

# GSK Pharma

Estimate change

TP change

Rating change



Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	210 / 2.5
52-Week Range (INR)	1666 / 1231
1, 6, 12 Rel. Per (%)	-4/-14/-25
12M Avg Val (INR M)	80

## Financials & valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	32.8	35.7	38.6
EBITDA	8.3	9.2	10.0
Adj. PAT	6.3	6.9	7.4
EBIT Margin (%)	23.4	23.8	24.0
Cons. Adj. EPS (INR)	37.3	40.6	43.8
EPS Gr. (%)	10.0	9.1	7.7
BV/Sh. (INR)	170.8	186.1	202.3

## Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	21.8	21.8	21.6
RoCE (%)	22.8	22.8	22.6
Payout (%)	64.6	65.2	66.0

## Valuations

P/E (x)	33.3	30.5	28.3
EV/EBITDA (x)	22.0	19.6	18.1
Div. Yield (%)	1.6	1.8	1.9
FCF Yield (%)	1.8	3.2	2.2
EV/Sales (x)	5.6	5.0	4.7

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	75.0	75.0	75.0
DII	10.3	10.5	10.7
FII	2.3	2.2	2.0
Others	12.4	12.3	12.2

FII Includes depository receipts

**CMP: INR1,240**

**TP: INR1,340 (+8%)**

**Neutral**

## General medicines/controlled costs fuel earnings growth

### Revision in prices of brands under NLEM may hurt near-term outlook

- Glaxo Pharma (GLXO) delivered better-than-expected 3QFY23 earnings led by better operating leverage. While sales at INR8b came in lower than estimated (INR8.3b), it was more than offset by better EBITDA margin at 28.5% (against estimated: 25.2%). While the general medicines category bolstered the company's performance, vaccines continue to offset it to some extent.
- We raise our earnings for FY23E/FY24E/FY25E by 6%/3.5%/3%, respectively, to factor in: a) cost optimization, b) revision in prices of brands under National list of essential medicines (NLEM), and c) prolonged period for the pick-up in vaccines business.
- Considering moderate sales growth outlook over FY23-25, we lower our P/E multiple to 33x (v/s 35x) 12M forward earnings to arrive at our TP of INR1,340.
- As current valuations (of 33x/30.5x/28.3x FY23E/FY24E/FY25E earnings) factor in earnings and provide limited upside, **we retain our Neutral rating.**

### Superior product mix and better operating leverage drive margins YoY

- GLXO's revenue declined 2% YoY to INR8b (v/s est. of INR8.3b) in 3QFY23.
- Gross margin (GM) expanded 330bp YoY to 64.1% due to better product mix.
- EBITDA margin expanded 430bp YoY to 28.5% due to higher GM and lower other expenses (-260bp YoY as a % of sales) offset by higher employee costs (+160bp YoY as a % of sales) during the quarter.
- Consequently, EBITDA grew 15.6% YoY to INR2.3b (v/s est. of INR2.1b).
- Adj. PAT rose 12.6% YoY to INR1.8b for the quarter (our est. INR1.6b).
- During 9MFY23, sales stood flat YoY while EBITDA/PAT grew 7.8%/6.9% YoY, respectively.

### Key highlights

- The quarterly growth underlined the strong momentum across focus brands with Augmentin, Calpol, Ceftum, T-Bact and Neosporin featuring among the top brands in the Indian Pharmaceuticals Market (IPM).
- GLXO's revenue growth was propelled by market share gains in the key promoted brands.
- During 9MFY23, 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. The company is also releasing Calpol 650+, which features a brand-new Optizorb formulation.
- With the introduction of new product portfolios such as Nucala and Trelegy, the specialty business is driving growth for GLXO, while the expansion of the generic portfolio is in line with IPM.

Quarterly Performance (Consolidated)											(INR m)	
Y/E March	FY22				FY23E				FY22	FY23E		Chg.
(Standalone)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
<b>Net Sales</b>	<b>7,184</b>	<b>9,341</b>	<b>8,159</b>	<b>8,096</b>	<b>7,451</b>	<b>9,169</b>	<b>8,023</b>	<b>8,138</b>	<b>32,780</b>	<b>32,780</b>	<b>8,310</b>	<b>-3%</b>
YoY Change (%)	10.8	6.2	3.0	8.8	3.7	-1.8	-1.7	0.5	12.0	0.0	1.9	
Total Expenditure	5,857	6,761	6,181	6,344	5,962	6,599	5,736	6,169	25,142	24,466	6,216	
<b>EBITDA</b>	<b>1,327</b>	<b>2,581</b>	<b>1,978</b>	<b>1,752</b>	<b>1,489</b>	<b>2,569</b>	<b>2,287</b>	<b>1,969</b>	<b>7,639</b>	<b>8,314</b>	<b>2,094</b>	<b>9%</b>
YoY Change (%)	16.3	26.0	9.5	11.8	12.2	-0.4	15.6	12.4	27.7	8.8	5.9	
Margins (%)	18.5	27.6	24.2	21.6	20.0	28.0	28.5	24.2	23.3	25.4	25.2	
Depreciation	175	174	179	154	158	164	164	165	682	651	168	
<b>EBIT</b>	<b>1,152</b>	<b>2,406</b>	<b>1,799</b>	<b>1,599</b>	<b>1,331</b>	<b>2,406</b>	<b>2,123</b>	<b>1,804</b>	<b>6,957</b>	<b>7,663</b>	<b>1,926</b>	
YoY Change (%)	24.8	31.6	10.3	15.0	15.6	0.0	18.0	12.8	33.9	10.2	7.0	
Margins (%)	16.0	25.8	22.1	19.7	17.9	26.2	26.5	22.2	21.2	23.4	23.2	
Interest	8	4	6	3	7	4	1	3	20	15	10	
Other Income	317	150	103	188	276	220	234	150	757	879	200	
<b>PBT before EO Expense</b>	<b>1,461</b>	<b>2,552</b>	<b>1,897</b>	<b>1,784</b>	<b>1,600</b>	<b>2,622</b>	<b>2,356</b>	<b>1,950</b>	<b>7,694</b>	<b>8,527</b>	<b>2,116</b>	
Tax	388	644	335	585	438	687	597	495	1,953	2,217	508	
Rate (%)	26.6	25.2	17.7	32.8	27.4	26.2	25.3	25.4	48.6	26.0	24.0	<b>6%</b>
<b>Adjusted PAT</b>	<b>1,073</b>	<b>1,908</b>	<b>1,562</b>	<b>1,198</b>	<b>1,162</b>	<b>1,934</b>	<b>1,759</b>	<b>1,455</b>	<b>5,742</b>	<b>6,311</b>	<b>1,608</b>	<b>9%</b>
YoY Change (%)	36.3	35.7	21.3	-2.3	8.3	1.4	12.6	21.4	24.9	9.9	3.0	
Margins (%)	14.9	20.4	19.1	14.8	15.6	21.1	21.9	17.9	17.5	19.3	19.4	
One-off Expense/(Income)	-138	-134	59	-11,404	0	0	114	0	-11,618	114	0	
<b>Reported PAT</b>	<b>1,211</b>	<b>2,042</b>	<b>1,504</b>	<b>12,602</b>	<b>1,162</b>	<b>1,934</b>	<b>1,646</b>	<b>1,455</b>	<b>17,360</b>	<b>6,196</b>	<b>1,608</b>	<b>2%</b>

## Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
<b>Cost Break-up</b>											
RM Cost (% of Sales)	41.2	41.6	39.2	43.4	38.5	39.8	35.9	37.6	41.4	38.5	39.8
Staff Cost (% of Sales)	23.4	17.1	17.5	17.3	20.3	15.5	19.1	19.0	18.6	20.3	17.0
Other Cost (% of Sales)	17.0	13.6	19.1	17.7	21.2	16.7	16.5	19.2	16.8	21.2	18.0
Gross Margin (%)	58.8	58.4	60.8	56.6	61.5	60.2	64.1	62.4	58.6	61.5	60.2
EBITDA Margin (%)	18.5	27.6	24.2	21.6	20.0	28.0	28.5	24.2	23.3	25.4	25.2
EBIT Margin (%)	16.0	25.8	22.1	19.7	17.9	26.2	26.5	22.2	21.2	23.4	23.2

E: MOFSL Estimates

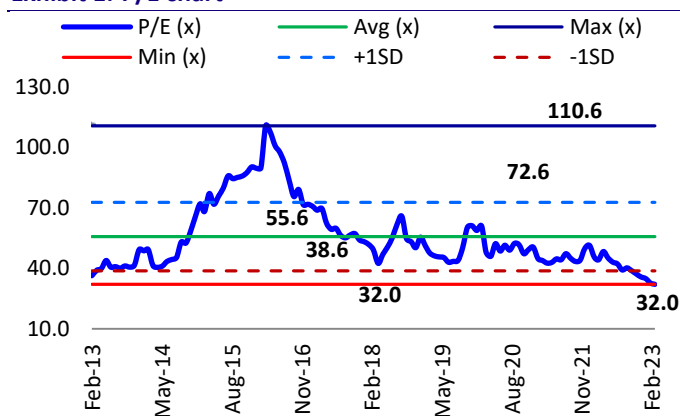
### New launches and market share gains in existing products are the key growth drivers

- During 9MFY23, sales stood flat YoY at INR24.6b as strong performance in anti-infectives/dermatology was offset by muted performance in vaccines segment.
- We expect a focused effort on select brands, differentiated launches, innovation and gradual recovery in Pain/vaccines therapy to drive 8% sales CAGR over FY23-25.
- Particularly, Nucala would be an interesting product over the medium term in the Asthma segment. The Asthma market is expected to report a CAGR of 2.6% over 2022-2030 to reach USD30.1b. Given the differentiating factor, we expect the healthy traction in Nucala to sustain going forward.
- GLXO plans to introduce new medications, such as the Shingrix shingles vaccine to prevent Herpes zoster. Every person over the age of 50, particularly those with impaired immune systems, can receive protection from this painful condition by using Shingrix.

### Maintain Neutral given limited upside from current levels

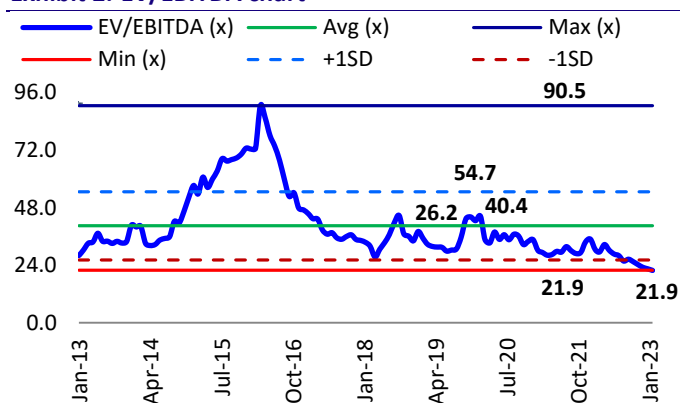
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- As current valuations (of 33x/30.5x/28.3x FY23E/FY24E/FY25E earnings) factor in earnings and provide limited upside, **we retain our Neutral rating.**

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

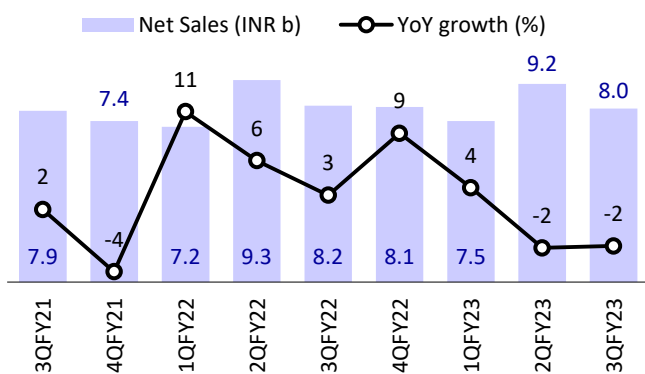
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

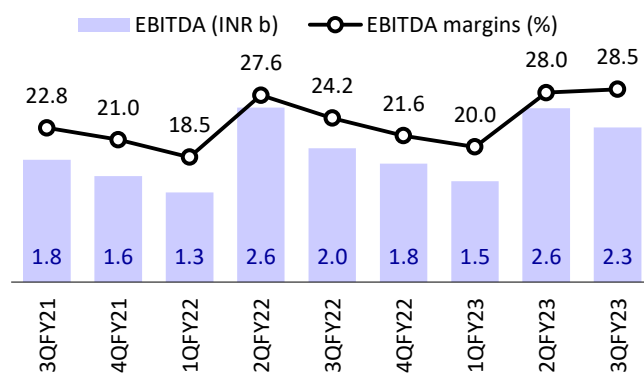
## Story in charts

**Exhibit 3: Sales declined 2% YoY in 3QFY23**



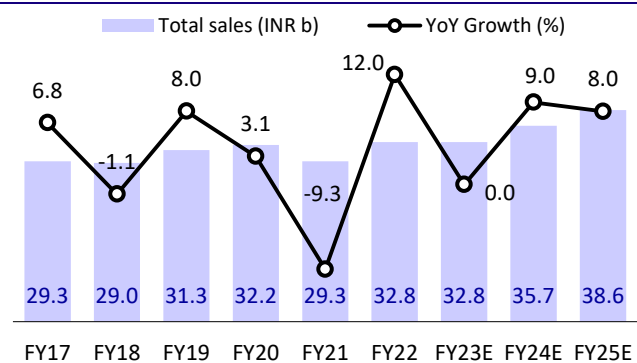
Source: Company, MOFSL

**Exhibit 4: EBITDA margin improved 430bp YoY in 3QFY23**



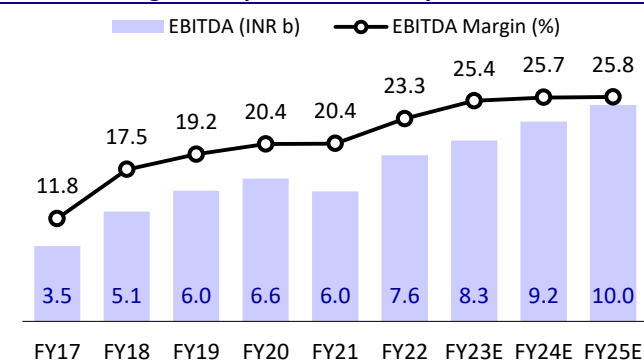
Source: Company, MOFSL

**Exhibit 5: Revenue CAGR of 8.5% estimated over FY23-25**



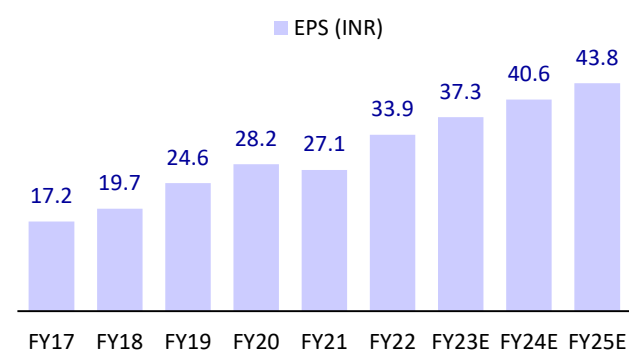
Source: Company, MOFSL

**Exhibit 6: Margin to expand to 25.8% by FY25E**



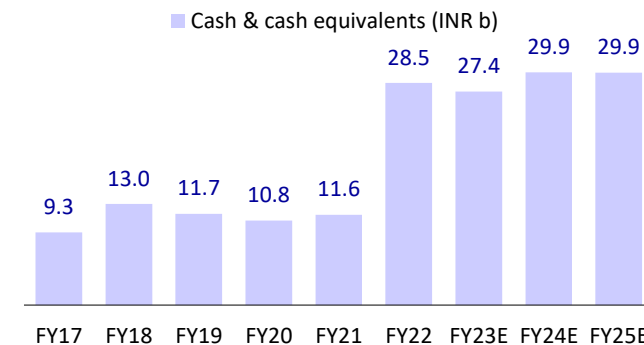
Source: Company, MOFSL

**Exhibit 7: Earnings CAGR of ~8.4% estimated over FY23-25**



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	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>27,411</b>	<b>29,265</b>	<b>28,957</b>	<b>31,281</b>	<b>32,244</b>	<b>29,256</b>	<b>32,780</b>	<b>32,780</b>	<b>35,731</b>	<b>38,589</b>
Change (%)	4.7	6.8	-1.1	8.0	3.1	-9.3	12.0	0.0	9.0	8.0
<b>EBITDA</b>	<b>4,516</b>	<b>3,455</b>	<b>5,058</b>	<b>6,008</b>	<b>6,573</b>	<b>5,981</b>	<b>7,639</b>	<b>8,314</b>	<b>9,196</b>	<b>9,956</b>
Change (%)	-6.1	-23.5	46.4	18.8	9.4	-9.0	27.7	8.8	10.6	8.3
Margin (%)	16.5	11.8	17.5	19.2	20.4	20.4	23.3	25.4	25.7	25.8
Depreciation	248	264	380	486	827	786	682	651	675	696
<b>EBIT</b>	<b>4,269</b>	<b>3,192</b>	<b>4,678</b>	<b>5,522</b>	<b>5,746</b>	<b>5,195</b>	<b>6,957</b>	<b>7,663</b>	<b>8,521</b>	<b>9,260</b>
Int. and Fin. Charges	0	0	2	6	63	35	20	15	20	22
Other Income - Rec.	1,500	1,463	545	1,023	790	1,106	758	880	800	810
<b>PBT</b>	<b>5,769</b>	<b>4,655</b>	<b>5,222</b>	<b>6,540</b>	<b>6,472</b>	<b>6,266</b>	<b>7,695</b>	<b>8,528</b>	<b>9,301</b>	<b>10,048</b>
Tax	2,026	1,744	1,893	2,373	1,698	1,667	1,953	2,217	2,418	2,632
Tax Rate (%)	35.1	37.5	36.2	36.3	26.2	26.6	25.4	26.0	26.0	26.2
<b>Adj PAT</b>	<b>3,742</b>	<b>2,911</b>	<b>3,329</b>	<b>4,167</b>	<b>4,775</b>	<b>4,596</b>	<b>5,739</b>	<b>6,311</b>	<b>6,883</b>	<b>7,415</b>
Change (%)	-29.2	-22.2	14.4	25.2	14.6	-3.8	24.9	10.0	9.1	7.7
One-off income (net of tax)	-135	457	178	-21	-3,843	-1,726	116	-114	0	0
<b>Reported PAT Before Disc. Operations</b>	<b>3,607</b>	<b>3,368</b>	<b>3,507</b>	<b>4,454</b>	<b>932</b>	<b>2,873</b>	<b>5,858</b>	<b>6,197</b>	<b>6,883</b>	<b>7,415</b>

Balance Sheet										(INR m)
Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	847	847	847	1,694	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	27,219	29,816	32,556
Capital Reserve	17	17	17	17	17	17	17	17	17	17
<b>Net Worth</b>	<b>21,832</b>	<b>20,069</b>	<b>20,573</b>	<b>21,398</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>28,930</b>	<b>31,527</b>	<b>34,267</b>
Loans	16	10	6	2	0	0	0	0	0	0
<b>Capital Employed</b>	<b>21,848</b>	<b>20,078</b>	<b>20,579</b>	<b>21,400</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>28,931</b>	<b>31,528</b>	<b>34,267</b>
Gross Block	2,284	3,313	4,020	5,590	10,190	6,740	7,740	8,740	9,740	10,740
Less: Accum. Deprn.	243	464	792	1,278	2,105	2,891	3,573	4,223	4,898	5,594
<b>Net Fixed Assets</b>	<b>2,040</b>	<b>2,850</b>	<b>3,228</b>	<b>4,300</b>	<b>7,566</b>	<b>3,843</b>	<b>3,294</b>	<b>4,517</b>	<b>4,842</b>	<b>5,146</b>
Capital WIP	2,677	5,732	9,229	10,026	1,201	132	305	-445	-1,195	-1,945
Investments	1	1	18	17	15	14	3,668	3,668	3,668	3,668
<b>Curr. Assets</b>	<b>24,820</b>	<b>20,540</b>	<b>25,962</b>	<b>24,148</b>	<b>21,469</b>	<b>26,114</b>	<b>37,934</b>	<b>34,156</b>	<b>38,447</b>	<b>41,318</b>
Inventory	5,259	4,258	5,002	4,865	4,830	5,467	5,347	4,819	5,252	5,673
Account Receivables	1,266	1,708	1,470	1,205	998	2,156	2,052	1,803	1,965	2,122
Cash & Bank Balance	13,919	9,321	12,964	11,714	10,832	11,580	24,845	23,765	26,227	26,191
Others	4,376	5,253	6,527	6,364	4,808	6,911	5,689	3,770	5,002	7,332
<b>Curr. Liability &amp; Prov.</b>	<b>8,700</b>	<b>9,960</b>	<b>18,896</b>	<b>17,713</b>	<b>13,149</b>	<b>16,143</b>	<b>19,703</b>	<b>14,097</b>	<b>15,366</b>	<b>15,051</b>
Account Payables	5,393	6,750	15,046	13,642	7,763	11,006	13,801	8,195	8,933	8,104
Provisions	3,307	3,210	3,850	4,071	5,386	5,137	5,902	5,902	6,433	6,948
<b>Net Current Assets</b>	<b>16,119</b>	<b>10,580</b>	<b>7,066</b>	<b>6,435</b>	<b>8,319</b>	<b>9,971</b>	<b>18,231</b>	<b>20,059</b>	<b>23,081</b>	<b>26,267</b>
Deferred Tax Assets	1011	916	1037	622	1105	1031	1132	1132	1132	1132
<b>Appl. of Funds</b>	<b>21,848</b>	<b>20,078</b>	<b>20,579</b>	<b>21,400</b>	<b>18,206</b>	<b>14,991</b>	<b>26,630</b>	<b>28,931</b>	<b>31,528</b>	<b>34,267</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>EPS</b>	<b>22.1</b>	<b>17.2</b>	<b>19.7</b>	<b>24.6</b>	<b>28.2</b>	<b>27.1</b>	<b>33.9</b>	<b>37.3</b>	<b>40.6</b>	<b>43.8</b>
Cash EPS	23.6	18.7	21.9	27.5	33.1	31.8	37.9	41.1	44.6	47.9
BV/Share	128.9	118.5	121.4	126.3	107.5	88.5	157.2	170.8	186.1	202.3
DPS	50.0	30.0	35.0	20.0	20.0	30.0	30.0	20.0	22.0	24.0
Payout (%)	136.2	175.1	91.9	97.9	85.4	133.1	106.6	64.6	65.2	66.0

### Valuation

P/E	56.1	72.2	63.1	50.4	44.0	45.7	36.6	33.3	30.5	28.3
Cash P/E	52.6	66.2	56.6	45.1	37.5	39.0	32.7	30.2	27.8	25.9
P/BV	9.6	10.5	10.2	9.8	11.5	14.0	7.9	7.3	6.7	6.1
EV/Sales	7.2	6.9	6.8	6.3	6.2	6.8	5.5	5.6	5.0	4.7
EV/EBITDA	43.4	58.1	39.0	33.0	30.3	33.2	23.8	22.0	19.6	18.1
Dividend Yield (%)	4.0	2.4	2.8	1.6	1.6	2.4	2.4	1.6	1.8	1.9

### Return Ratios (%)

RoE	17.1	14.5	16.2	19.5	26.2	30.7	21.6	21.8	21.8	21.6
RoCE	18.6	13.9	16.4	19.9	24.3	27.9	27.7	22.8	22.8	22.6

### Working Capital Ratios

Fixed Asset Turnover (x)	16.8	12.0	9.5	8.3	5.4	5.1	9.2	8.4	7.6	7.7
Debtor (Days)	17	21	19	14	11	27	23	20	20	20
Inventory (Days)	70	53	63	57	55	68	60	54	54	54
Creditor days	72	84	190	159	88	137	154	91	91	77

### Leverage Ratio

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

Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Oper. Profit/(Loss) bef. Tax	4,381	3,912	5,236	5,987	2,730	4,255	7,755	8,201	9,196	9,956
Interest/Div. Recd.	1,500	1,463	545	1,023	790	1,106	758	880	800	810
Direct Taxes Paid	-2,207	-1,649	-2,013	-1,958	-2,180	-1,594	-2,053	-2,217	-2,418	-2,632
(Inc)/Dec in WC	-6,205	942	7,156	-619	-2,766	-904	5,006	-2,909	-560	-3,221
<b>CF from Operations</b>	<b>-2,531</b>	<b>4,669</b>	<b>10,925</b>	<b>4,434</b>	<b>-1,427</b>	<b>2,864</b>	<b>11,465</b>	<b>3,954</b>	<b>7,018</b>	<b>4,912</b>
EO expense	-135	457	178	-21	-3,843	-1,726	116	-114	0	0
<b>CF frm Op. incl EO exp.</b>	<b>1,389</b>	<b>2,344</b>	<b>4,728</b>	<b>4,095</b>	<b>4,905</b>	<b>5,384</b>	<b>12,143</b>	<b>4,068</b>	<b>7,018</b>	<b>4,912</b>
(inc)/dec in FA	-596	-4,085	-4,255	-2,367	4,225	4,519	-1,173	-250	-250	-250
<b>Free Cash Flow</b>	<b>657</b>	<b>-1,284</b>	<b>651</b>	<b>1,707</b>	<b>5,287</b>	<b>8,177</b>	<b>11,086</b>	<b>3,704</b>	<b>6,768</b>	<b>4,662</b>
(Pur)/Sale of Investments	-0	0	-18	1	2	1	-3,655	0	0	0
<b>CF from investments</b>	<b>4,990</b>	<b>3,006</b>	<b>-1,042</b>	<b>-1,535</b>	<b>-568</b>	<b>4,180</b>	<b>-4,055</b>	<b>-250</b>	<b>-250</b>	<b>-250</b>
Change in Equity capital	-	0	0	847	-	0	0	0	0	0
Inc/(Dec) in Debt	-10	-6	-4	-4	-2	0	0	0	0	0
Interest Paid	-	0	-2	-6	-63	-35	-20	-15	-20	-22
Dividend Paid	-5,097	-5,097	-3,058	-4,080	-4,078	-6,117	-6,117	-4,078	-4,486	-4,894
<b>CF from Fin. Activity</b>	<b>-6,383</b>	<b>-5,108</b>	<b>-3,066</b>	<b>-3,583</b>	<b>-4,276</b>	<b>-6,560</b>	<b>-9,278</b>	<b>-4,899</b>	<b>-4,306</b>	<b>-4,700</b>
<b>Inc/Dec of Cash</b>	<b>-4</b>	<b>243</b>	<b>620</b>	<b>-1,023</b>	<b>60</b>	<b>3,004</b>	<b>-1,190</b>	<b>-1,081</b>	<b>2,462</b>	<b>-37</b>
Add: Beginning Balance	1,153	1,149	1,391	2,011	988	1,048	4,052	2,862	1,781	4,242
<b>Closing Balance</b>	<b>1,149</b>	<b>1,391</b>	<b>2,011</b>	<b>988</b>	<b>1,048</b>	<b>4,052</b>	<b>2,862</b>	<b>1,781</b>	<b>4,242</b>	<b>4,205</b>
Bank balances other than cash	12,770	7,930	10,953	10,725	9,784	7,528	21,983	21,983	21,983	21,983
<b>Closing Balance</b>	<b>13,919</b>	<b>9,321</b>	<b>12,964</b>	<b>11,714</b>	<b>10,832</b>	<b>11,580</b>	<b>24,845</b>	<b>23,765</b>	<b>26,227</b>	<b>26,191</b>

(INR m)



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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