

GSK Pharma

Estimate change

TP change

Rating change



Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	256.5 / 3.3
52-Week Range (INR)	1917 / 1433
1, 6, 12 Rel. Per (%)	1/5/-8
12M Avg Val (INR M)	121

Financials & valuations(INR b)

Y/E MARCH	2022	2023E	2024E
Sales	32.8	34.7	37.9
EBITDA	7.6	8.5	9.7
Adj. PAT	3.7	6.3	7.2
EBIT Margin (%)	21.2	22.4	23.6
Cons. Adj. EPS (INR)	21.8	37.3	42.4
EPS Gr. (%)	-19.7	71.2	13.7
BV/Sh. (INR)	157.2	171.5	190.9
Ratios			
Net D:E	-0.9	-0.8	-0.8
RoE (%)	13.9	21.7	22.2
RoCE (%)	17.8	22.9	23.6
Payout (%)	165.8	64.6	56.8
Valuations			
P/E (x)	69.5	40.6	35.7
EV/EBITDA (x)	29.9	27.0	23.3
Div. Yield (%)	2.0	1.3	1.3
FCF Yield (%)	3.5	1.6	2.8
EV/Sales (x)	7.0	6.6	6.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	75.0	75.0	75.0
DII	10.7	10.7	10.9
FII	2.2	2.0	1.6
Others	12.1	12.2	12.6

FII Includes depository receipts

CMP: INR1,514

TP: INR1,570 (+4%)

Neutral

Muted 4QFY22; focus remains on key brands to revitalize growth

Slower offtake witnessed in the Vaccine segment

- GLXO delivered a lower-than-expected performance in 4QFY22. Subdued YoY growth in sales and higher raw material cost affected profitability.
- We lower our FY23/FY24 EPS estimate by 4% each, factoring in a gradual recovery in Vaccines and elevated operating costs. We expect 11% earnings CAGR over FY22-24, adjusting for the tax provisions for promotional expenses of earlier years.
- We value GLXO at 37x 12-months forward earnings to arrive at our TP of INR1,570. Considering the limited upside from current levels, we maintain our Neutral stance on the stock.

One-off tax provision leads to a quarterly loss

- Revenue was up 9% YoY to INR8.1b (est. of INR9.2b).
- Gross margin remained flat YoY at 56.6% due to the product mix.
- EBITDA margin improved by 60bp YoY to 21.6% due to lower employee cost (-300bp YoY), which was partially offset by higher other expenses (+240bp as a percentage of sales).
- EBITDA grew 11.8% YoY to INR1.8b (est. INR2.2b).
- The higher tax outgo in 4QFY22 was due to provision for disallowance of expenses incurred in preceding fiscals towards certain promotional spends, which is under litigation with the authorities, amounting to INR2b.
- GLXO incurred a 4QFY22 loss of INR547m (v/s our PAT estimate of INR1.7b). After the approval for the transfer of trademarks ('Iodex' and 'Ostocalcium' in India and other identified assets) to GSK Asia for INR13b (post-tax), the transaction was consummated, with receipt of the consideration in 4QFY22.
- Combining loss from continuing operations and PAT from discontinued operations, GLXO had PAT of INR12.2b in 4QFY22.
- Revenue/EBITDA/PAT grew 13%/28%/33% YoY in FY22 to INR32.8b/INR7.6b/INR3.8b. Including PAT from discontinued operations, GLXO posted a PAT of INR17b in FY22.

Key takeaways

- Secondary sales data from AIOCD indicates that Pain therapy/Anti-Infective/Dermatology (~12%/~25%/~28% of overall sales) saw a growth of ~39%/21%/5% YoY in 4QFY22, driving the outperformance against IPM. Calpol in Pain therapy saw ~63% YoY growth. Augmentin grew ~31% YoY in 4QFY22. T-Bact grew 15.1%, whereas Betnovate N/C brands declined by 5.1%/1.6%, reining back growth in Dermatology therapy.
- Vaccines (~11% of sales) dipped ~18% YoY, impacting overall 4QFY22 growth. Synflorix vaccine saw a decline of ~41% YoY in 4QFY22, majorly contributing to the decline in Vaccines.
- GLXO reported a volume growth of 6.6% and hiked prices by 6.1% YoY for the 12-month ending Mar'22, supported by 1.8% growth in new products.

Consolidated quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	6,486	8,793	7,919	7,444	7,900	9,341	8,159	8,096	29,256	32,780	9,224	-12.2
YoY Change (%)	-17.7	-0.3	1.7	-4.0	21.8	6.2	3.0	8.8	-9.3	12.0	13.4	
Total Expenditure	5,345	6,745	6,112	5,878	6,383	6,761	6,181	6,344	23,275	25,162	7,045	
EBITDA	1,141	2,049	1,807	1,567	1,517	2,581	1,978	1,752	5,981	7,619	2,179	-19.6
YoY Change (%)	-31.0	5.6	45.2	-9.7	33.0	26.0	9.5	11.8	-9.0	27.4	28	
Margin (%)	17.6	23.3	22.8	21.0	19.2	27.6	24.2	21.6	20.4	23.2	23.6	
Depreciation	218	220	175	177	177	174	179	154	786	682	181	
EBIT	923	1,829	1,631	1,390	1,340	2,406	1,799	1,599	5,195	6,937	1,998	
YoY Change (%)	-36.9	6.8	53.8	-7.9	45.1	31.6	10.3	15.0	-9.6	33.5	31	
Margin (%)	14.2	20.8	20.6	18.7	17.0	25.8	22.1	19.7	17.8	21.2	21.7	
Interest	11	9	9	6	8	4	6	3	35	20	13	
Other Income	152	90	140	296	317	150	103	188	1,105	757	80	
PBT before EO Expense	1,065	1,911	1,762	1,680	1,649	2,552	1,897	1,784	6,265	7,674	2,065	
Tax	278	505	475	453	438	644	335	2,625	1,668	3,983	393	
Rate (%)	26.1	26.4	26.9	27.0	26.6	25.2	17.7	147.2	27.9	75.2	19.0	NA
Adjusted PAT	787	1,406	1,287	1,227	1,211	1,908	1,562	-842	4,597	3,692	1,672	NA
YoY Change (%)	-32.9	0.0	38.8	-3.3	53.9	35.7	21.3	-168.6	-3.7	-19.7	25.4	
Margin (%)	12.1	16.0	16.3	16.5	15.3	20.4	19.1	-10.4	15.7	11.3	18.1	
One-off Expense/(Income)	-320	641	-105	1,190	0	0	179	-295	1,726	-116	0	
Reported PAT before disc. operations	1,107	765	1,393	37	1,211	1,908	1,383	-547	2,871	3,808	1,672	NA
Reported PAT incl. disc. operations	1,107	765	1,565	143	1,211	2,042	1,504	12,191	3,582	16,947	1,672	628.9

Consolidated key performance indicators

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Cost Break-up											
RM Cost (as a percentage of sales)	39.7	41.8	41.0	41.4	39.3	41.6	39.2	43.4	43.0	41.4	38.5
Staff Cost (as a percentage of sales)	23.4	17.5	18.6	18.4	21.2	17.1	17.5	17.3	21.1	18.6	17.7
Other Cost (as a percentage of sales)	19.3	17.4	16.5	19.3	20.3	13.6	19.1	17.7	15.5	16.8	20.2
Gross Margin (%)	60.3	58.2	59.0	58.6	60.7	58.4	60.8	56.6	57.0	58.6	61.5
EBITDA Margin (%)	17.6	23.3	22.8	21.0	19.2	27.6	24.2	21.6	20.4	23.2	23.6
EBIT Margin (%)	14.2	20.8	20.6	18.7	17.0	25.8	22.1	19.7	17.8	21.2	21.7

Key exhibits on secondary sales data provided by AIOCD

Secondary sales fell 3.8% YoY in Mar'22 v/s almost flat sales in Feb'22. Synflorix, Betnovate C, Eltroxin, and Ceftum fell, fueling an overall decline

Vaccines, Pain, Hormones, and Dermatology therapies declined partially, offset by growth in Anti-Infectives, leading to a decline in Mar'22

The top 25 brands contributed the lion's share to YoY growth on a MAT basis in Mar'22

Volume and price largely contributed to growth on a MAT basis in Mar'22

Exhibit 1: Top 10 drugs

Drug	Therapy	MAT Mar'22			Growth (%)	
		Value (INR m)	Growth (%)	Market share (%)	Last three-months	Mar'22
Total		43,904	14.5	100.0	7.4	-3.8
Augmentin	Anti-Infectives	6,110	44.4	13.9	30.9	7.9
Calpol	Pain/Analgesics	4,098	85.1	9.3	63.4	-7.8
T Bact	Dermatology	2,727	23.5	6.2	15.1	11.6
Betnovate N	Dermatology	2,694	16.1	6.1	-5.1	1.6
Betnovate C	Dermatology	2,527	7.9	5.8	-1.6	-35.6
Ceftum	Anti-Infectives	2,450	44.0	5.6	26.2	-10.0
Eltroxin	Hormones	2,266	5.4	5.2	-9.6	-12.5
Betnesol	Hormones	1,476	37.2	3.4	29.0	5.3
Infanrix Hexa	Vaccines	1,265	-8.5	2.9	7.3	14.6
Synflorix	Vaccines	1,245	-52.4	2.8	-41.0	-36.6

*Three-months: Jan-Mar'22

Source: AIOCD, MOFSL

Exhibit 2: Therapy mix (%)

	Share	MAT growth (%)	Three-months*	Mar'22
Total	100.0	14.5	7.4	-3.8
Dermatology	28.0	16.2	5.3	-2.9
Anti-Infectives	25.2	32.7	21.2	0.7
Pain/Analgesics	12.4	56.5	39.4	-9.1
Vaccines	11.0	-23.7	-18.2	-13.2
Hormones	8.5	16.0	3.5	-6.2
VMN	6.1	7.0	0.6	6.9

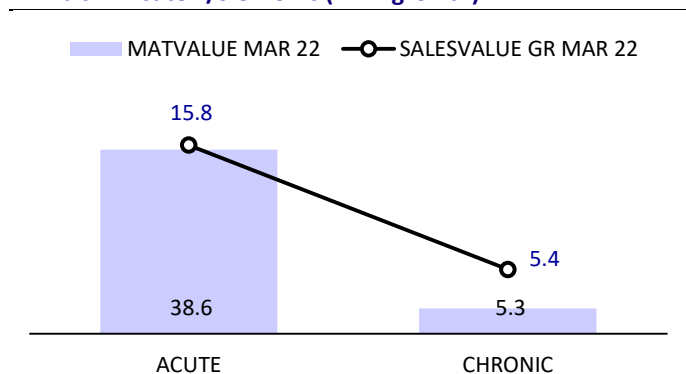
Source: AIOCD, MOFSL

Exhibit 3: Brand-wise growth distribution

	As a percentage of sales	MAT growth (%)	Contribution to growth (%)
Total	100.0	14.5	100.0
Top 10 brands	61.2	20.8	83.2
Top 11 to 25 brands	21.4	14.1	20.9
Top 26 to 50 brands	12.5	10.8	9.6
Above the top 50 brands	5.0	-25.8	-13.8

Source: AIOCD, MOFSL

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



Source: AIOCD, MOFSL

Exhibit 5: Growth distribution (%) (MAT Mar'22)



Source: AIOCD, MOFSL

Valuation and view

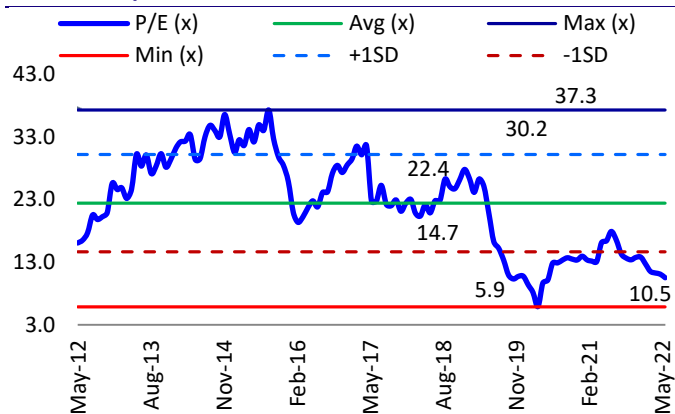
A gradual pick-up in Vaccines/non-COVID therapies to drive growth

GLXO's sales grew by 12% YoY in FY22, backed by a strong performance from its top three therapies. The Vaccine business has been volatile due to multiple waves of the COVID-19 pandemic, leading to low vaccination rates. However, some of the GLXO's key brands have gained market share even in a falling market. This has led to GLXO remaining the market leader in the private Vaccines market. Pain/VMN therapies are expected to remain soft with COVID-related demand coming off. We expect non-COVID related sales to pick-up, especially Vaccines, given that the number of cases are subsiding.

Maintain our Neutral rating given the rich valuations

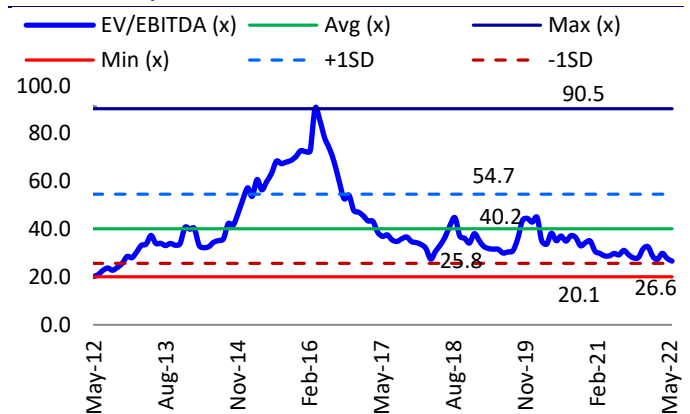
We reduce our FY23/FY24 EPS by ~4% each to factor in raw material price inflation and the gradual improvement in the business after the lifting of COVID-related restrictions. We expect 11% earnings CAGR over FY22-24, adjusting for the one-off impact of tax provision for disallowance of expenses incurred in the preceding fiscals towards certain promotional spends. We value GLXO at 37x 12-month forward earnings to arrive at our TP of INR1,570. We maintain our Neutral rating as the current valuation adequately factors in upside from revenue growth.

Exhibit 6: P/E ratio chart



Source: MOFSL, Company, Bloomberg

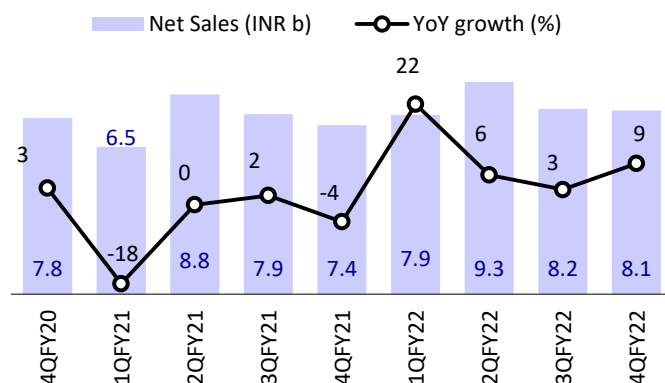
Exhibit 7: EV/EBITDA ratio chart



Source: MOFSL, Company, Bloomberg

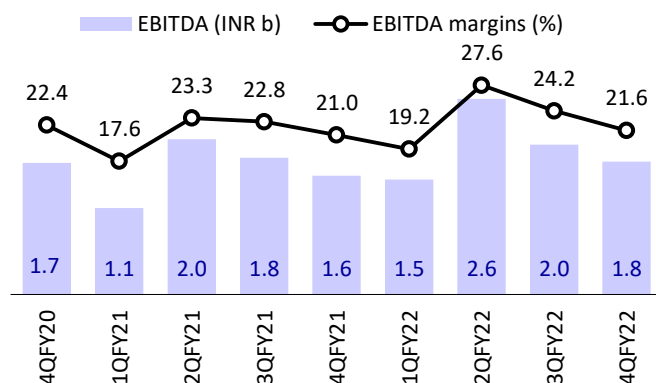
Story in charts

Exhibit 8: Sales up 9% YoY in 4QFY22



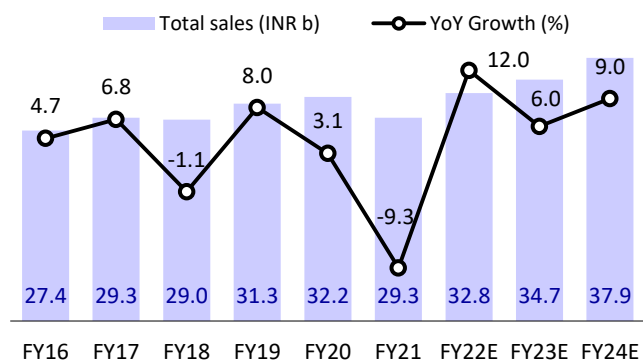
Source: Company, MOFSL

Exhibit 9: EBITDA margin improves by ~60bp YoY



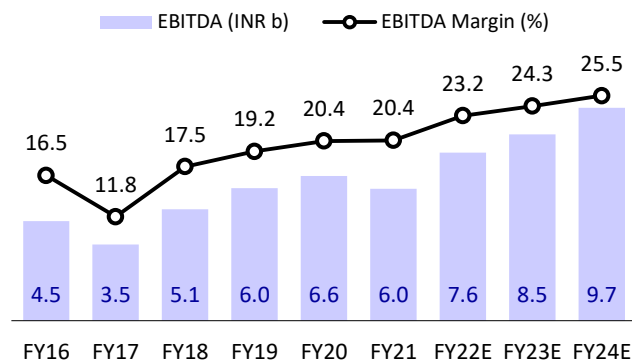
Source: Company, MOFSL

Exhibit 10: Expect 7.5% revenue CAGR over FY22-24



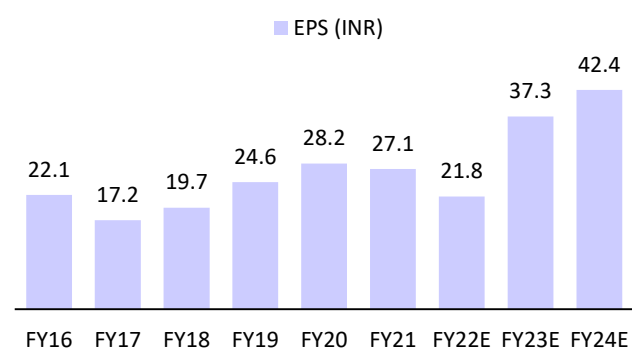
Source: Company, MOFSL

Exhibit 11: Expect margin to expand to 25.5% by FY24



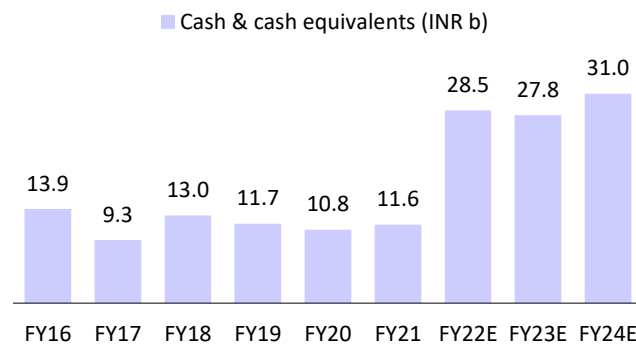
Source: Company, MOFSL

Exhibit 12: Expect ~11% earnings CAGR over FY22-24



Source: Company, MOFSL

Exhibit 13: Cash likely to be distributed to stakeholders



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

Y/E December (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	27,411	29,265	28,957	31,281	32,244	29,256	32,780	34,747	37,874
Change (%)	4.7	6.8	-1.1	8.0	3.1	-9.3	12.0	6.0	9.0
EBITDA	4,516	3,455	5,058	6,008	6,573	5,981	7,619	8,456	9,660
Change (%)	-6.1	-23.5	46.4	18.8	9.4	-9.0	27.4	11.0	14.2
Margin (%)	16.5	11.8	17.5	19.2	20.4	20.4	23.2	24.3	25.5
Depreciation	248	264	380	486	827	786	682	659	739
EBIT	4,269	3,192	4,678	5,522	5,746	5,195	6,937	7,797	8,921
Int. and Fin. Charges	0	0	2	6	63	35	20	65	65
Other Income - Rec.	1,500	1,463	545	1,023	790	1,106	758	690	720
PBT	5,769	4,655	5,222	6,540	6,472	6,266	7,675	8,422	9,576
Tax	2,026	1,744	1,893	2,373	1,698	1,667	3,983	2,105	2,394
Tax Rate (%)	35.1	37.5	36.2	36.3	26.2	26.6	51.9	25.0	25.0
Adj. PAT	3,742	2,911	3,329	4,167	4,775	4,596	3,689	6,316	7,182
Change (%)	-29.2	-22.2	14.4	25.2	14.6	-3.8	-19.7	71.2	13.7
One-off income (net of tax)	-135	457	178	-21	-3,843	-1,726	116	0	0
Reported PAT Before disc. Operations	3,607	3,368	3,507	4,454	932	2,873	3,808	6,316	7,182
Margin (%)	13.2	11.5	12.1	14.2	2.9	9.8	11.6	18.2	19.0
Reported PAT incl. disc. operations	3,607	3,368	3,507	4,454	932	3,582	16,947	6,316	7,182

Source: Company, MOFSL

Consolidated Balance Sheet

Y/E December (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	847	847	847	1,694	1,694	1,694	1,694	1,694	1,694
Reserves	20,969	19,204	19,709	19,687	16,495	13,280	24,919	27,338	30,624
Capital Reserve	17	17	17	17	17	17	17	17	17
Net Worth	21,832	20,069	20,573	21,398	18,206	14,991	26,630	29,050	32,335
Loans	16	10	6	2	0	0	0	0	0
Capital Employed	21,848	20,078	20,579	21,400	18,206	14,991	26,630	29,050	32,335
Gross Block	2,284	3,313	4,020	5,590	10,190	6,740	7,740	8,740	9,740
Less: Accum. Deprn.	243	464	792	1,278	2,105	2,897	3,573	4,232	4,971
Net Fixed Assets	2,040	2,850	3,228	4,300	7,566	3,843	3,294	4,508	4,769
Capital WIP	2,677	5,732	9,229	10,026	1,201	132	305	-445	-1,195
Investments	1	1	18	17	15	14	3,668	3,668	3,668
Curr. Assets	24,820	20,540	25,962	24,148	21,469	26,114	37,934	35,130	40,249
Inventory	5,259	4,258	5,002	4,865	4,830	5,467	5,347	5,108	5,568
Account Receivables	1,266	1,708	1,470	1,205	998	2,156	2,052	1,911	2,083
Cash and Bank Balance	13,919	9,321	12,964	11,714	10,832	11,580	24,845	24,115	27,296
Others	4,376	5,253	6,527	6,364	4,808	6,911	5,689	3,996	5,302
Curr. Liability and Prov.	8,700	9,960	18,896	17,713	13,149	16,143	19,703	14,943	16,288
Account Payables	5,393	6,750	15,046	13,642	7,763	11,006	13,801	8,687	9,469
Provisions	3,307	3,210	3,850	4,071	5,386	5,137	5,902	6,256	6,819
Net Current Assets	16,119	10,580	7,066	6,435	8,319	9,971	18,231	20,187	23,962
Deferred Tax Assets	1011	916	1037	622	1105	1031	1132	1132	1132
Appl. of Funds	21,848	20,078	20,579	21,400	18,206	14,991	26,630	29,050	32,335

Source: Company, MOFSL

Financials and valuations

Key ratios

Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	22.1	17.2	19.7	24.6	28.2	27.1	21.8	37.3	42.4
Cash EPS	23.6	18.7	21.9	27.5	33.1	31.8	25.8	41.2	46.8
BV/Share	128.9	118.5	121.4	126.3	107.5	88.5	157.2	171.5	190.9
DPS	50.0	30.0	35.0	20.0	20.0	30.0	30.0	20.0	20.0
Payout (%)	136.2	175.1	91.9	97.9	85.4	133.1	165.8	64.6	56.8
Valuation									
P/E	68.5	88.1	77.0	61.6	53.7	55.8	69.5	40.6	35.7
Cash P/E	64.3	80.8	69.1	55.1	45.8	47.7	58.7	36.8	32.4
P/BV	11.7	12.8	12.5	12.0	14.1	17.1	9.6	8.8	7.9
EV/Sales	8.9	8.4	8.4	7.8	7.6	8.4	7.0	6.6	6.0
EV/EBITDA	53.7	71.5	48.1	40.7	37.4	40.9	29.9	27.0	23.3
Dividend Yield (%)	3.3	2.0	2.3	1.3	1.3	2.0	2.0	1.3	1.3
Return Ratios (%)									
RoE	17.1	14.5	16.2	19.5	26.2	30.7	13.9	21.7	22.2
RoCE	18.6	13.9	16.4	19.9	24.3	27.9	17.8	22.9	23.6
Working Capital Ratios									
Fixed Asset Turnover (x)	16.8	12.0	9.5	8.3	5.4	5.1	9.2	8.9	8.2
Debtor (Days)	17	21	19	14	11	27	23	20	20
Inventory (Days)	70	53	63	57	55	68	60	54	54
Creditor days	72	84	190	159	88	137	154	91	91
Leverage Ratio									
Debt/Equity ratio	-0.6	-0.5	-0.6	-0.5	-0.6	-0.8	-0.9	-0.8	-0.8

Source: Company, MOFSL

Consolidated Cash Flow Statement

Y/E December (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Oper. Profit/(Loss) bef. Tax	4,381	3,912	5,236	5,987	2,730	4,255	7,735	8,456	9,660
Interest/Div. Recd.	1,500	1,463	545	1,023	790	1,106	758	690	720
Direct Taxes Paid	-2,207	-1,649	-2,013	-1,958	-2,180	-1,594	-4,083	-2,105	-2,394
(Inc.)/Dec. in WC	-6,205	942	7,156	-619	-2,766	-904	5,006	-2,686	-593
CF from Operations	-2,531	4,669	10,925	4,434	-1,427	2,864	9,415	4,354	7,393
EO expense	-135	457	178	-21	-3,843	-1,726	116	0	0
CF from Op. incl. EO exp.	1,389	2,344	4,728	4,095	4,905	5,384	10,093	4,354	7,393
(inc.)/dec. in FA	-596	-4,085	-4,255	-2,367	4,225	4,519	-1,173	-250	-250
Free Cash Flow	657	-1,284	651	1,707	5,287	8,177	9,036	4,104	7,143
(Pur.)/Sale of Investments	-0	0	-18	1	2	1	-3,655	0	0
Others	5,586	7,091	3,231	831	-4,796	-341	772		
CF from investments	4,990	3,006	-1,042	-1,535	-568	4,180	-4,055	-250	-250
Change in Equity capital	-	0	0	847	-	0	0	0	0
Inc./(Dec.) in Debt	-10	-6	-4	-4	-2	0	0	0	0
Interest Paid	-	0	-2	-6	-63	-35	-20	-65	-65
Dividend Paid	-5,097	-5,097	-3,058	-4,080	-4,078	-6,117	-6,117	-4,078	-4,078
Others	4,898	422	234	-109	-46	29	13,948	182	182
CF from Fin. Activity	-6,383	-5,108	-3,066	-3,583	-4,276	-6,560	-7,228	-4,835	-3,962
Inc./Dec. in Cash	-4	243	620	-1,023	60	3,004	-1,190	-731	3,180
Add: Beginning Balance	1,153	1,149	1,391	2,011	988	1,048	4,052	2,862	2,131
Closing Balance	1,149	1,391	2,011	988	1,048	4,052	2,862	2,131	5,311
Bank balances other than cash	12,770	7,930	10,953	10,725	9,784	7,528	21,983	21,983	21,983
Closing Balance	13,919	9,321	12,964	11,714	10,832	11,580	24,845	24,114	27,296

Source: Company, MOFSL

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

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