

Estimate change



TP change



Rating change



CMP: INR1,328

TP: INR1,420 (+7%)

Neutral

General medicines/specialty – the key drivers for sales growth

Vaccines remain a drag on the overall 2QFY23 performance

	GLXO IN
Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USD\$b)	224.9 / 2.8
52-Week Range (INR)	1841 / 1320
1, 6, 12 Rel. Per (%)	-12/-25/-20
12M Avg Val (INR M)	111

Financials & valuations(INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	32.8	33.1	36.1
EBITDA	7.6	7.8	8.9
Adj. PAT	5.7	6.0	6.7
EBIT Margin (%)	21.2	21.5	22.8
Cons. Adj. EPS (INR)	33.9	35.3	39.3
EPS Gr. (%)	24.9	4.2	11.3
BV/Sh. (INR)	157.2	169.5	185.8

Ratios

Net D:E	-0.9	-0.8	-0.8
RoE (%)	21.6	20.8	21.1
RoCE (%)	27.7	21.7	22.3
Payout (%)	106.6	68.2	61.3

Valuations

P/E (x)	39.2	37.7	33.8
EV/EBITDA (x)	25.7	25.4	22.0
Div. Yield (%)	2.3	1.5	1.5
FCF Yield (%)	4.9	1.6	2.9
EV/Sales (x)	6.0	6.0	5.4

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	75.0	75.0	75.0
DII	10.5	10.7	10.8
FII	2.2	2.2	1.7
Others	12.3	12.2	12.5

FII Includes depository receipts

- GSK Pharma (GLXO) delivered an in-line performance in 2QFY23. The healthy progress in general medicines and specialty business segments was offset by reduced traction in the vaccines business.
- We maintain our earnings estimates for FY23/FY24. We value GLXO at 35x 12M forward earnings to arrive at our TP of INR1,420. We expect an 8% earnings CAGR over FY22-24 fueled by 5% sales CAGR and 130bp margin expansion.
- GLXO's focus on core brands has yielded better-than-industry growth in its focus market of certain therapies. However, we maintain our **Neutral** rating on the stock due to limited upside (+7%) from the current levels.

Product mix benefit offset by higher promotional spends on a YoY basis

- GLXO's revenue declined 2% YoY to INR9.2b (v/s est. of INR9.1b) in 2QFY23.
- Gross margin (GM) expanded 180bp YoY to 60.2% led by product mix.
- EBITDA margin improved marginally by 40bp YoY to 28% due to lower employee cost (-160bp YoY as a % of sales) offset by higher other expenses (+300bp YoY as a % of sales).
- EBITDA was flat YoY to INR2.6b (v/s est. of INR2.5b) during the quarter.
- Adj. PAT was stable YoY to INR1.9b for the quarter (our est. INR 1.9b).
- In 1HFY23, GLXO's revenue was flat YoY while EBITDA/PAT grew 4% YoY each.

Key result highlights

- The quarterly growth underlines the strong momentum across focus brands.
- During 1HFY23, GLXO launched its parent's innovative product – Trelegy Ellipta – the first single-inhaler triple therapy (SITT), in India for Chronic Obstructive Pulmonary Disease (COPD) patients in a once-daily regime for patients aged 18 years and above.
- Secondary sales data from AIOCD indicates that Dermatology /Anti-Infective (~30%/~27% of overall sales) saw a ~20%/22% YoY growth in 2QFY23, respectively, driving the outperformance against IPM.
- T-Bact/ Neosporin in Derma therapy saw 32%/20% YoY growth, respectively. Augmentin grew 22% YoY in 2QFY23 according to AIOCD.
- Pain therapy (11% of sales) grew 11% YoY and Hormones therapy (8% of sales) rose 4% YoY during the quarter.
- Vaccines (~10% of sales) declined 27% YoY with Infanrix Hexa in vaccines exhibiting a modest 4 YoY growth in 2QFY23.
- GLXO delivered a modest volume growth of 1% and price hike of 6.3% YoY for the 12-month ending Sep'22 aided by a 1.8% growth from new launches.

Quarterly Performance (Consolidated)

(INR m)

Y/E March (Standalone)	FY22				FY23E				FY22	FY23E	Chg.	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	7,184	9,341	8,159	8,096	7,451	9,169	8,310	8,178	32,780	33,108	9,136	0%
YoY Change (%)	10.8	6.2	3.0	8.8	3.7	-1.8	1.9	1.0	12.0	1.0	-2.2	
Total Expenditure	5,857	6,761	6,181	6,344	5,962	6,599	6,216	6,540	25,142	25,317	6,651	
EBITDA	1,327	2,581	1,978	1,752	1,489	2,569	2,094	1,638	7,639	7,791	2,485	3%
YoY Change (%)	16.3	26.0	9.5	11.8	12.2	-0.4	5.9	-6.5	27.7	2.0	-3.7	
Margins (%)	18.5	27.6	24.2	21.6	20.0	28.0	25.2	20.0	23.3	23.5	27.2	
Depreciation	175	174	179	154	158	164	168	169	682	659	162	
EBIT	1,152	2,406	1,799	1,599	1,331	2,406	1,926	1,469	6,957	7,132	2,323	
YoY Change (%)	24.8	31.6	10.3	15.0	15.6	0.0	7.0	-8.1	33.9	2.5	-3.5	
Margins (%)	16.0	25.8	22.1	19.7	17.9	26.2	23.2	18.0	21.2	21.5	25.4	
Interest	8	4	6	3	7	4	10	19	20	40	8	
Other Income	317	150	103	188	276	220	200	184	757	879	165	
PBT before EO Expense	1,461	2,552	1,897	1,784	1,600	2,622	2,116	1,634	7,694	7,971	2,480	
Tax	388	644	335	585	438	687	508	360	1,953	1,993	620	
Rate (%)	26.6	25.2	17.7	32.8	27.4	26.2	24.0	22.0	48.6	25.0	25.0	5%
Adjusted PAT	1,073	1,908	1,562	1,198	1,162	1,934	1,608	1,274	5,742	5,979	1,860	4%
YoY Change (%)	36.3	35.7	21.3	-2.3	8.3	1.4	3.0	6.3	24.9	4.1	-2.5	
Margins (%)	14.9	20.4	19.1	14.8	15.6	21.1	19.4	15.6	17.5	18.1	20.4	
One-off Expense/(Income)	-138	-134	59	-11,404	0	0	0	0	-11,618	0	0	
Reported PAT	1,211	2,042	1,504	12,602	1,162	1,934	1,608	1,274	17,360	5,979	1,860	4%

E: MOFSL Estimates: Quarterly - Standalone; Full Year - Consolidated

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23E		
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Cost Break-up												
RM Cost (% of Sales)	41.2	41.6	39.2	43.4	38.5	39.8	39.8	37.6	41.4	38.5	40.0	
Staff Cost (% of Sales)	23.4	17.1	17.5	17.3	20.3	16.5	17.0	22.2	18.6	20.3	18.0	
Other Cost (% of Sales)	17.0	13.6	19.1	17.7	21.2	16.5	18.0	18.1	16.8	21.2	19.0	
Gross Margin (%)	58.8	58.4	60.8	56.6	61.5	60.2	60.2	62.4	58.6	61.5	60.0	
EBITDA Margin (%)	18.5	27.6	24.2	21.6	20.0	27.2	25.2	22.1	23.2	23.9	23.0	
EBIT Margin (%)	16.0	25.8	22.1	19.7	17.9	25.5	23.3	20.0	21.2	22.0	21.5	

Key exhibits on secondary sales data provided by AIOCD

Secondary sales growth tapered slightly to 10.2% YoY in Sep'22 v/s 13.7% in Aug'22. The strong YoY growth in T Bact, Ceftum, Neosporin and Augmentin was offset by decline in Betnovate C and Infanrix Hexa.

Exhibit 1: Top 10 drugs

Drug	Therapy	MAT Sep'22			Growth (%)	
		Value (INR m)	Growth (%)	Mkt Share (%)	Last 3M	Sep'22
Total		46,225	9.1	100.0	13.1	10.2
Augmentin	Anti-Infectives	6,860	31.0	14.8	21.9	9.4
Calpol	Pain / Analgesics	3,868	11.2	8.4	8.1	8.5
T Bact	Derma	3,204	26.7	6.9	32.0	33.9
Betnovate N	Derma	2,868	7.6	6.2	9.3	11.0
Betnovate C	Derma	2,634	5.5	5.7	8.7	-23.6
Ceftum	Anti-Infectives	2,563	14.8	5.5	18.8	33.6
Eltroxin	Hormones	2,217	-4.6	4.8	5.0	13.4
Betnesol	Hormones	1,402	10.6	3.0	1.7	-12.3
Infanrix Hexa	Vaccines	1,358	3.2	2.9	4.3	-8.2
Neosporin	Derma	1,335	26.1	2.9	19.8	23.1

*Three-months: Jul-Sep'22

Source: AIOCD, MOFSL

YoY growth in most of the major therapies offset by huge decline in Vaccines drove the slight underperformance against IPM in Sep'22

Exhibit 2: Therapy mix (%)

	Share	MAT Growth (%)	3M*	Sep'22
Total	100.0	9.1	13.1	10.2
Derma	29.6	16.6	20.1	15.8
Anti-Infectives	26.5	23.2	21.9	17.2
Pain / Analgesics	11.4	9.3	11.2	10.4
Vaccines	9.7	-21.7	-26.9	-31.3
Hormones	7.8	0.7	3.7	1.8
Vitamins / Minerals / Nutrients	6.3	7.5	26.3	25.2

Source: AIOCD, MOFSL

The top 10 brands contributed the most to YoY growth on a MAT basis in Sep'22

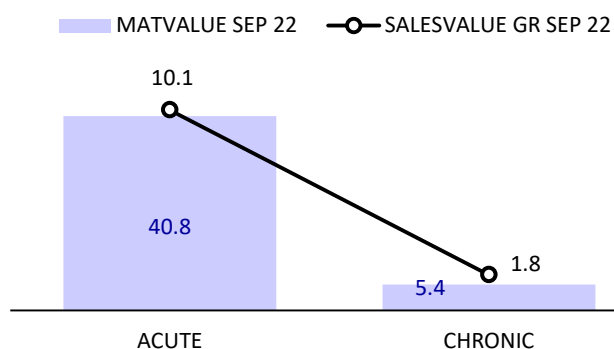
Exhibit 3: Brand-wise growth distribution

	% of sales	MAT growth (%)	Growth Contribution (%)
Total	100.0	9.1	100.0
Top 10 Brands	61.2	15.0	96.5
11 to 25 Brands	21.1	-0.6	-1.5
26 to 50 Brands	12.7	7.3	10.4
Above 50 Brands	4.9	-8.3	-5.4

Source: AIOCD, MOFSL

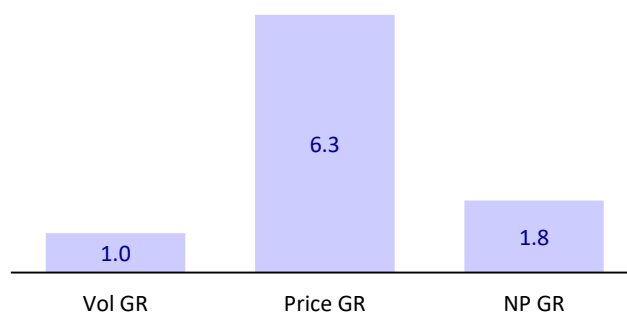
Price growth largely contributed to growth on a MAT basis in Sep'22

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



Source: AIOCD, MOFSL

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



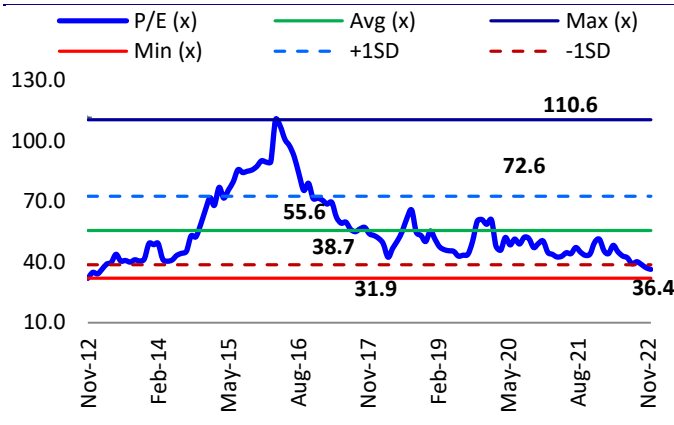
Source: AIOCD, MOFSL

Valuation and View

Superior show in anti-infectives/derma offset to large extent by reduced off-take in Vaccines/Pain segment

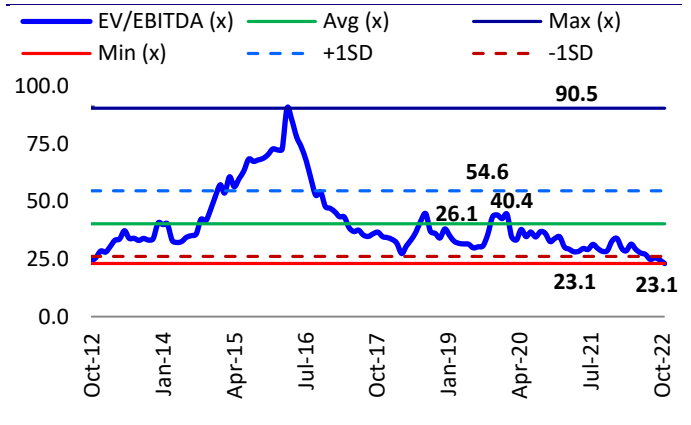
- In 2QFY23, GLXO’s sales declined 2% YoY due to subdued show from Vaccines slightly offset by strong performance from its top 2 therapies – Anti-infectives and Dermatology.
- We expect focused effort on select brands, differentiated launches and gradual recovery in Pain/vaccines therapy to drive 5% sales CAGR over FY22-24.
- Maintain Neutral given the rich valuations
- We maintain our earnings estimates for FY23/FY24. We value GLXO at 35x 12M forward earnings to arrive at our TP of INR1,420. We expect an 8% earnings CAGR over FY22-24 fueled by 5% sales CAGR and 130bp margin expansion.
- GLXO’s focus on core brands has yielded better-than-industry growth in its focus market of certain therapies. However, we maintain our **Neutral** rating on the stock due to limited upside (+7%) from the current levels.

Exhibit 6: P/E chart



Source: MOFSL, Company, Bloomberg

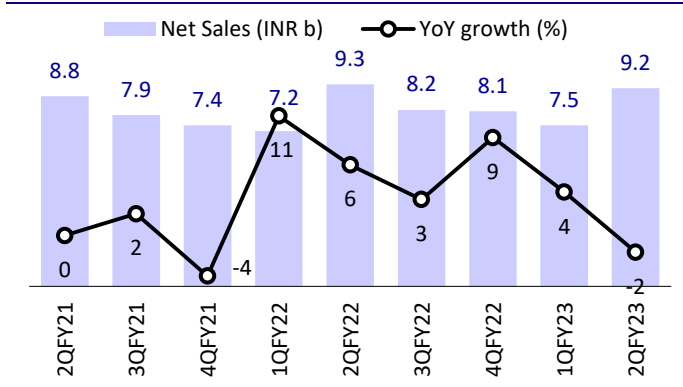
Exhibit 7: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

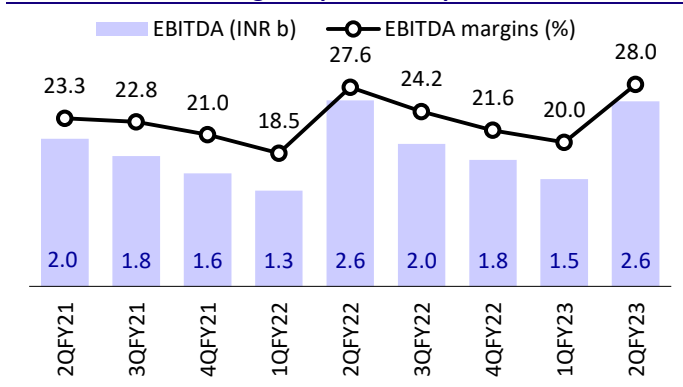
Story in charts

Exhibit 8: Sales declined 2% YoY in 2QFY23



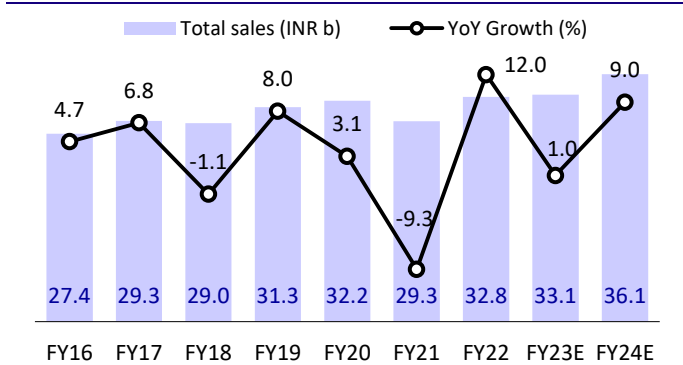
Source: Company, MOFSL

Exhibit 9: EBITDA margin improves 40bp YoY in 2QFY23



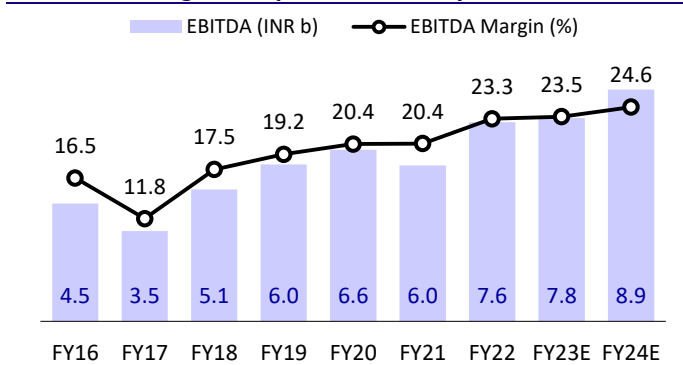
Source: Company, MOFSL

Exhibit 10: Revenue CAGR of 5% estimated over FY22-24



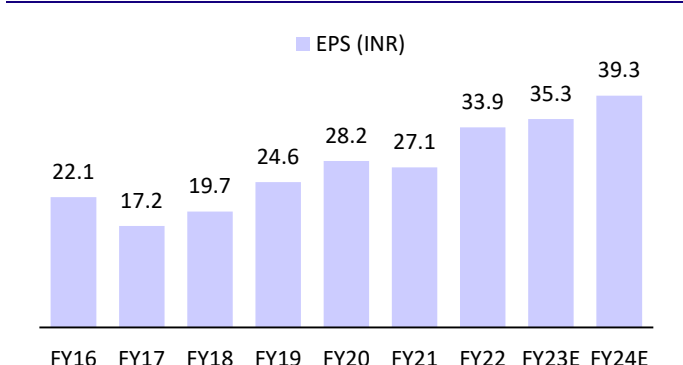
Source: Company, MOFSL

Exhibit 11: Margin to expand to 24.6% by FY24



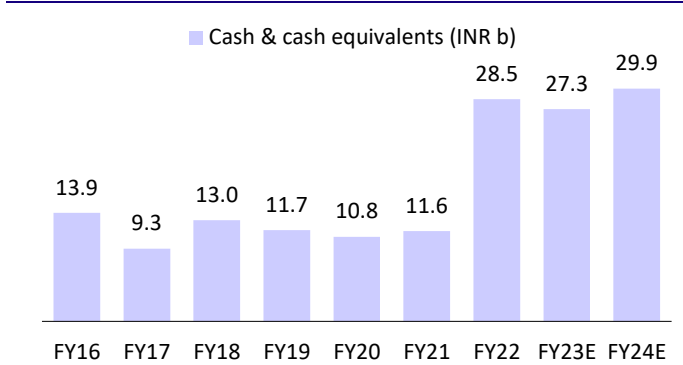
Source: Company, MOFSL

Exhibit 12: Earnings CAGR of ~8% estimated over FY22-24



Source: Company, MOFSL

Exhibit 13: Cash likely to be distributed to stakeholders



Source: Company, MOFSL

Financials and valuations

Income Statement										(INR m)
Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	32,725	27,411	29,265	28,957	31,281	32,244	29,256	32,780	33,108	36,088
Change (%)	3.9	4.7	6.8	-1.1	8.0	3.1	-9.3	12.0	1.0	9.0
EBITDA	6,009	4,516	3,455	5,058	6,008	6,573	5,981	7,639	7,791	8,890
Change (%)	-3.1	-6.1	-23.5	46.4	18.8	9.4	-9.0	27.7	2.0	14.1
Margin (%)	18.4	16.5	11.8	17.5	19.2	20.4	20.4	23.3	23.5	24.6
Depreciation	254	248	264	380	486	827	786	682	659	675
EBIT	5,756	4,269	3,192	4,678	5,522	5,746	5,195	6,957	7,132	8,216
Int. and Fin. Charges	0	0	0	2	6	63	35	20	40	65
Other Income - Rec.	2,320	1,500	1,463	545	1,023	790	1,106	758	880	720
PBT	8,076	5,769	4,655	5,222	6,540	6,472	6,266	7,695	7,972	8,871
Tax	2,793	2,026	1,744	1,893	2,373	1,698	1,667	1,953	1,993	2,218
Tax Rate (%)	34.6	35.1	37.5	36.2	36.3	26.2	26.6	25.4	25.0	25.0
Adj PAT	5,283	3,742	2,911	3,329	4,167	4,775	4,596	5,739	5,979	6,653
Change (%)	11.1	-29.2	-22.2	14.4	25.2	14.6	-3.8	24.9	4.2	11.3
One-off income (net of tax)	519	-135	457	178	-21	-3,843	-1,726	116	0	0
Reported PAT Before Disc. Operations	5,802	3,607	3,368	3,507	4,454	932	2,873	5,858	5,979	6,653
Margin (%)	17.7	13.2	11.5	12.1	14.2	2.9	9.8	17.9	18.1	18.4
Reported PAT incl Disc. Operations	5,802	3,607	3,368	3,507	4,454	932	3,582	17,360	5,979	6,653

Balance Sheet										(INR m)
Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	847	847	847	847	1,694	1,694	1,694	1,694	1,694	1,694
Reserves	17,426	20,969	19,204	19,709	19,687	16,495	13,280	24,919	27,001	29,757
Capital Reserve	17	17	17	17	17	17	17	17	17	17
Net Worth	18,290	21,832	20,069	20,573	21,398	18,206	14,991	26,630	28,712	31,469
Loans	26	16	10	6	2	0	0	0	0	0
Capital Employed	18,316	21,848	20,078	20,579	21,400	18,206	14,991	26,630	28,712	31,469
Gross Block	3,212	2,284	3,313	4,020	5,590	10,190	6,740	7,740	8,740	9,740
Less: Accum. Deprn.	1,981	243	464	792	1,278	2,105	2,891	3,573	4,232	4,906
Net Fixed Assets	1,231	2,040	2,850	3,228	4,300	7,566	3,843	3,294	4,508	4,834
Capital WIP	1,152	2,677	5,732	9,229	10,026	1,201	132	305	-445	-1,195
Investments	1	1	1	18	17	15	14	3,668	3,668	3,668
Curr. Assets	28,942	24,820	20,540	25,962	24,148	21,469	26,114	37,934	34,087	38,550
Inventory	3,756	5,259	4,258	5,002	4,865	4,830	5,467	5,347	4,867	5,305
Account Receivables	1,003	1,266	1,708	1,470	1,205	998	2,156	2,052	1,821	1,985
Cash & Bank Balance	19,106	13,919	9,321	12,964	11,714	10,832	11,580	24,845	23,592	26,208
Others	5,077	4,376	5,253	6,527	6,364	4,808	6,911	5,689	3,807	5,052
Curr. Liability & Prov.	13,841	8,700	9,960	18,896	17,713	13,149	16,143	19,703	14,238	15,519
Account Payables	4,434	5,393	6,750	15,046	13,642	7,763	11,006	13,801	8,277	9,022
Provisions	9,406	3,307	3,210	3,850	4,071	5,386	5,137	5,902	5,961	6,497
Net Current Assets	15,101	16,119	10,580	7,066	6,435	8,319	9,971	18,231	19,849	23,030
Deferred Tax Assets	831	1011	916	1037	622	1105	1031	1132	1132	1132
Appl. of Funds	18,316	21,848	20,078	20,579	21,400	18,206	14,991	26,630	28,712	31,469

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	31.2	22.1	17.2	19.7	24.6	28.2	27.1	33.9	35.3	39.3
Cash EPS	32.7	23.6	18.7	21.9	27.5	33.1	31.8	37.9	39.2	43.3
BV/Share	108.0	128.9	118.5	121.4	126.3	107.5	88.5	157.2	169.5	185.8
DPS	62.5	50.0	30.0	35.0	20.0	20.0	30.0	30.0	20.0	20.0
Payout (%)	120.6	136.2	175.1	91.9	97.9	85.4	133.1	106.6	68.2	61.3

Valuation

P/E	53.3	60.2	77.3	67.6	54.0	47.2	49.0	39.2	37.7	33.8
Cash P/E	50.8	56.4	70.9	60.7	48.4	40.2	41.8	35.1	33.9	30.7
P/BV	12.3	10.3	11.2	10.9	10.5	12.4	15.0	8.5	7.8	7.2
EV/Sales	7.9	7.7	7.4	7.3	6.8	6.6	7.3	6.0	6.0	5.4
EV/EBITDA	42.9	46.8	62.5	41.9	35.5	32.6	35.7	25.7	25.4	22.0
Dividend Yield (%)	4.7	3.8	2.3	2.6	1.5	1.5	2.3	2.3	1.5	1.5

Return Ratios (%)

RoE	23.1	17.1	14.5	16.2	19.5	26.2	30.7	21.6	20.8	21.1
RoCE	21.9	18.6	13.9	16.4	19.9	24.3	27.9	27.7	21.7	22.3

Working Capital Ratios

Fixed Asset Turnover (x)	23.5	16.8	12.0	9.5	8.3	5.4	5.1	9.2	8.5	7.7
Debtor (Days)	14	17	21	19	14	11	27	23	20	20
Inventory (Days)	52	70	53	63	57	55	68	60	54	54
Creditor days	49	72	84	190	159	88	137	154	91	91

Leverage Ratio

Debt/Equity	-1.0	-0.6	-0.5	-0.6	-0.5	-0.6	-0.8	-0.9	-0.8	-0.8
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Cash Flow Statement

Y/E December	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Oper. Profit/(Loss) bef. Tax	6,528	4,381	3,912	5,236	5,987	2,730	4,255	7,755	7,791	8,890
Interest/Div. Recd.	2,320	1,500	1,463	545	1,023	790	1,106	758	880	720
Direct Taxes Paid	-2,703	-2,207	-1,649	-2,013	-1,958	-2,180	-1,594	-2,053	-1,993	-2,218
(Inc)/Dec in WC	410	-6,205	942	7,156	-619	-2,766	-904	5,006	-2,872	-565
CF from Operations	6,555	-2,531	4,669	10,925	4,434	-1,427	2,864	11,465	3,806	6,827
EO expense	519	-135	457	178	-21	-3,843	-1,726	116	0	0
CF frm Op. incl EO exp.	3,376	1,389	2,344	4,728	4,095	4,905	5,384	12,143	3,806	6,827
(inc)/dec in FA	-603	-596	-4,085	-4,255	-2,367	4,225	4,519	-1,173	-250	-250
Free Cash Flow	3,292	657	-1,284	651	1,707	5,287	8,177	11,086	3,556	6,577
(Pur)/Sale of Investments	576	-0	0	-18	1	2	1	-3,655	0	0
Others	1,828	5,586	7,091	3,231	831	-4,796	-341	772		
CF from investments	1,800	4,990	3,006	-1,042	-1,535	-568	4,180	-4,055	-250	-250
Change in Equity capital	0	-	0	0	847	-	0	0	0	0
Inc/(Dec) in Debt	-10	-10	-6	-4	-4	-2	0	0	0	0
Interest Paid	0	-	0	-2	-6	-63	-35	-20	-40	-65
Dividend Paid	-6,374	-5,097	-5,097	-3,058	-4,080	-4,078	-6,117	-6,117	-4,078	-4,078
CF from Fin. Activity	-4,970	-6,383	-5,108	-3,066	-3,583	-4,276	-6,560	-9,278	-4,810	-3,962
Inc/Dec of Cash	207	-4	243	620	-1,023	60	3,004	-1,190	-1,254	2,615
Add: Beginning Balance	946	1,153	1,149	1,391	2,011	988	1,048	4,052	2,862	1,608
Closing Balance	1,153	1,149	1,391	2,011	988	1,048	4,052	2,862	1,608	4,223
Bank balances other than cash	17,953	12,770	7,930	10,953	10,725	9,784	7,528	21,983	21,983	21,983
Closing Balance	19,106	13,919	9,321	12,964	11,714	10,832	11,580	24,845	23,592	26,208

(INR m)

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
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