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Company update and
reco change

Pharmaceuticals

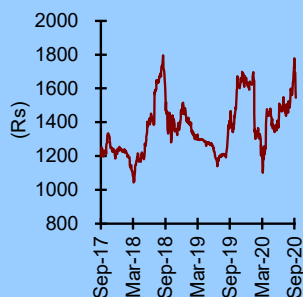
Target price: Rs1,539

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	75.0	75.0	75.0
Institutional investors	11.5	11.7	12.3
MFs and others	4.0	4.6	4.8
Banks / FIs	7.0	6.8	6.8
Insurance	0.0	0.0	0.0
FIs	0.5	0.3	0.7
Others	13.7	13.3	12.7

Source: BSE India

Price chart



INDIA

GSK Pharmaceuticals

HOLD

Upgrade from Reduce

Rs1,578

Analyst call highlights

GlaxoSmithKline Pharmaceuticals Limited's (GSKP) held a virtual analyst meet to discuss company's performance. We cover the highlights below:

- Company believes its key brands and therapies would continue to grow over the next five years. Company has witnessed that most of its key brands have outpaced their respective industries and gained market share.
- Vaccines remains an important growth area followed by respiratory. It will also invest in therapies like oncology but that would take time to scale up. Vaccine contributes ~23% of revenue and is expected to grow in double digits. It's imported and has lower margin than the company but it would be supported by cost optimisation.
- Company has received approval for *Augmentin ES600*, *Trelegy* and *Fluarix Tetra* and has filed for *Shingrix*, *Rotarix liquid oral vaccine* and *Nucala liquid pediatric indication* to support growth over long term. In the near term it is focusing on *Nucala* and *Menveo*.
- Company has witnessed a contraction in the dermatology and anti-infective market as patients defer skin treatment and better hygiene has reduced the acute illness.
- Pandemic caused disruption at the beginning of the lockdown. Company implemented several safety protocols and work from home policy wherever possible. Gradually, ~60% of the workforce was able to achieve ~100% production. Roughly 4,000 employees are working from home. Company witnessed MoM recovery in all therapies and expect to achieve normalcy soon. Company also provided extended credits to its partners (stockists, dealers, etc.) in order to support the system.
- Company initiated several cost rationalisation steps including zero based budgeting, in order to reduce financial burden. Company is considering upskilling and redeployment in required areas for employees instead of rationalisation.
- During the lockdown company remain connected with healthcare professionals (HCPs) digitally. Ground field force quickly adapted to the new environment and digital outreach ensured business continuity. Digital medium would remain an important mode of communication and post normalisation would be an effective tool to increase its reach across the country.
- Export is not an opportunity for the company because there is a disparity between the product basket in India and other markets. Another reason is that the price disparity is too large between geographies.
- Company is considering all viable options for Vemgal plant. Company would continue to out-source some level of manufacturing and believes that they have built a strong relationship with the CMOs over time for financial viability.
- Data readout for the global trials of COVID-19 vaccine is expected by the end of the year or early next year. Currently, it's too soon for a strategy or roadmap to bring the vaccine to India. However, the opportunity remains too large to be dismissed.

Valuations and risks: GSKP's exposure only to domestic formulations, strong balance sheet and strong brand equity augurs well for the company. Recent correction has made valuations fair, hence we upgrade to **HOLD** from *Reduce* with a target price of Rs1,539/share based on 40xSep'22E EPS. Key downside risks: addition of key drugs in National List of Essential Medicines (NLEM), product concentration and government intervention. Key upside risks: better than expected performance in key products and launch of COVID-19 vaccine in India.

Market Cap	Rs266bn/US\$3.6bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1698/1102
Free Float (%)	25.0
FII (%)	0.7
Daily Volume (USD/'000)	1,701
Absolute Return 3m (%)	7.7
Absolute Return 12m (%)	13.7
Sensex Return 3m (%)	8.0
Sensex Return 12m (%)	(2.2)

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	32,244	33,715	36,933	40,643
Net Income (Rs mn)	932	5,339	6,141	6,898
EPS (Rs)	28.6	29.6	36.3	40.7
% Chg YoY	13.5	3.7	22.3	12.3
P/E (x)	55.2	53.3	43.5	38.8
CEPS (Rs)	33.5	34.9	41.7	49.1
EV/E (x)	39.0	36.1	31.2	26.5
Dividend Yield (%)	1.3	1.3	1.4	1.5
RoCE (%)	21.2	22.7	25.0	25.1
RoE (%)	24.4	26.2	28.7	28.7

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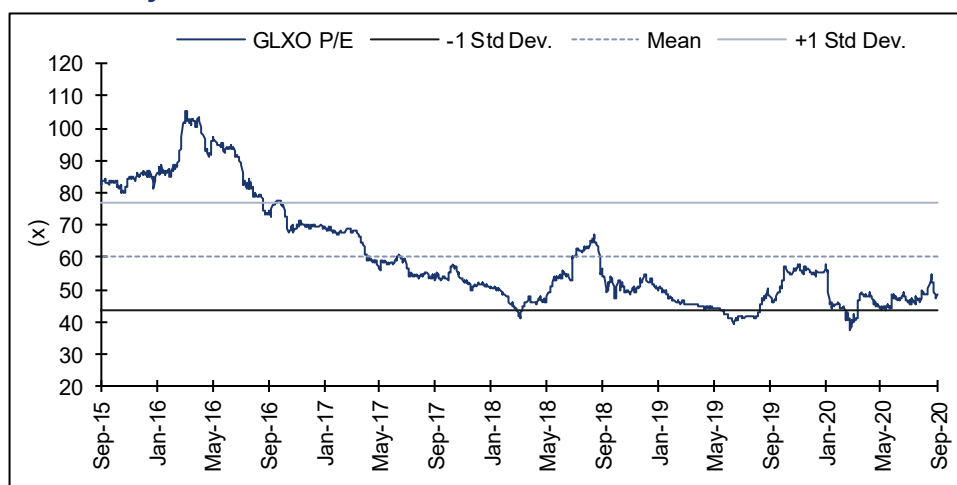
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Valuations

We expect GSKP to witness an earnings CAGR of 12.5% over FY20-FY23E driven by revenue CAGR of 8.0% and EBITDA margin expansion to 22.8% in FY23E from 20.4% in FY20. Return ratios (RoE and RoCE) would continue to improve with margin expansion. The stock currently trades at valuations of 43.5x FY22E and 38.8x FY23E earnings and EV/EBITDA multiple of 31.2x FY22E and 26.5x FY23E. We remain positive on the long-term outlook considering the company's strong growth powered by its key brands, healthy return profile and rich cash reserves. However, GSKP's focus is on acute therapies where we expect pressure in the uncertain near term to sustain. Recent correction has made valuations fair, hence we upgrade to **HOLD** from *Reduce* with a target price of Rs1,539/share based on 40x Sep'22E EPS.

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Total Net Revenue	32,244	33,715	36,933	40,643
yoy Growth%	3.1	4.6	9.5	10.0
Total Op. Exp.	25,671	26,690	28,897	31,369
EBITDA	6,573	7,024	8,036	9,274
Margins %	20.4	20.8	21.8	22.8
yoy Growth%	9.4	6.9	14.4	15.4
Depreciation	827	886	916	1,420
EBIT	5,746	6,138	7,119	7,854
Other Income	790	616	1,134	1,411
Interest	63	43	43	43
EO Income	(3,415)	427	-	-
PBT	3,058	7,138	8,211	9,221
Tax	2,125	1,799	2,069	2,324
Tax Rate (%)	69.5	25.2	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	932	5,339	6,141	6,898
Adj. PAT	1,973	5,020	6,141	6,898
Net Margins (%)	6.1	14.9	16.6	17.0

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	16,512	18,463	20,919	23,678
Total Equity	18,206	20,157	22,614	25,373
Minority Interest	-	-	-	-
Total Debt	0	0	0	0
Deferred Liabilities	(1,105)	(1,105)	(1,105)	(1,105)
Capital Employed	17,101	19,052	21,509	24,268
Current Liabilities	13,149	13,733	14,981	16,420
Total Liabilities	30,251	32,785	36,490	40,688
Net Fixed Assets	8,782	8,396	7,979	7,060
Investments	-	-	-	-
Inventory	4,830	5,022	5,437	5,902
Debtors	998	1,044	1,143	1,258
Other Current Assets	4,808	4,879	5,035	5,215
Cash and Equivalents	10,832	13,444	16,895	21,253
Total Cur. Assets	21,469	24,389	28,511	33,629
Total Assets	30,251	32,785	36,490	40,688

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,058	7,138	8,211	9,221
Depreciation	827	886	916	1,420
Net Chg in WC	(1,160)	(71)	(178)	(192)
Taxes	(1,859)	(1,799)	(2,069)	(2,324)
Others	3,976	346	756	871
CFO	4,842	6,500	7,636	8,996
Capex	(1,524)	(500)	(500)	(500)
Net Investments made	920	-	-	-
Others	674	-	-	-
CFI	70	(500)	(500)	(500)
Change in Share capital	-	-	-	-
Change in Debts	(151)	-	-	-
Div. & Div Tax	(4,085)	(3,388)	(3,685)	(4,139)
Others	(616)	-	-	-
CFF	(4,851)	(3,388)	(3,685)	(4,139)
Total Cash Generated	60	2,612	3,451	4,358
Cash Opening Balance	988	1,048	3,660	7,111
Cash Closing Balance	1,048	3,660	7,111	11,469

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	28.6	29.6	36.3	40.7
YoY Growth%	13.5	3.7	22.3	12.3
Cash EPS	33.5	34.9	41.7	49.1
EBITDA - Core (%)	20.4	20.8	21.8	22.8
NPM (%)	6.1	14.9	16.6	17.0
Net Debt to Equity (x)	(0.6)	(0.7)	(0.7)	(0.8)
P/E (x)	55.2	53.3	43.5	38.8
EV/EBITDA Core (x)	39.0	36.1	31.2	26.5
P/BV (x)	14.7	13.3	11.8	10.5
EV/Sales (x)	8.0	7.5	6.8	6.1
RoCE (%)	21.2	22.7	25.0	25.1
RoE (%)	24.4	26.2	28.7	28.7
RoIC (%)	39.7	45.2	55.9	69.1
Book Value (Rs)	107	119	133	150
DPS (Rs)	20.0	20.0	21.8	24.4
Dividend Payout (%)	363.5	63.5	60.0	60.0
Div Yield (%)	1.3	1.3	1.4	1.5
Asset Turnover Ratio	2.8	4.1	4.7	5.7
Avg Collection days	12	11	11	11
Avg Inventory days	69	67	66	66

Source: Company data, I-Sec research

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