

GSK Pharma

Estimate change

TP change

Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USD\$b)	251.1 / 3.3
52-Week Range (INR)	1722 / 1033
1, 6, 12 Rel. Per (%)	-9/-5/23
12M Avg Val (INR M)	95

Financials & valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	32.2	31.0	34.0
EBITDA	6.6	6.5	7.4
Adj. PAT	4.8	4.6	5.7
EBIT Margin (%)	17.8	18.4	20.1
Cons. Adj. EPS (INR)	28.2	26.9	33.9
EPS Gr. (%)	14.6	-4.5	26.0
BV/Sh. (INR)	107.5	113.3	124.2

Ratios

Net D:E	-0.6	-0.5	-0.4
RoE (%)	26.2	23.8	27.3
RoCE (%)	24.3	24.7	28.9
Payout (%)	85.4	89.4	71.0

Valuations

P/E (x)	52.9	55.3	43.9
EV/EBITDA (x)	36.8	37.6	32.9
Div. Yield (%)	1.3	1.3	1.3
FCF Yield (%)	1.1	1.0	1.6
EV/Sales (x)	7.5	7.9	7.1

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	75.0	75.0	75.0
DII	12.1	11.4	11.1
FII	0.2	0.3	1.4
Others	12.7	13.3	12.5

FII Includes depository receipts

CMP: INR1,482
TP: INR1,355 (-9%)
Neutral

COVID-19-led weakness in performance

Outlook to improve gradually

- GSK Pharma (GLXO)'s performance for the quarter was deeply impacted by the COVID-19-led disruption. As a result, the company posted the lowest revenue recorded in the past 16 quarters. The severity amplified with reduced operating leverage. The outlook is expected to gradually improve with the easing of the lockdown.
- We reduce our EPS estimate by 26.3%/11.7% for FY21/FY22 to factor COVID-19-led weakness in the Prescription and Vaccination segments. We continue to value GLXO at 37x 12M forward earnings (25% discount to its three-year average) to arrive at TP of INR1,355. Maintain Neutral.

Lower revenue, reduced operating leverage result in earnings decline

- GSK Pharma revenues were down 17.7% to INR6.5b (v/s est. of INR7.8b).
- GM expanded 230bp YoY to 60.3%, led by a better product mix.
- However, the EBITDA margin contracted 340bp YoY to 17.6% on higher employee costs / other expenditure (+530bp/+40bp YoY as a percentage of sales), offsetting the benefit of better GM.
- EBITDA declined by 31% YoY to INR1.1b (v/s est. of INR1.7b).
- Adjusting for interest on income tax refund in other income, PAT was down 33% YoY to INR787m (our estimate: INR1.3b).

Key highlights

- GLXO's top two therapies (contributing ~40% to overall sales), Anti-Infective and Vaccine, saw decline of ~14% and ~28% YoY, respectively, dragging down sales growth for the quarter.
- Particularly, Augmentin/Ceftum (top Anti-Infective brands) declined 6%/16% YoY for the quarter.
- The deferment of vaccination on account of COVID-19 led 14% YoY decline in Synflorix sales for the quarter.
- On a 12M basis, GLAXO took a price hike of 6.7%, offset (to some extent) by flat new launches and volume decline of 3.9% on a YoY basis.

Valuation and view

- With the focus on key brands, meaningful (290bp) improvement was witnessed in the EBITDA margin over FY18–20. However, the benefit of a superior margin profile is expected to be offset by muted revenue growth (led by slowdown due to COVID-19) and reduced operating leverage.
- Accordingly, we reduce our EPS estimate by 26.3%/11.7% for FY21/FY22 to factor COVID-19-led challenges, and expect a 10% earnings CAGR over FY20–22.
- We continue to value GLXO at 37x 12M forward earnings to arrive at TP of INR1,355.
- We maintain **Neutral** as the valuation adequately factors the upside.

Quarterly Performance (Consolidated)

(INR m)

Y/E March (Standalone)	FY20				FY21E				FY20	FY21E	Chg. (%)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1QE			
Net Sales	7,880	8,820	7,786	7,758	6,486	7,850	8,097	8,521	32,244	30,954	7,801	-16.9
YoY Change (%)	7.1	8.0	-5.7	3.3	-17.7	-11.0	4.0	9.8	3.1	-4.0	-1.0	
Total Expenditure	6,227	6,880	6,542	6,022	5,345	6,264	6,332	6,543	25,671	24,485	6,124	
EBITDA	1,653	1,940	1,244	1,736	1,141	1,586	1,765	1,978	6,573	6,469	1,677	-32.0
YoY Change (%)	21.9	17.5	-9.3	6.5	-31.0	-18.3	41.9	14.0	9.4	-1.6	1	
Margins (%)	21.0	22.0	16.0	22.4	17.6	20.2	21.8	23.2	20.4	20.9	21.5	
Depreciation	191	227	183	226	218	190	180	182	827	770	150	
EBIT	1,462	1,713	1,061	1,510	923	1,396	1,585	1,796	5,746	5,700	1,527	
YoY Change (%)	17.7	11.5	-15.2	1.2	-36.9	-18.5	49.5	19.0	4.1	-0.8	4	
Margins (%)	18.6	19.4	13.6	19.5	14.2	17.8	19.6	21.1	17.8	18.4	19.6	
Interest	9	9	30	15	11	20	22	32	63	85	20	
Other Income	308	159	165	158	152	109	140	172	790	573	165	
PBT before EO Expense	1,761	1,863	1,196	1,653	1,065	1,485	1,703	1,935	6,472	6,188	1,672	
Tax	626	457	268	385	278	380	450	519	1,698	1,627	405	
Rate (%)	35.5	24.5	22.4	23.3	26.1	25.6	26.4	26.8	18.9	26.3	24.2	
Adjusted PAT	1,173	1,406	927	1,269	787	1,105	1,254	1,416	4,775	4,561	1,268	-37.9
YoY Change (%)	27.0	24.9	9.3	0.1	-32.9	-21.4	35.2	11.6	14.6	-4.5	8.1	
Margins (%)	14.9	15.9	11.9	16.4	12.1	14.1	15.5	16.6	14.8	14.7	16.2	
One-off Expense/(Income)	38	-3,622	7,539	-113	-320	0	0	0	3,843	-320	0	
Reported PAT	1,135	5,028	-6,612	1,382	1,107	1,105	1,254	1,416	932	4,881	1,268	-12.7

Key performance Indicators (Consolidated)

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cost Break-up										
RM Cost (% of Sales)	42.0	41.9	42.1	36.0	39.7	39.5	39.2	39.3	40.6	39.7
Staff Cost (% of Sales)	18.1	16.7	21.4	22.1	23.4	19.5	19.0	18.4	19.5	23.4
Other Cost (% of Sales)	18.9	19.3	20.5	19.5	19.3	20.8	20.0	19.1	19.6	19.3
Gross Margins(%)	58.0	58.1	57.9	64.0	60.3	60.5	60.8	60.7	59.4	60.3
EBITDA Margins(%)	21.0	22.0	16.0	22.4	17.6	20.2	21.8	23.2	20.4	20.9
EBIT Margins(%)	18.6	19.4	13.6	19.5	14.2	17.8	19.6	21.1	17.8	18.4

Key exhibits

GSK Pharma's secondary sales declined 15.1%YoY during the quarter ending Jun-20(v/s IPM decline of 5.9% of YoY for the quarter). Top brands like Betnesol (-16.9%YoY), Ceftum (-16%YoY), Synflorix (-14.3%YoY) declined higher than other brands during the quarter.

Decline in sales was across therapies with Anti-Infectives (-14.3%YoY) and Vaccines (-28.3%YoY) being the major drags for the quarter.

Price grew by 6.7% YoY, while volume decline continues to 3.9% YoY on a MAT basis in Jun'20.

Exhibit 1: Top 10 Drugs

Drug	Therapy	MAT Jun - 20			Growth (%)	
		Value (INR m)	Growth (%)	Mkt Share (%)	Last 3M	Jun - 20
Total		39160	3.1	100.0	(15.1)	(5.6)
Augmentin	Anti-Infectives	4595	14.9	11.7	(6.0)	4.2
Synflorix	Vaccines	2756	5.4	7.0	(14.3)	14.5
Calpol	Pain / Analgesics	2546	21.2	6.5	(7.1)	(12.1)
Eltroxin	Hormones	2111	14.0	5.4	7.7	4.4
Betnovate C	Derma	2091	2.6	5.3	12.7	44.9
Betnovate N	Derma	1970	(1.5)	5.0	12.6	17.3
T Bact	Derma	1858	24.2	4.7	(8.1)	0.3
Ceftum	Anti-Infectives	1705	12.0	4.4	(16.0)	(10.4)
Betnesol	Hormones	1180	5.0	3.0	(16.9)	(21.0)
Infanrix Hexa	Vaccines	1158	51.5	3.0	34.9	45.5

*3M: Apr 2020- Jun 2020

Source: AIOCD, MOFSL

Exhibit 2: Therapy Mix (%)

	Share	MAT Growth (%)	3M*	Jun - 20
Total	100.0	3.1	(15.1)	(5.6)
Derma	24.2	7.8	(0.9)	12.6
Anti-Infectives	23.2	10.8	(14.3)	(5.7)
Vaccines	16.9	(2.6)	(28.3)	(8.9)
Pain / Analgesics	9.4	18.5	(1.6)	(2.0)
Hormones	8.4	8.7	(1.7)	(5.3)
Vitamins / Minerals / Nutrients	5.8	3.3	(3.7)	3.8

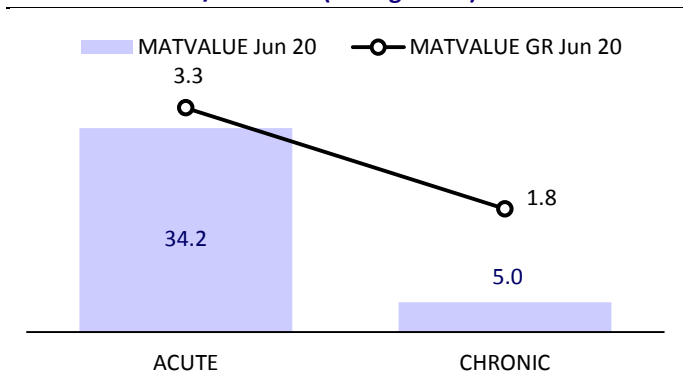
Source: AIOCD, MOFSL

Exhibit 3: Brand-wise growth distribution

	% of sales	MAT Growth (%)	Growth Contribution (%)
Total	100.0	3.1	100.0
Top 10 Brands	56.1	12.6	208.8
11 to 25 Brands	21.9	(2.3)	(17.0)
26 to 50 Brands	13.8	5.9	25.4
Above 50 Brands	8.2	(30.2)	(117.1)

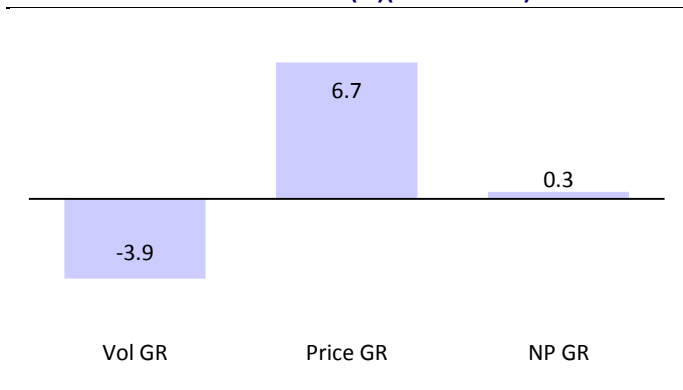
Source: AIOCD, MOFSL

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



Source: AIOCD, MOFSL

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



Source: AIOCD, MOFSL

Valuation and view

Continued headwinds on revenue growth; Superior product portfolio a saving grace

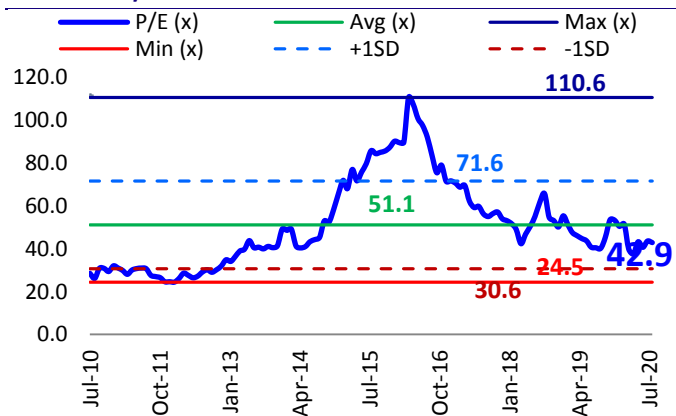
Over FY16–20, while GLXO was re-working to rationalize the portfolio and prioritize high-value products, it faced temporary hiccups due to the implementation of GST/demonetization. As EBITDA margins improved in 1HFY20, the impurity issue at the industry level led GLXO to voluntarily stop selling its Zantac brand, impacting revenue growth for GLXO. The recent COVID-19-led disruption has intensified revenue decline and considerably reduced operating leverage. As the nationwide lockdown is relaxed in a phased manner, GLXO is adapting to new ways of working, led by digital marketing, social distancing, and good hygiene practices when communicating with doctors. Considering these factors, we expect a 3%/6% revenue/EBITDA CAGR over FY20–22.

Valuation and view:

We expect a 10% earnings CAGR over FY20–22, supported by focused promotional activities for key brands, new launches, increased efficiencies in the distribution channel, and a reduced tax rate.

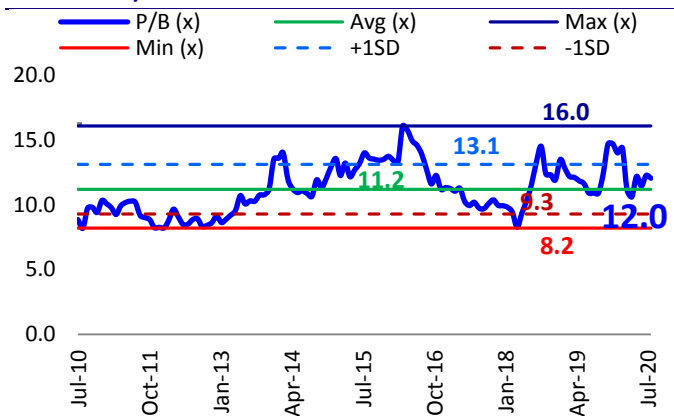
We lower our EPS estimate by 26.3%/11.7% for FY21/FY22 to factor COVID-19-led challenges. Accordingly, we arrive at TP of INR1,355, valuing GLXO at 37x 12M forward earnings. We maintain **Neutral** as the valuation adequately factors the upside.

Exhibit 6: P/E chart



Source: MOFSL, Company, Bloomberg

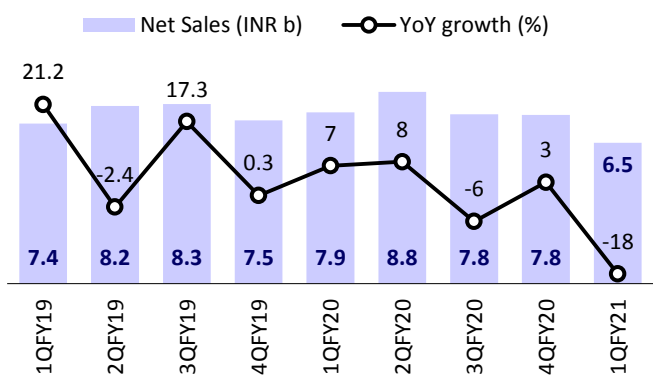
Exhibit 7: P/B chart



Source: MOFSL, Company, Bloomberg

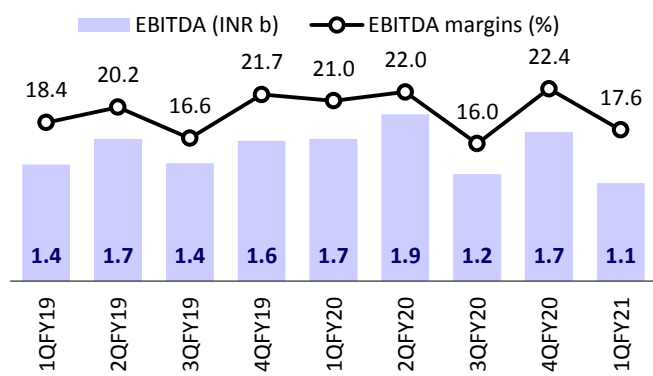
Story in charts

Exhibit 8: Revenues declined ~18% YoY



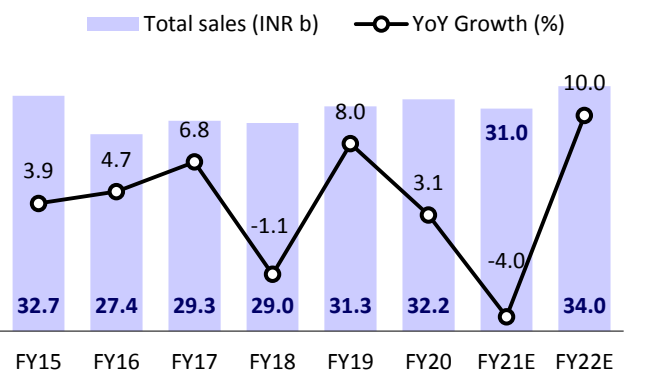
Source: Company, MOFSL

Exhibit 9: EBITDA margin contracted ~340bps YoY



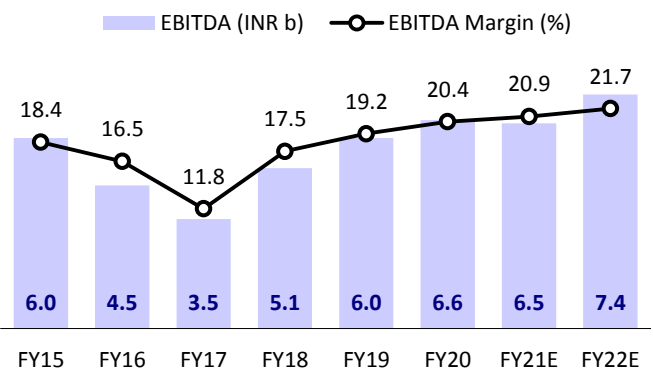
Source: Company, MOFSL

Exhibit 10: Expect revenue CAGR of ~3% over FY20–22E



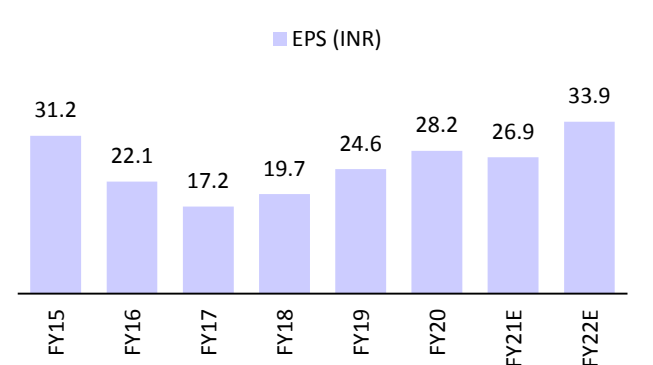
Source: Company, MOFSL

Exhibit 11: Profitability to improve gradually during FY20-22



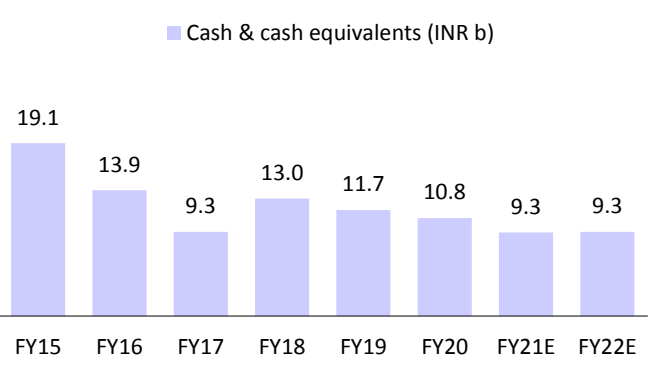
Source: Company, MOFSL

Exhibit 12: Earnings to exhibit ~10% CAGR over FY20–22E



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
Net Sales	32,725	27,411	29,265	28,957	31,281	32,244	30,954	34,049
Change (%)	3.9	4.7	6.8	-1.1	8.0	3.1	-4.0	10.0
EBITDA	6,009	4,516	3,455	5,058	6,008	6,573	6,469	7,384
Change (%)	-3.1	-6.1	-23.5	46.4	18.8	9.4	-1.6	14.1
Margin (%)	18.4	16.5	11.8	17.5	19.2	20.4	20.9	21.7
Depreciation	254	248	264	380	486	827	770	526
EBIT	5,756	4,269	3,192	4,678	5,522	5,746	5,700	6,858
Int. and Fin. Charges	0	0	0	2	6	63	85	95
Other Income - Rec.	2,320	1,500	1,463	545	1,023	790	573	900
PBT & EO Expense	8,076	5,769	4,655	5,222	6,540	6,472	6,188	7,663
Tax	2,793	2,026	1,744	1,893	2,373	1,698	1,627	1,916
Tax Rate (%)	34.6	35.1	37.5	36.2	36.3	26.2	26.3	25.0
Adj PAT	5,283	3,742	2,911	3,329	4,167	4,775	4,561	5,747
Change (%)	11.1	-29.2	-22.2	14.4	25.2	14.6	-4.5	26.0
One-off Expense (net of tax)	519	-135	457	178	-21	-3,843	320	0
Reported PAT	5,802	3,607	3,368	3,507	4,454	932	4,881	5,747
Change (%)	-7.5	-22.3	-22.2	14.4	25.2	-79.1	423.8	17.7
Margin (%)	17.7	13.2	11.5	12.1	14.2	2.9	15.8	16.9

Balance Sheet							(INR m)	
Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	847	847	847	847	1,694	1,694	1,694	1,694
Reserves	17,426	20,969	19,204	19,709	19,687	16,495	17,480	19,330
Capital Reserve	17	17	17	17	17	17	17	17
Net Worth	18,290	21,832	20,069	20,573	21,398	18,206	19,191	21,041
Loans	26	16	10	6	2	0	0	0
Capital Employed	18,316	21,848	20,078	20,579	21,400	18,206	19,191	21,042
Gross Block	3,212	2,284	3,313	4,020	5,590	10,190	11,190	12,190
Less: Accum. Deprn.	1,981	243	464	792	1,278	2,105	2,874	3,400
Net Fixed Assets	1,231	2,040	2,850	3,228	4,300	7,566	8,316	8,790
Capital WIP	1,152	2,677	5,732	9,229	10,026	1,201	451	-299
Investments	1	1	1	18	17	15	15	15
Curr. Assets	28,942	24,820	20,540	25,962	24,148	21,469	21,927	23,588
Inventory	3,756	5,259	4,258	5,002	4,865	4,830	5,262	6,129
Account Receivables	1,003	1,266	1,708	1,470	1,205	998	1,548	1,702
Cash & Bank Balance	19,106	13,919	9,321	12,964	11,714	10,832	9,236	9,287
Others	5,077	4,376	5,253	6,527	6,364	4,808	5,881	6,469
Curr. Liability & Prov.	13,841	8,700	9,960	18,896	17,713	13,149	12,623	12,157
Account Payables	4,434	5,393	6,750	15,046	13,642	7,763	7,453	6,469
Provisions	9,406	3,307	3,210	3,850	4,071	5,386	5,170	5,687
Net Current Assets	15,101	16,119	10,580	7,066	6,435	8,319	9,304	11,431
Deferred Tax Assets	831	1011	916	1037	622	1105	1105	1105
Appl. of Funds	18,316	21,848	20,078	20,579	21,400	18,206	19,191	21,042

Financials and valuations

Ratios

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	31.2	22.1	17.2	19.7	24.6	28.2	26.9	33.9
Cash EPS	32.7	23.6	18.7	21.9	27.5	33.1	31.5	37.0
BV/Share	108.0	128.9	118.5	121.4	126.3	107.5	113.3	124.2
DPS	62.5	50.0	30.0	35.0	20.0	20.0	20.0	20.0
Payout (%)	120.6	136.2	175.1	91.9	97.9	85.4	89.4	71.0

Valuation

P/E	59.7	67.5	86.7	75.8	60.6	52.9	55.3	43.9
Cash P/E	57.0	63.3	79.5	68.0	54.2	45.1	47.4	40.2
P/BV	13.8	11.6	12.6	12.3	11.8	13.9	13.2	12.0
EV/Sales	8.9	8.7	8.3	8.3	7.7	7.5	7.9	7.1
EV/EBITDA	48.5	52.8	70.4	47.3	40.1	36.8	37.6	32.9
Dividend Yield (%)	4.2	3.4	2.0	2.3	1.3	1.3	1.3	1.3

Return Ratios (%)

RoE	23.1	17.1	14.5	16.2	19.5	26.2	23.8	27.3
RoCE	21.9	18.6	13.9	16.4	19.9	24.3	24.7	28.9

Working Capital Ratios

Fixed Asset Turnover (x)	23.5	16.8	12.0	9.5	8.3	5.4	3.9	4.0
Debtor (Days)	14	17	21	19	14	11	18	18
Inventory (Days)	52	70	53	63	57	55	62	66
Creditor days	49	72	84	190	159	88	88	69

Leverage Ratio

Debt/Equity	-1.0	-0.6	-0.5	-0.6	-0.5	-0.6	-0.5	-0.4
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Cash Flow Statement

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	(INR m)
Oper. Profit/(Loss) bef. Tax	6,528	4,381	3,912	5,236	6,008	2,730	6,469	7,384	
Interest/Div. Recd.	2,320	1,500	1,463	545	1,023	790	573	900	
Direct Taxes Paid	-2,703	-2,207	-1,649	-2,013	-1,958	-2,180	-1,627	-1,916	
(Inc)/Dec in WC	410	-6,205	942	7,156	-619	-2,766	-2,581	-2,076	
CF from Operations	6,555	-2,531	4,669	10,925	4,455	-1,427	2,835	4,292	
EO expense	519	-135	457	178	0	0	0	0	
CF frm Op. incl EO exp.	6,036	-2,395	4,211	10,747	4,455	-1,427	2,835	4,292	
(inc)/dec in FA	-603	-596	-4,085	-4,255	-2,367	4,225	-250	-250	
Free Cash Flow	5,952	-3,127	583	6,670	2,087	2,798	2,585	4,042	
(Pur)/Sale of Investments	576	0	0	-18	1	2	0	0	
CF from investments	-27	-596	-4,085	-4,273	-2,366	4,227	-250	-250	
Change in Equity capital	0	0	0	0	847	0	0	0	
Inc/(Dec) in Debt	-10	-10	-6	-4	-4	-2	0	0	
Interest Paid	0	0	0	-2	-6	-63	-285	-95	
Dividend Paid	-6,374	-5,097	-5,097	-3,058	-4,080	-4,078	-4,078	-4,078	
CF from Fin. Activity	-7,175	-210	-4,681	-2,831	-3,352	-4,189	-3,981	-3,991	
Inc/Dec of Cash	-1,166	-3,201	-4,555	3,643	-1,263	-1,389	-1,396	51	
Add: Beginning Balance	20,271	19,106	13,919	9,321	12,964	11,714	10,832	9,236	
Closing Balance	19,106	15,905	9,364	12,964	11,714	10,332	9,236	9,287	

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

*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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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