

GlaxoSmithKline Pharma

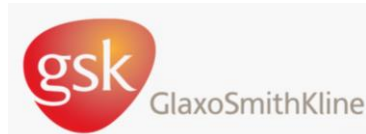
BSE SENSEX
57,635

S&P CNX
16,986

CMP: INR1,260

TP: INR1,300 (+3%)

Neutral



Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	213.5 / 2.6
52-Week Range (INR)	1666 / 1231
1, 6, 12 Rel. Per (%)	7/-9/-20
12M Avg Val (INR M)	78

Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	32.8	35.1	37.9
EBITDA	8.3	8.9	9.6
Adj. PAT	6.3	6.7	7.2
EBIT Margin (%)	23.4	23.5	23.6
Cons. Adj. EPS (INR)	37.3	39.4	42.4
EPS Gr. (%)	10.0	5.7	7.7
BV/Sh. (INR)	170.8	184.9	199.7

Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	21.8	21.3	21.2
RoCE (%)	22.8	22.2	22.1
Payout (%)	64.6	67.2	68.1

Valuations

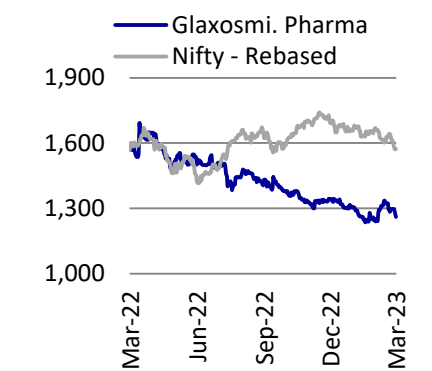
P/E (x)	33.9	32.0	29.7
EV/EBITDA (x)	22.4	20.6	19.1
Div. Yield (%)	1.6	1.7	1.9
FCF Yield (%)	1.7	3.0	2.1
EV/Sales (x)	5.7	5.2	4.9

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

Stock performance (one-year)



Outlook - A Mixed Bag

“Shingrix” launch soon; WPI to mitigate the impact of price cut under NLEM

We attended the analyst meet of Glaxosmithkline Pharma (GLXO) to understand the company's business outlook over the next two to three years.

- GLXO plans to launch the ‘Shingrix’ vaccine in the domestic formulation market in the near term.
- The adverse impact of inclusion of certain brands under the national list of essential medicines (NLEM) is expected to be mitigated by higher volume off-take, increased reach, Shingrix launch, and cost optimization measures.
- We cut our EPS estimate by 3% for FY24/FY25 to factor in a) lower prices of certain brands (Ceftum/T-Bact) and b) gradual improvement in inflation-linked overall prices. We value GLXO at 33x 12M forward earnings to arrive at a price target of INR1,300. We reiterate our Neutral stance on the stock.

Key highlights of Analyst Meet

- GLXO guided for high single-digit revenue growth over FY23-25, driven considerably by volume.
- While there would be an adverse impact of price reduction due to the inclusion of ‘Ceftum’ and ‘T-Bact’ under the National list of essential medicines (NLEM), GLXO is expected to mitigate the impact through higher volume sale.
- Further, the company is focussed on launching its ‘Shingrix’ vaccine. The company's ongoing cost optimization measures would also aid in driving up its profitability.
- Unlike peers in the domestic formulation industry, GLXO is expected to have fewer new launches in the market. It plans to focus on market share gain in its existing products through life cycle management and increasing their reach.
- The WPI-led price increase is expected from Apr'23, which would also partially offset the adverse impact of price reduction under NLEM.
- The portfolio under NLEM is now 42% (FY23) compared to 33% (FY22).
- The overall strategy is to focus on anti-infectives, pain, and dermatology in terms of therapies. The favorable demand for these therapies at the industry level, supported by effective marketing, is expected to drive better than industry growth for GLXO.
- GLXO has allocated MR force (~200) for marketing its soon-to-be launched ‘Shingrix’ vaccine. While this product is priced at USD200 per dose, GLXO indicated to price it competitively in India.
- GLXO witnessed a 10% YoY growth in general medicine category (80% of total sales), while vaccines witnessed 34% YoY decline, adversely affecting the overall performance of GLXO. Having said this, the paediatric vaccine industry is exhibiting revival, compared to a sharp decline during the COVID period. This is improving the growth prospects for GLXO as well.

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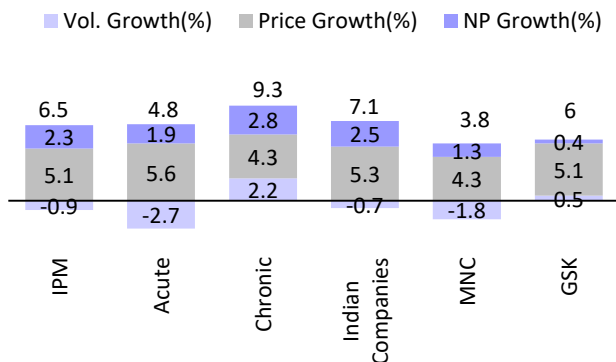
- In addition to general medicine and vaccines, GLXO has enhanced its specialty portfolio, comprising Mucala, Trelegy, and Shingrix.
- Successful clinical outcomes, at the parent level, of the ongoing clinical trials of various products would pave way for launches in India going forward.

Valuation and View

- Compared to 12% earnings CAGR exhibited by GLXO over FY18-23, we expect 7% earnings CAGR over FY23-25. While GLXO continues to strengthen legacy brands and launch products selectively, we expect price cuts for certain brands under NLEM and a gradual pick-up of the Shingrix brand would moderate earnings growth over the medium term.
- Accordingly, we have cut EPS earnings of GLXO by 3% for FY24/FY25. We value GLXO at 33x 12M forward earnings to arrive at a price target of INR1,300. We reiterate Neutral rating on the stock due to limited upside from the current levels.

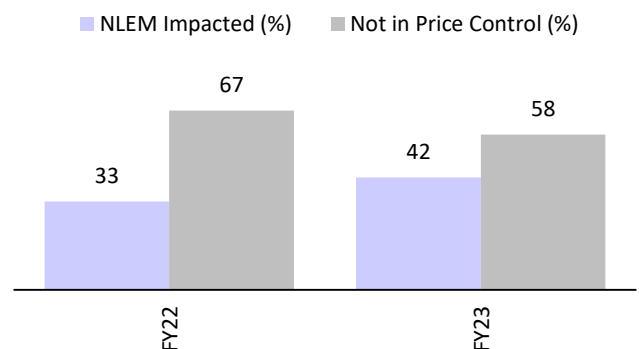
Key exhibits

Exhibit 1: GSK has outperformed other MNC on a YoY basis



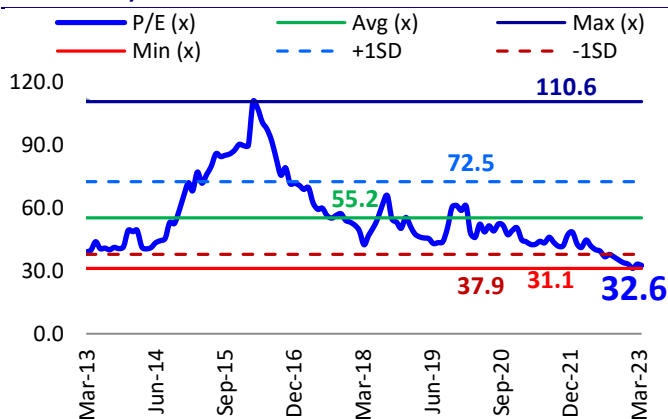
Source: MOFSL, Company

Exhibit 2: The portfolio under NLEM has increased YoY



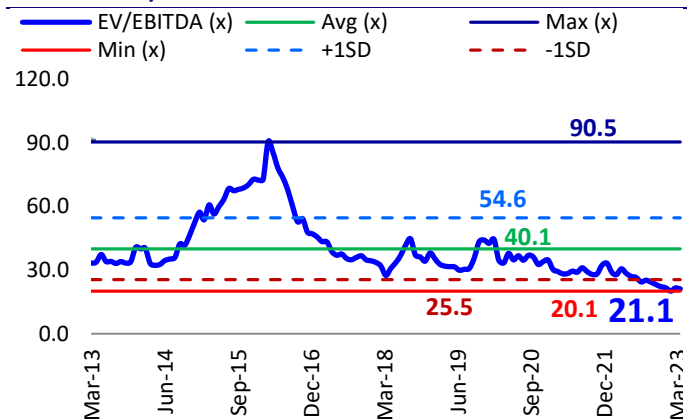
Source: MOFSL, Company

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart

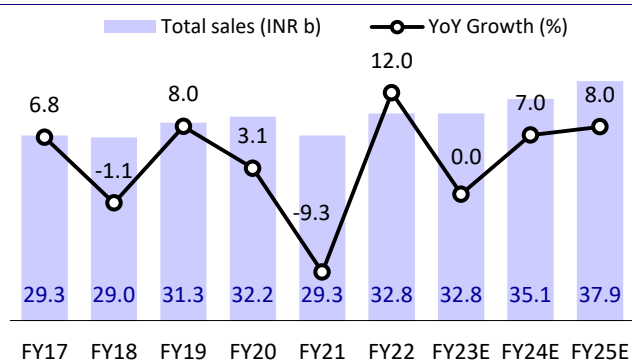


Source: MOFSL, Company, Bloomberg

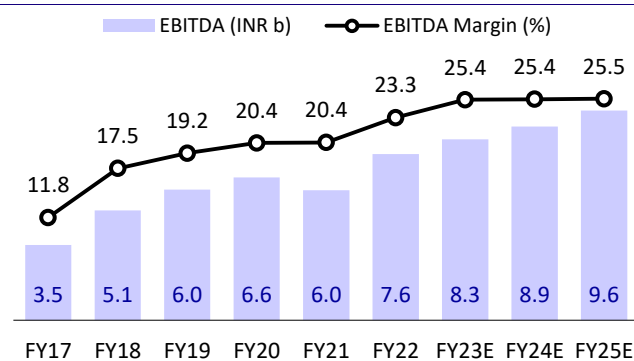
Exhibit 5: GSK has significant share in Anti-infective/Derma portfolio within representative market

Therapeutic Area	Representative Market (INR Bn)	YoY Growth(%) of market	GSK Market share(%)	YoY Growth (%)
Anti-Infective	47.7	19	25	18
Derma	35.3	12	39	14
Respiratory	26.9	2	3	6
Vaccine	26.9	-9	21	-18
Pain	20.4	5	28	-3
VMN	16.0	3	15	13
Hormone	11.8	11	34	4

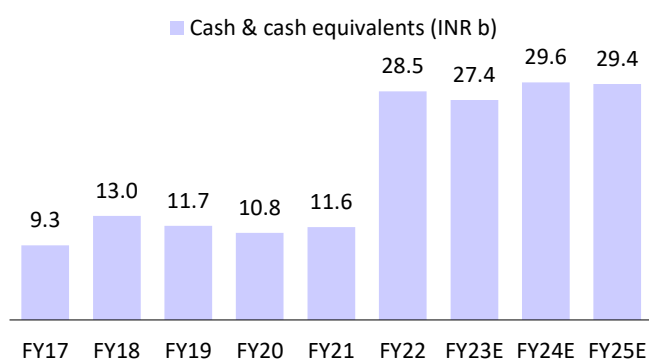
Source: Company, MOFSL

Story in charts**Exhibit 6: Total sales CAGR to be 7.5% over FY23-25**

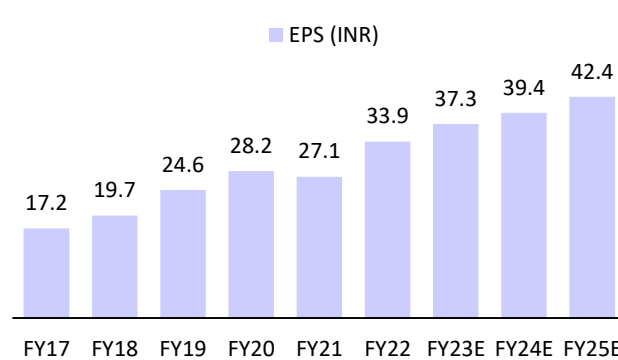
Source: MOFSL, Company

Exhibit 7: EBITDA margins to be stable

Source: MOFSL, Company

Exhibit 8: Cash likely to be distributed to the shareholder

Source: MOFSL, Company

Exhibit 9: Earnings CAGR to be 6.7% over FY23-25

Source: MOFSL, Company

Financials and valuations

Income Statement										(INR m)
Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	27,411	29,265	28,957	31,281	32,244	29,256	32,780	32,780	35,075	37,881
Change (%)	4.7	6.8	-1.1	8.0	3.1	-9.3	12.0	0.0	7.0	8.0
EBITDA	4,516	3,455	5,058	6,008	6,573	5,981	7,639	8,314	8,911	9,649
Change (%)	-6.1	-23.5	46.4	18.8	9.4	-9.0	27.7	8.8	7.2	8.3
Margin (%)	16.5	11.8	17.5	19.2	20.4	20.4	23.3	25.4	25.4	25.5
Depreciation	248	264	380	486	827	786	682	651	675	696
EBIT	4,269	3,192	4,678	5,522	5,746	5,195	6,957	7,663	8,237	8,953
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
PBT	5,769	4,655	5,222	6,540	6,472	6,266	7,695	8,528	9,017	9,741
Tax	2,026	1,744	1,893	2,373	1,698	1,667	1,953	2,217	2,344	2,552
Tax Rate (%)	35.1	37.5	36.2	36.3	26.2	26.6	25.4	26.0	26.0	26.2
Adj PAT	3,742	2,911	3,329	4,167	4,775	4,596	5,739	6,311	6,672	7,189
Change (%)	-29.2	-22.2	14.4	25.2	14.6	-3.8	24.9	10.0	5.7	7.7
One-off income (net of tax)	-135	457	178	-21	-3,843	-1,726	116	-114	0	0
Reported PAT Before Disc. Operations	3,607	3,368	3,507	4,454	932	2,873	5,858	6,197	6,672	7,189

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	29,606	32,119
Capital Reserve	17	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	28,930	31,317	33,830
Loans	16	10	6	2	0	0	0	0	0	0
Capital Employed	21,848	20,078	20,579	21,400	18,206	14,991	26,630	28,931	31,317	33,830
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
Net Fixed Assets	2,040	2,850	3,228	4,300	7,566	3,843	3,294	4,517	4,842	5,146
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
Curr. Assets	24,820	20,540	25,962	24,148	21,469	26,114	37,934	34,156	37,954	40,605
Inventory	5,259	4,258	5,002	4,865	4,830	5,467	5,347	4,819	5,156	5,568
Account Receivables	1,266	1,708	1,470	1,205	998	2,156	2,052	1,803	1,929	2,083
Cash & Bank Balance	13,919	9,321	12,964	11,714	10,832	11,580	24,845	23,765	25,959	25,756
Others	4,376	5,253	6,527	6,364	4,808	6,911	5,689	3,770	4,910	7,197
Curr. Liability & Prov.	8,700	9,960	18,896	17,713	13,149	16,143	19,703	14,097	15,084	14,775
Account Payables	5,393	6,750	15,046	13,642	7,763	11,006	13,801	8,195	8,769	7,955
Provisions	3,307	3,210	3,850	4,071	5,386	5,137	5,902	5,902	6,315	6,820
Net Current Assets	16,119	10,580	7,066	6,435	8,319	9,971	18,231	20,059	22,870	25,830
Deferred Tax Assets	1011	916	1037	622	1105	1031	1132	1132	1132	1132
Appl. of Funds	21,848	20,078	20,579	21,400	18,206	14,991	26,630	28,931	31,317	33,830

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.1	17.2	19.7	24.6	28.2	27.1	33.9	37.3	39.4	42.4
Cash EPS	23.6	18.7	21.9	27.5	33.1	31.8	37.9	41.1	43.4	46.5
BV/Share	128.9	118.5	121.4	126.3	107.5	88.5	157.2	170.8	184.9	199.7
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	67.2	68.1
Valuation										
P/E	57.1	73.4	64.2	51.3	44.7	46.5	37.2	33.9	32.0	29.7
Cash P/E	53.5	67.3	57.6	45.9	38.1	39.7	33.3	30.7	29.1	27.1
P/BV	9.8	10.6	10.4	10.0	11.7	14.3	8.0	7.4	6.8	6.3
EV/Sales	7.3	7.0	6.9	6.5	6.3	6.9	5.6	5.7	5.2	4.9
EV/EBITDA	44.2	59.1	39.7	33.6	30.9	33.8	24.2	22.4	20.6	19.1
Dividend Yield (%)	4.0	2.4	2.8	1.6	1.6	2.4	2.4	1.6	1.7	1.9
Return Ratios (%)										
RoE	17.1	14.5	16.2	19.5	26.2	30.7	21.6	21.8	21.3	21.2
RoCE	18.6	13.9	16.4	19.9	24.3	27.9	27.7	22.8	22.2	22.1
Working Capital Ratios										
Fixed Asset Turnover (x)	16.8	12.0	9.5	8.3	5.4	5.1	9.2	8.4	7.5	7.6
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

Cash Flow Statement

(INR m)

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	8,911	9,649
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	-2,344	-2,552
(Inc)/Dec in WC	-6,205	942	7,156	-619	-2,766	-904	5,006	-2,909	-617	-3,162
CF from Operations	-2,531	4,669	10,925	4,434	-1,427	2,864	11,465	3,954	6,749	4,745
EO expense	-135	457	178	-21	-3,843	-1,726	116	-114	0	0
CF frm Op. incl EO exp.	1,389	2,344	4,728	4,095	4,905	5,384	12,143	4,068	6,749	4,745
(inc)/dec in FA	-596	-4,085	-4,255	-2,367	4,225	4,519	-1,173	-250	-250	-250
Free Cash Flow	657	-1,284	651	1,707	5,287	8,177	11,086	3,704	6,499	4,495
(Pur)/Sale of Investments	-0	0	-18	1	2	1	-3,655	0	0	0
CF from investments	4,990	3,006	-1,042	-1,535	-568	4,180	-4,055	-250	-250	-250
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
CF from Fin. Activity	-6,383	-5,108	-3,066	-3,583	-4,276	-6,560	-9,278	-4,899	-4,306	-4,700
Inc/Dec of Cash	-4	243	620	-1,023	60	3,004	-1,190	-1,081	2,193	-205
Add: Beginning Balance	1,153	1,149	1,391	2,011	988	1,048	4,052	2,862	1,781	3,974
Closing Balance	1,149	1,391	2,011	988	1,048	4,052	2,862	1,781	3,974	3,770
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
Closing Balance	13,919	9,321	12,964	11,714	10,832	11,580	24,845	23,765	25,958	25,756

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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