

Estimate change 

TP change 

Rating change 

**CMP: INR2,340 TP: INR2,200 (-6%)**

**Neutral**

## 3Q-operationally in-line; vaccines off-take on rise

### Efforts underway to enhance innovative products prospects

- GSK Pharma (GLXO) delivered operationally in-line 3QFY24 performance. While YoY sales growth was lower than expected, GLXO delivered better-than-expected margins for the quarter. GLXO continues to enhance marketing efforts toward innovative portfolio, comprising Shingrix, Nucala, and Trelegy. It is also implementing efforts to better industry in its base portfolio.
- We raise our earnings estimate by 6%/3%/2% for FY24/FY25/FY26, driven by a) outperforming industry trends in the general medicines category, b) increased traction in the innovative portfolio, and c) leveraging benefits from lower raw material costs.
- We value GLXO at 40x 12M forward earnings to arrive at a price target of INR2,200.
- While GLXO faced headwinds on account of addition of products under National list of essential medicines (NLEM), it continues to implement efforts to improve business prospects. Having said this, GLXO trades at 54x FY25E EPS of INR43 and 50x FY26E EPS of INR47. We believe that the current valuation adequately captures the upside in earnings. We reiterate our Neutral stance on the stock.

### Inferior product mix drags profitability

- GSK Pharma (GLXO) revenue was flat YoY at INR8b (est. INR8.6b).
- Gross margin (GM) contracted 340bp YoY to 60.7%, due to higher RM cost.
- However, EBITDA margin contracted at a lower rate of 140bp YoY to 27.1% (our est: 25.8%) due to lower GMs, which was offset by lower employee/other expenses (down 150bp/down 50bp YoY as percentage of sales).
- EBITDA grew 4.7% YoY to INR2.2b (vs. our est. of INR2.2b).
- The tax rate for 3QFY24 was lower at 8.6% (vs. 25.3% in 3QFY23).
- GSK had exceptional expenses related to Voluntary retirement Scheme (VRS) and other employees dues totaling to INR2.2b.
- Adjusting for these one-off expenses, PAT for GLXO grew 19% YoY to INR2.1b for the quarter (our est. INR1.7b). Tax rate for the quarter stood at 8.6% vs 25% in 3QFY23.
- In 9MFY24, Revenue/EBITDA/PAT grew 2%/3%/12% YoY to INR25.2b/INR6.5b/INR5.4b.

### Key highlights from the management commentary

- GLXO achieved a 1% value growth despite the adverse impact of NLEM in 3QFY24.
- In 3QFY24, strong performance in Vaccines/VMN was offset by muted performance in the Anti-infective/Derma as per IMS.
- Augmentin improved its market share and retained its no. 1 rank in the IPM.
- As per IMS, the vaccine/VMN segment grew 26.3%/10.8% YoY for 3QFY24, compared to a growth of 8.3% YoY at the industry level.

Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	396.4 / 4.8
52-Week Range (INR)	2650 / 1227
1, 6, 12 Rel. Per (%)	5/51/66
12M Avg Val (INR M)	222

### Financials & valuations(INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	33.9	36.7	39.6
EBITDA	8.6	9.3	10.2
Adj. PAT	6.9	7.4	8.0
EBIT Margin (%)	23.3	23.7	24.1
Cons. Adj. EPS (INR)	40.8	43.4	47.1
EPS Gr. (%)	13.4	6.5	8.5
BV/Sh. (INR)	116.8	132.6	152.1

### Ratios

Net D:E	-0.7	-0.6	-0.7
RoE (%)	34.9	32.7	31.0
RoCE (%)	36.0	34.8	33.1
Payout (%)	65.0	66.5	61.3

### Valuations

P/E (x)	57.4	53.9	49.7
EV/EBITDA (x)	39.1	35.9	32.4
Div. Yield (%)	0.9	1.0	1.0
FCF Yield (%)	2.1	1.4	2.4
EV/Sales (x)	9.9	9.1	8.4

### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	8.7	10.0	10.3
FII	2.9	2.5	2.3
Others	13.4	12.3	12.4

FII Includes depository receipts

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (Sumit.G@MotilalOswal.com) | Akash Manish Dobhada (Akash.Dobhada@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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

## Qtr Perf. (Consol.)

(INRM)

Y/E March	FY23				FY24E				FY23	FY24E	3QE	Chg. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>7,451</b>	<b>9,169</b>	<b>8,023</b>	<b>7,875</b>	<b>7,617</b>	<b>9,570</b>	<b>8,053</b>	<b>8,698</b>	<b>32,517</b>	<b>33,937</b>	<b>8,586</b>	<b>-6%</b>
YoY Change (%)	3.7	-1.8	-1.7	-2.7	2.2	4.4	0.4	10.5	-0.8	4.4	7.0	
Total Expenditure	5,962	6,599	5,736	6,177	6,178	6,675	5,872	6,642	24,474	25,367	6,371	
<b>EBITDA</b>	<b>1,489</b>	<b>2,569</b>	<b>2,287</b>	<b>1,697</b>	<b>1,439</b>	<b>2,895</b>	<b>2,181</b>	<b>2,056</b>	<b>8,043</b>	<b>8,571</b>	<b>2,215</b>	<b>-2%</b>
YoY Change (%)	12.2	-0.4	15.6	-3.1	-3.4	12.7	-4.7	21.1	5.3	6.6	-3.1	
Margins (%)	20.0	28.0	28.5	21.6	18.9	30.3	27.1	23.6	24.7	25.3	25.8	
Depreciation	158	164	164	172	164	181	171	158	658	674	166	
<b>EBIT</b>	<b>1,331</b>	<b>2,406</b>	<b>2,123</b>	<b>1,526</b>	<b>1,276</b>	<b>2,714</b>	<b>2,010</b>	<b>1,898</b>	<b>7,385</b>	<b>7,897</b>	<b>2,049</b>	
YoY Change (%)	15.6	0.0	18.0	-4.6	-4.2	12.8	-5.3	24.4	6.2	6.9	-3.5	
Margins (%)	17.9	26.2	26.5	19.4	16.7	28.4	25.0	21.8	22.7	23.3	23.9	
Interest	7	4	1	7	3	4	3	3	18	13	4	
Other Income	276	220	234	277	364	282	281	273	1,006	1,200	282	
<b>PBT before EO Expense</b>	<b>1,600</b>	<b>2,622</b>	<b>2,356</b>	<b>1,796</b>	<b>1,637</b>	<b>2,992</b>	<b>2,287</b>	<b>2,168</b>	<b>8,373</b>	<b>9,084</b>	<b>2,327</b>	
Tax	438	687	597	565	487	817	197	679	2,288	2,180	593	
Rate (%)	27.4	26.2	25.3	31.5	29.8	27.3	8.6	31.3	25.1	24.0	25.5	
<b>Adjusted PAT</b>	<b>1,162</b>	<b>1,934</b>	<b>1,759</b>	<b>1,230</b>	<b>1,150</b>	<b>2,175</b>	<b>2,090</b>	<b>1,489</b>	<b>6,086</b>	<b>6,904</b>	<b>1,734</b>	<b>21%</b>
YoY Change (%)	8.3	1.4	12.6	2.7	-1.1	12.5	18.8	21.0	6.0	13.4	-1.5	
Margins (%)	15.6	21.1	21.9	15.6	15.1	22.7	26.0	17.1	18.7	20.3	20.2	
One-off Expense/(Income)	0	0	114	-104	-173	0	1,633	0	10	1,460	0	
<b>Reported PAT</b>	<b>1,162</b>	<b>1,934</b>	<b>1,646</b>	<b>1,334</b>	<b>1,323</b>	<b>2,175</b>	<b>457</b>	<b>1,489</b>	<b>6,075</b>	<b>5,443</b>	<b>1,734</b>	<b>-74%</b>

## KPIs (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E 3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Cost Break-up</b>											
RM Cost (% of Sales)	38.5	39.8	35.9	43.8	38.9	37.0	39.3	38.8	38.5	39.8	39.3
Staff Cost (% of Sales)	20.3	15.5	19.1	18.9	21.7	15.2	17.6	17.5	20.3	15.5	17.6
Other Cost (% of Sales)	21.2	16.7	16.5	15.8	20.6	17.5	16.0	20.0	21.2	16.7	16.0
Gross Margins(%)	61.5	60.2	64.1	56.2	61.1	63.0	60.7	61.2	61.5	60.2	60.7
EBITDA Margins(%)	20.0	28.0	28.5	21.6	18.9	30.3	27.1	23.6	24.7	25.3	25.8
EBIT Margins(%)	17.9	26.2	26.5	19.4	16.7	28.4	25.0	21.8	22.7	23.3	23.9

E: MOFSL Estimates

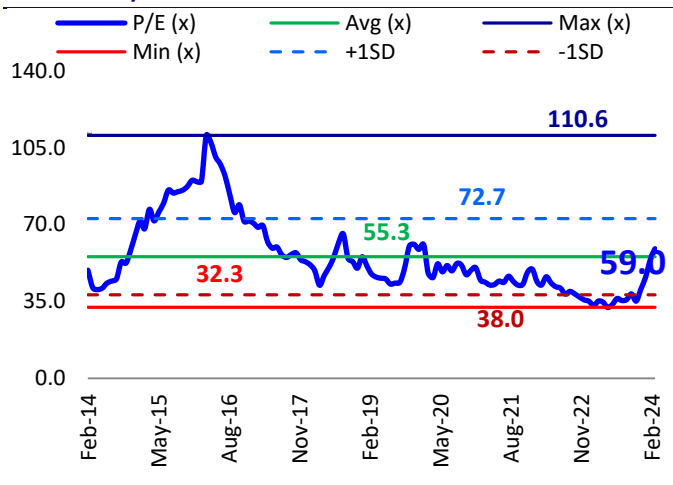
### Focus on specialty portfolio/new initiatives to drive overall growth

- GLXO is witnessing strong demand in its specialty portfolio, comprising Shingrix, Nucala, and Trelegy.
- It plans to continue to invest in building newer capabilities to improve reach and access for its specialty portfolio. It is targeting new therapy areas such as Adult Immunization with products such as Shingrix.
- It plans to drive operational efficiency and explore new innovative solutions, including Omnichannel Strategy to expand reach and coverage to the target segments.
- The overall sales growth is majorly being driven by general medicine portfolio. The products such as Neosproin/Infanrix Hexa are growing at a faster pace than the respective therapy.
- Accordingly, we expect an 8% revenue CAGR to INR39.6b over FY24-26.

**Reiterate Neutral**

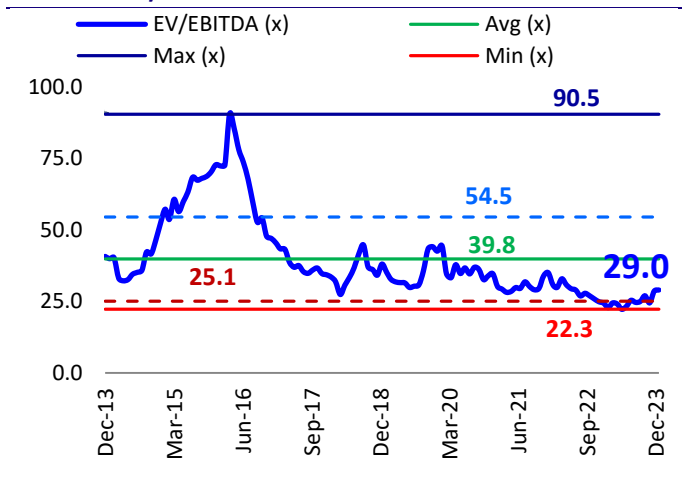
- We raise our earnings estimate by 6%/3%/2% for FY24/FY25/FY26, driven by a) outperforming industry trends in the general medicines category, b) increased traction in innovative portfolio and c) leveraging benefits from lower raw material costs. We value GLXO at 40x 12M forward earnings to arrive at a price target of INR2,200.
- While GLXO faced headwinds due to the inclusion of products under National list of essential medicines (NLEM), it remains committed to implementing strategies to improve business prospects. Having said this, GLXO trades at 54x FY25E EPS of INR43 and 50x FY26E EPS of INR47. We believe that the current valuation adequately captures upside in earnings. We reiterate our Neutral stance on the stock.

**Exhibit 1: P/E chart**



Source: MOFSL, Company, Bloomberg

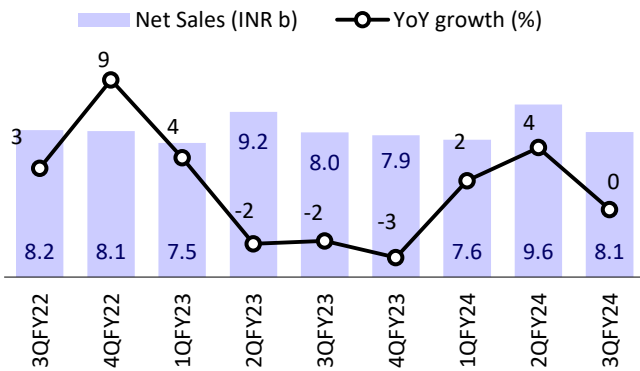
**Exhibit 2: EV/EBITDA chart**



Source: MOFSL, Company, Bloomberg

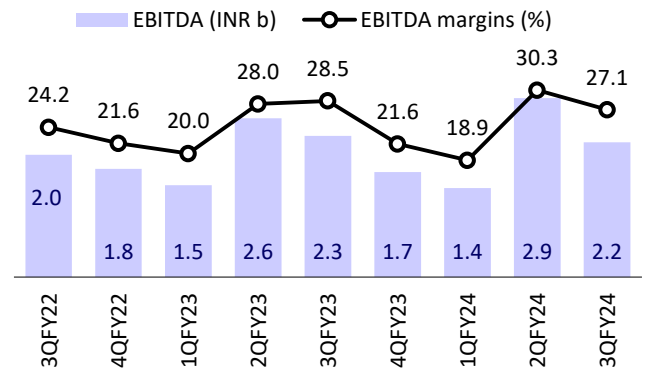
Story in charts

Exhibit 3: Sales were flat YoY in 3QFY24



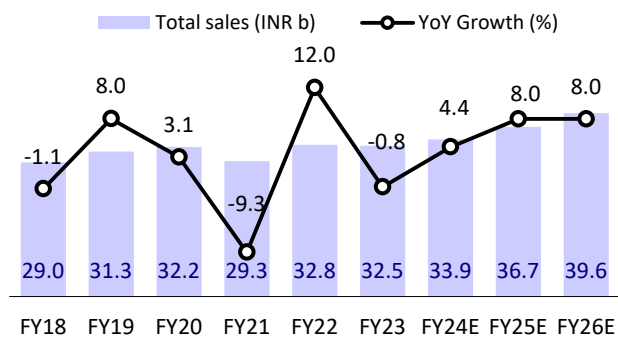
Source: Company, MOFSL

Exhibit 4: EBITDA margin declined 140bp YoY in 3QFY24



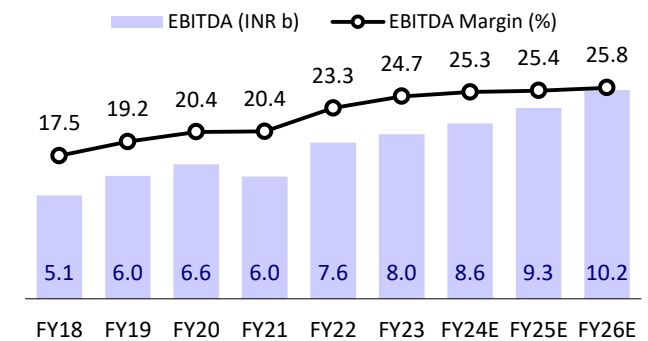
Source: Company, MOFSL

Exhibit 5: Revenue CAGR of 8% estimated over FY24-26



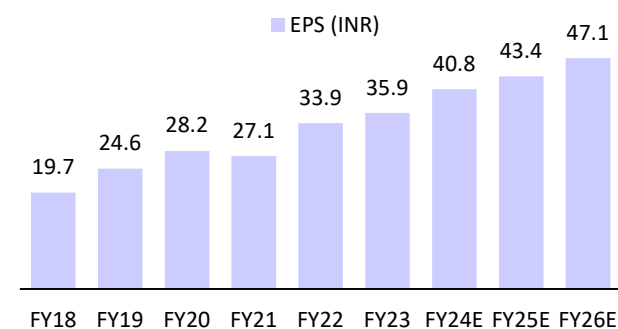
Source: Company, MOFSL

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



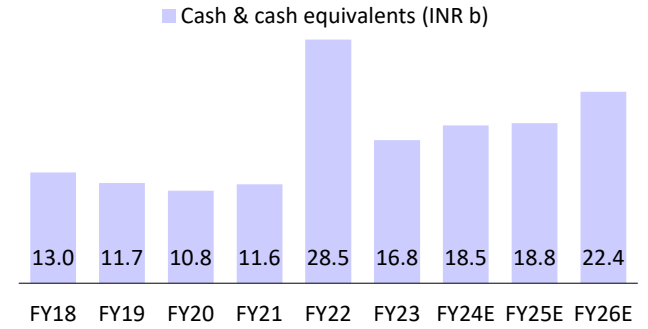
Source: Company, MOFSL

Exhibit 7: Earnings CAGR of ~8% estimated over FY24-26



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	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>28,957</b>	<b>31,281</b>	<b>32,244</b>	<b>29,256</b>	<b>32,780</b>	<b>32,517</b>	<b>33,937</b>	<b>36,652</b>	<b>39,585</b>
Change (%)	-1.1	8.0	3.1	-9.3	12.0	-0.8	4.4	8.0	8.0
<b>EBITDA</b>	<b>5,058</b>	<b>6,008</b>	<b>6,573</b>	<b>5,981</b>	<b>7,639</b>	<b>8,043</b>	<b>8,571</b>	<b>9,322</b>	<b>10,205</b>
Change (%)	46.4	18.8	9.4	-9.0	27.7	5.3	6.6	8.8	9.5
Margin (%)	17.5	19.2	20.4	20.4	23.3	24.7	25.3	25.4	25.8
Depreciation	380	486	827	786	682	658	674	645	679
<b>EBIT</b>	<b>4,678</b>	<b>5,522</b>	<b>5,746</b>	<b>5,195</b>	<b>6,957</b>	<b>7,385</b>	<b>7,897</b>	<b>8,677</b>	<b>9,526</b>
Int. and Fin. Charges	2	6	63	35	20	18	13	12	12
Other Income - Rec.	545	1,023	790	1,106	758	1,007	1,200	1,300	1,300
<b>PBT</b>	<b>5,222</b>	<b>6,540</b>	<b>6,472</b>	<b>6,266</b>	<b>7,695</b>	<b>8,374</b>	<b>9,084</b>	<b>9,965</b>	<b>10,814</b>
Tax	1,893	2,373	1,698	1,667	1,953	2,288	2,180	2,611	2,833
Tax Rate (%)	36.2	36.3	26.2	26.6	25.4	27.3	24.0	26.2	26.2
<b>Adj PAT</b>	<b>3,329</b>	<b>4,167</b>	<b>4,775</b>	<b>4,596</b>	<b>5,739</b>	<b>6,086</b>	<b>6,904</b>	<b>7,354</b>	<b>7,981</b>
Change (%)	14.4	25.2	14.6	-3.8	24.9	6.0	13.4	6.5	8.5
One-off income (net of tax)	178	-21	-3,843	-1,726	116	10	-1,460	0	0
<b>Reported PAT Before Disc. Operations</b>	<b>3,507</b>	<b>4,454</b>	<b>932</b>	<b>2,873</b>	<b>5,858</b>	<b>6,096</b>	<b>5,443</b>	<b>7,354</b>	<b>7,981</b>

### Balance Sheet

(INR m)

Y/E December	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	847	1,694	1,694	1,694	1,694	1,694	1,694	1,694	1,694
Reserves	19,709	19,687	16,495	13,280	24,919	16,923	18,080	20,759	24,064
Capital Reserve	17	17	17	17	17	17	17	17	17
<b>Net Worth</b>	<b>20,573</b>	<b>21,398</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>18,634</b>	<b>19,791</b>	<b>22,470</b>	<b>25,775</b>
Loans	6	2	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>20,579</b>	<b>21,400</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>18,634</b>	<b>19,792</b>	<b>22,470</b>	<b>25,775</b>
Gross Block	4,020	5,590	10,190	6,740	7,740	8,740	9,240	9,740	10,240
Less: Accum. Deprn.	792	1,278	2,105	2,891	3,573	4,230	4,904	5,550	6,229
<b>Net Fixed Assets</b>	<b>3,228</b>	<b>4,300</b>	<b>7,566</b>	<b>3,843</b>	<b>3,294</b>	<b>4,510</b>	<b>4,336</b>	<b>4,190</b>	<b>4,011</b>
Capital WIP	9,229	10,026	1,201	132	305	203	203	203	203
Investments	18	17	15	14	3,668	5,194	5,194	5,194	5,194
<b>Curr. Assets</b>	<b>25,962</b>	<b>24,148</b>	<b>21,469</b>	<b>26,114</b>	<b>37,934</b>	<b>23,245</b>	<b>24,907</b>	<b>27,926</b>	<b>32,720</b>
Inventory	5,002	4,865	4,830	5,467	5,347	4,600	4,989	5,388	5,819
Account Receivables	1,470	1,205	998	2,156	2,052	1,924	1,867	2,016	2,177
Cash & Bank Balance	12,964	11,714	10,832	11,580	24,845	11,559	13,300	13,558	17,203
Others	6,527	6,364	4,808	6,911	5,689	5,162	4,751	6,964	7,521
<b>Curr. Liability &amp; Prov.</b>	<b>18,896</b>	<b>17,713</b>	<b>13,149</b>	<b>16,143</b>	<b>19,703</b>	<b>15,853</b>	<b>16,183</b>	<b>16,378</b>	<b>17,688</b>
Account Payables	15,046	13,642	7,763	11,006	13,801	9,127	9,163	8,797	9,500
Provisions	3,850	4,071	5,386	5,137	5,902	6,726	7,020	7,581	8,188
<b>Net Current Assets</b>	<b>7,066</b>	<b>6,435</b>	<b>8,319</b>	<b>9,971</b>	<b>18,231</b>	<b>7,392</b>	<b>8,724</b>	<b>11,548</b>	<b>15,032</b>
Deferred Tax Assets	1037	622	1105	1031	1132	1336	1336	1336	1336
<b>Appl. of Funds</b>	<b>20,579</b>	<b>21,400</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>18,634</b>	<b>19,792</b>	<b>22,470</b>	<b>25,775</b>

## Financials and valuations

### Ratios

Y/E December	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>EPS</b>	<b>19.7</b>	<b>24.6</b>	<b>28.2</b>	<b>27.1</b>	<b>33.9</b>	<b>35.9</b>	<b>40.8</b>	<b>43.4</b>	<b>47.1</b>
Cash EPS	21.9	27.5	33.1	31.8	37.9	39.8	44.7	47.2	51.1
BV/Share	121.4	126.3	107.5	88.5	157.2	110.0	116.8	132.6	152.1
DPS	35.0	20.0	20.0	30.0	30.0	20.0	22.0	24.0	24.0
Payout (%)	91.9	97.9	85.4	133.1	106.6	67.0	65.0	66.5	61.3
<b>Valuation</b>									
P/E	119.1	95.1	83.0	86.3	69.1	65.1	57.4	53.9	49.7
Cash P/E	106.9	85.2	70.8	73.7	61.7	58.8	52.3	49.6	45.8
P/BV	19.3	18.5	21.8	26.4	14.9	21.3	20.0	17.6	15.4
EV/Sales	11.8	10.9	10.6	11.7	9.9	10.4	9.9	9.1	8.4
EV/EBITDA	67.3	56.9	52.1	57.2	42.6	41.9	39.1	35.9	32.4
Dividend Yield (%)	1.5	0.9	0.9	1.3	1.3	0.9	0.9	1.0	1.0
<b>Return Ratios (%)</b>									
RoE	16.2	19.5	26.2	30.7	21.6	32.7	34.9	32.7	31.0
RoCE	16.4	19.9	24.3	27.9	27.7	26.9	36.0	34.8	33.1
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	9.5	8.3	5.4	5.1	9.2	8.3	7.7	8.6	9.7
Debtor (Days)	19	14	11	27	23	22	20	20	20
Inventory (Days)	63	57	55	68	60	52	54	54	54
Creditor days	190	159	88	137	154	102	99	88	88
<b>Leverage Ratio</b>									
Debt/Equity	-0.6	-0.5	-0.6	-0.8	-0.9	-0.6	-0.7	-0.6	-0.7

### Cash Flow Statement

(INR m)

Y/E December	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Oper. Profit/(Loss) bef. Tax	5,236	5,987	2,730	4,255	7,755	8,053	8,571	9,322	10,205
Interest/Div. Recd.	545	1,023	790	1,106	758	1,007	1,200	1,300	1,300
Direct Taxes Paid	-2,013	-1,958	-2,180	-1,594	-2,053	-2,491	-2,180	-2,611	-2,833
(Inc)/Dec in WC	7,156	-619	-2,766	-904	5,006	-2,447	409	-2,566	161
<b>CF from Operations</b>	<b>10,925</b>	<b>4,434</b>	<b>-1,427</b>	<b>2,864</b>	<b>11,465</b>	<b>4,121</b>	<b>8,000</b>	<b>5,445</b>	<b>8,833</b>
EO expense	178	-21	-3,843	-1,726	116	10	0	0	0
<b>CF frm Op. incl EO exp.</b>	<b>4,728</b>	<b>4,095</b>	<b>4,905</b>	<b>5,384</b>	<b>12,143</b>	<b>4,111</b>	<b>8,000</b>	<b>5,445</b>	<b>8,833</b>
(inc)/dec in FA	-4,255	-2,367	4,225	4,519	-1,173	-898	-500	-500	-500
<b>Free Cash Flow</b>	<b>651</b>	<b>1,707</b>	<b>5,287</b>	<b>8,177</b>	<b>11,086</b>	<b>3,223</b>	<b>7,500</b>	<b>4,945</b>	<b>8,333</b>
(Pur)/Sale of Investments	-18	1	2	1	-3,655	-1,526	173	0	0
<b>CF from investments</b>	<b>-1,042</b>	<b>-1,535</b>	<b>-568</b>	<b>4,180</b>	<b>-4,055</b>	<b>-2,424</b>	<b>-327</b>	<b>-500</b>	<b>-500</b>
Change in Equity capital	0	847	-	0	0	0	0	0	0
Inc/(Dec) in Debt	-4	-4	-2	0	0	0	0	0	0
Interest Paid	-2	-6	-63	-35	-20	-18	-13	-12	-12
Dividend Paid	-3,058	-4,080	-4,078	-6,117	-6,117	-4,078	-4,486	-4,894	-4,894
<b>CF from Fin. Activity</b>	<b>-3,066</b>	<b>-3,583</b>	<b>-4,276</b>	<b>-6,560</b>	<b>-9,278</b>	<b>-14,975</b>	<b>-4,298</b>	<b>-4,690</b>	<b>-4,690</b>
<b>Inc/Dec of Cash</b>	<b>620</b>	<b>-1,023</b>	<b>60</b>	<b>3,004</b>	<b>-1,190</b>	<b>-13,287</b>	<b>3,375</b>	<b>256</b>	<b>3,643</b>
Add: Beginning Balance	1,391	2,011	988	1,048	4,052	2,862	-10,425	-7,051	-6,795
<b>Closing Balance</b>	<b>2,011</b>	<b>988</b>	<b>1,048</b>	<b>4,052</b>	<b>2,862</b>	<b>-10,425</b>	<b>-7,051</b>	<b>-6,795</b>	<b>-3,151</b>
Bank balances other than cash	10,953	10,725	9,784	7,528	21,983	21,983	21,983	21,983	21,983
<b>Closing Balance</b>	<b>12,964</b>	<b>11,714</b>	<b>10,832</b>	<b>11,580</b>	<b>24,845</b>	<b>11,559</b>	<b>13,300</b>	<b>13,558</b>	<b>17,203</b>

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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