deferred Tax Assets | 622 | 1105 | 1031 | 1132 | 1336 | 1336 | 1336 |
| Appl. of Funds | 21,400 | 18,206 | 14,991 | 26,630 | 18,634 | 20,981 | 23,442 |

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 | 38.1 | 42.1 |
| Cash EPS | 27.5 | 33.1 | 31.8 | 37.9 | 39.8 | 42.0 | 45.9 |
| BV/Share | 126.3 | 107.5 | 88.5 | 157.2 | 110.0 | 123.8 | 138.4 |
| 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 | 69.4 | 68.6 |
| Valuation | | | | | | | |
| P/E | 58.9 | 51.4 | 53.5 | 42.8 | 40.4 | 38.0 | 34.4 |
| Cash P/E | 52.8 | 43.9 | 45.6 | 38.3 | 36.4 | 34.5 | 31.6 |
| P/BV | 11.5 | 13.5 | 16.4 | 9.2 | 13.2 | 11.7 | 10.5 |
| EV/Sales | 7.5 | 7.3 | 8.0 | 6.6 | 7.0 | 6.5 | 6.0 |
| EV/EBITDA | 38.9 | 35.7 | 39.1 | 28.4 | 28.5 | 26.6 | 24.0 |
| Dividend Yield (%) | 1.4 | 1.4 | 2.1 | 2.1 | 1.4 | 1.5 | 1.7 |
| Return Ratios (%) | | | | | | | |
| RoE | 19.5 | 26.2 | 30.7 | 21.6 | 32.7 | 30.8 | 30.4 |
| RoCE | 19.9 | 24.3 | 27.9 | 27.7 | 26.9 | 32.7 | 32.2 |
| Working Capital Ratios | | | | | | | |
| Fixed Asset Turnover (x) | 8.3 | 5.4 | 5.1 | 9.2 | 8.3 | 7.8 | 8.8 |
| 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 | 8,476 | 9,427 |
| 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 | -2,270 | -2,534 |
| (Inc)/Dec in WC | -619 | -2,766 | -904 | 5,006 | -2,447 | 521 | -2,629 |
| CF from Operations | 4,434 | -1,427 | 2,864 | 11,465 | 4,121 | 7,658 | 5,174 |
| 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 | 7,658 | 5,174 |
| (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 | 7,158 | 4,674 |
| (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 | 3,026 | -25 |
| Add: Beginning Balance | 2,011 | 988 | 1,048 | 4,052 | 2,862 | -10,425 | -7,399 |
| Closing Balance | 988 | 1,048 | 4,052 | 2,862 | -10,425 | -7,399 | -7,424 |
| 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 | 14,585 | 14,562 |

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|----------------------------------|--|
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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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