MOTILAL OSWAL

17 August 2021
Update | Healthcare

GSK Pharma

BSE SENSEX	S&P CNX
55,792	16,615

Stock Info

Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	270.4 / 3.6
52-Week Range (INR)	1805 / 1379
1, 6, 12 Rel. Per (%)	-4/3/-41
12M Avg Val (INR M)	125
Free float (%)	25.0

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	32.0	35.5	38.7
EBITDA	7.0	8.0	8.4
Adj. PAT	5.0	5.9	6.4
EBIT Margin (%)	19.3	20.6	20.5
Cons. Adj. EPS (INR)	29.4	34.7	38.0
EPS Gr. (%)	4.4	18.0	9.6
BV/Sh. (INR)	88.5	101.1	116.2
Ratios			
Net D:E	-0.8	-0.7	-0.7
RoE (%)	33.3	34.3	32.8
RoCE (%)	30.2	36.7	35.3
Payout (%)	122.7	69.4	63.3
Valuations			
P/E (x)	54.1	45.9	41.8
EV/EBITDA (x)	37.1	32.1	30.3
Div. Yield (%)	1.9	1.3	1.3
FCF Yield (%)	3.3	1.3	2.7
EV/Sales (x)	8.1	7.3	6.6

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	75.0	75.0	75.0
DII	10.9	10.9	12.1
FII	1.6	1.6	0.2
Others	12.5	12.6	12.7

FII Includes depository receipts

CMP: INR 1,596 TP: INR1,550 (-3%) Neutral

Step change in growth and business mix

- **We attended the analyst meet of GSK Pharma to gain an insight on the growth outlook over the next 2–3 years.**
- **GSK Pharma has prioritized its efforts towards specialty and vaccines, while it continues to gain market share in general medicine.**
- **Accordingly, it expects 130–330bp margin expansion to 23–25% over FY21–26.**
- **We reduce our EPS estimate by 5% for FY23, factoring in the sale of the Iodex and Ostocalcium brands. We value GLXO at 38x 12M forward earnings to arrive at TP of INR1,550. We maintain Neutral as current valuations adequately factor in the earnings potential from renewed strategy.**

Differentiated products from parent to be launched in next 2–3 years

GLXO expects a double-digit CAGR in specialty drugs over FY21–26, supported by the parent's pipeline. Growth would be driven by new launches, such as Nucala (already launched) and Benlysta (under registration). GLXO will targets new launches over the next 3–4 years, especially in Onco therapy, such as Zejula from the parent portfolio. It is also looking at a ramp-up in Nucala with state and central agency registrations. It is considering Sotrovimab (a COVID drug) for India, subject to approval / supply surety.

New launches / Better penetration to drive Vaccine business

- GLXO expects a high-single-digit CAGR in vaccines over FY21–26, with new product introductions such as Shingrix. The parent would help GLXO introduce new vaccines in India. The Vaccine business was heavily impacted in FY21 due to COVID, but GLXO expects ~10% growth in FY22 as COVID cases decline. Being largely a Distribution business, Vaccine operating margins are in the high single digits. Adult vaccinations are another interesting large opportunity for GLXO.
- GLXO's parent is developing two COVID vaccines, one with Sanofi and another with Curevac. These are currently undergoing global trials and would be considered for India when appropriate, depending on the trial outcome.

Efforts underway to sustain market share gains in general medicine

- GLXO expects key promoted brands to grow 14–15% YoY over the near term. Currently, ~10 key brands account for 70% of general medicine. It expects the remaining brand sales to remain largely flat going forward. GLXO has decided against re-entering the Ranitidine market. Margins have taken a hit recently due to price increases in the Paracetamol API.
- 35% of its products are manufactured in-house, and it has enough capacity to cater to an increase in demand.
- It would receive INR16.5b in pre-tax from the sale of the Iodex and Ostocalcium brands to GSK Asia. The sale would have tax implications.

Valuation and view

- We cut our EPS estimate by 5% for FY23, factoring in the sale of two key brands Iodex and Ostocalcium to GSK Asia. We expect a 10%/14% sales/earnings CAGR for GLXO over FY21–23E. We value GLXO at 38x 12M forward P/E to arrive at our TP of INR1,550. We maintain our Neutral rating as valuations adequately factor in an upside on renewed strategy.

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Derma is GLXO's biggest therapy, contributing 28% to domestic sales

Therapy wise share on MAT July-21 Basis

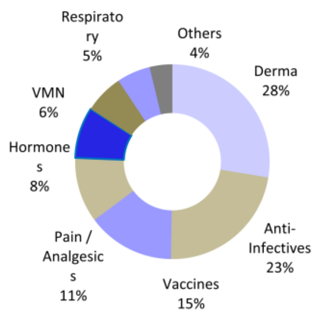


Exhibit 1: 3 of the top 6 AI brands outperformed Therapy and Molecule over the last 4 years

Brand	Therapy	MAT Jul'21 (INR m)	4-Yr CAGR (%)	4-Yr Therapy CAGR (%)	4-yr Molecule CAGR (%)
Augmentin	Anti-Infective (AI)	4,750	12.1	8.6	3.6
Ceftum	Anti-Infective(AI)	2,153	13.2	8.6	7.5
Phexin	Anti-Infective(AI)	810	2.2	8.6	3.1
Supacef	Anti-Infective(AI)	348	18.5	8.6	7.5
Zentel	Anti-Infective(AI)	341	4.0	8.6	2.1
Banocide	Anti-Infective(AI)	256	-0.2	8.6	1.8

*4 year: MAT Jul'17-21 Source: MOFSL, AIOCD

Exhibit 2: 5 of the top 6 Derma brands outperformed Therapy over the last 4 years

Brand	Therapy	MAT Jul'21 (INR m)	4-Yr CAGR (%)	4-Yr Therapy CAGR (%)	4-yr Molecule CAGR (%)
Betnovate N	Derma	2,543	13.1	8.4	13.3
Betnovate C	Derma	2,479	11.0	8.4	11.0
T Bact	Derma	2,422	39.2	8.4	21.8
Neosporin	Derma	1,017	45.2	8.4	47.2
Betnovate Gm	Derma	496	-2.0	8.4	-2.4
Tenovate	Derma	468	9.5	8.4	7.9

*4 year: MAT Jul'17-21 Source: MOFSL, AIOCD

Exhibit 3: Iodex outperformed Therapy as well as Molecule growth over the last 4 years

Brand	Therapy	MAT Jul'21 (INR m)	4-Yr CAGR (%)	4-Yr Therapy CAGR (%)	4-yr Molecule CAGR (%)
Calpol	Pain / Analgesics	3,117	12.8	7.0	13.3
Iodex	Pain / Analgesics	367	21.1	7.0	7.1
Zyloric	Pain / Analgesics	348	4.9	7.0	2.3
Crocin	Pain / Analgesics	342	5.1	7.0	13.3

*4 year: MAT Jul'17-21 Source: MOFSL, AIOCD

Exhibit 4: 3 of the top 5 vaccines outperformed Therapy over the last 4 years

Brand	Therapy	MAT Jul'21 (INR m)	4-Yr CAGR (%)	4-Yr Therapy CAGR (%)	4-yr Molecule CAGR (%)
Synflorix	Vaccines	2,218	-3.8	1.8	-5.6
Infanrix Hexa	Vaccines	1,333	0.0	1.8	74.7
Varilrix	Vaccines	785	16.5	1.8	-8.5
Boostrix	Vaccines	525	9.2	1.8	-0.1
Havrix (Pead.)	Vaccines	457	-16.2	1.8	-13.5

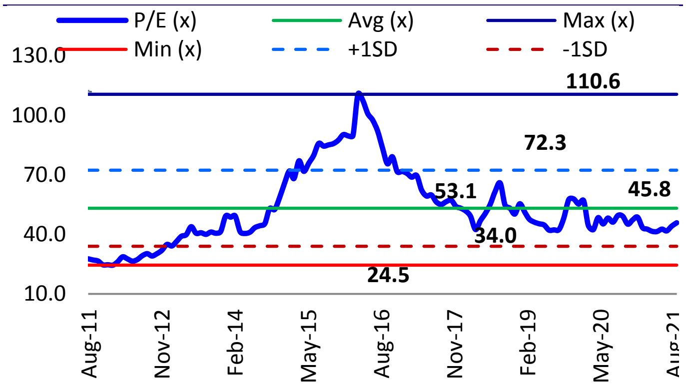
*4 year: MAT Jul'17-21 Source: MOFSL, AIOCD

Exhibit 5: Becadexamin outperformed Therapy and Molecule over the last 4 years

Brand	Therapy	MAT Jul'21 (INR m)	4-Yr CAGR (%)	4-Yr Therapy CAGR (%)	4-yr Molecule CAGR (%)
Ccm	VMN	920	8.5	10.0	7.2
Cobadex Czs	VMN	771	9.2	10.0	17.0
Becadexamin	VMN	383	19.7	10.0	17.0

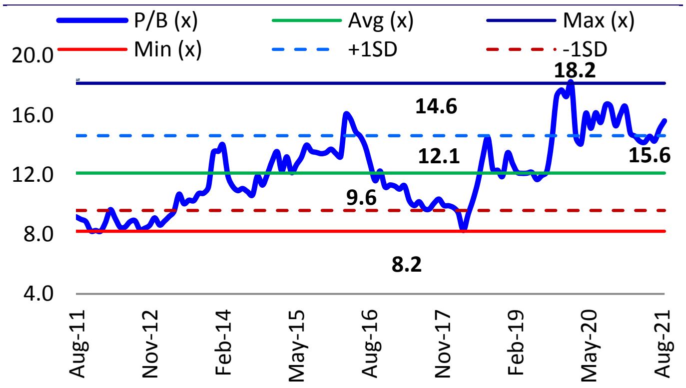
*4 year: MAT Jul'17-21 Source: MOFSL, AIOCD

Exhibit 6: P/E chart



Source: MOFSL, Bloomberg

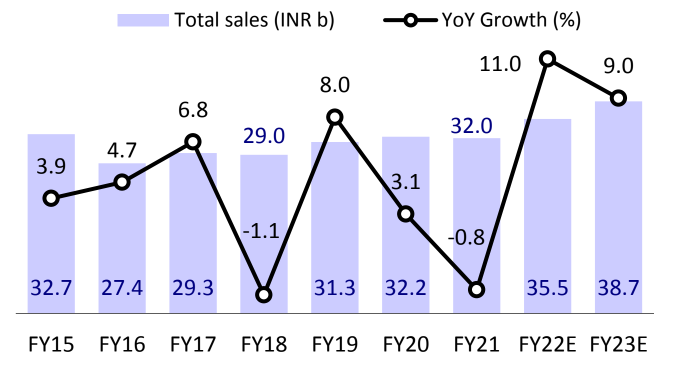
Exhibit 7: P/B chart



Source: MOFSL, Bloomberg

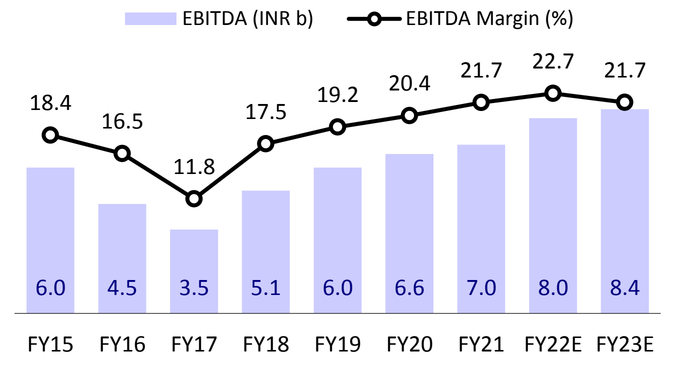
Story in charts

Exhibit 8: Expect revenue CAGR of ~10% over FY21–23



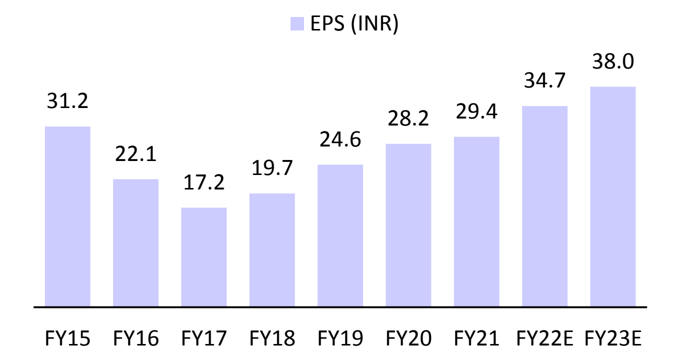
Source: Company, MOFSL

Exhibit 9: Margins to remain flat over FY21–23E



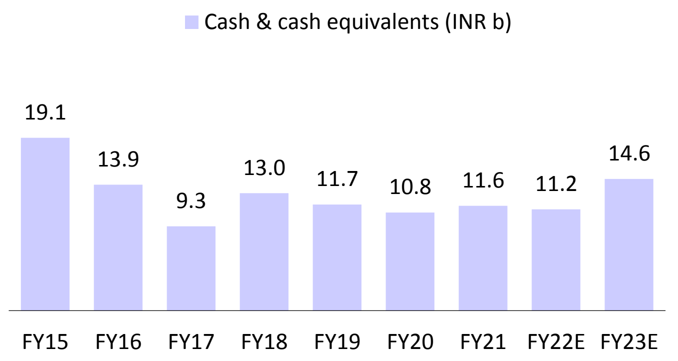
Source: Company, MOFSL

Exhibit 10: Expect ~14% earnings CAGR over FY21–23



Source: Company, MOFSL

Exhibit 11: Expect cash 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**	**FY22E**	**FY23E**
Net Sales	**32,725**	**27,411**	**29,265**	**28,957**	**31,281**	**32,244**	**31,989**	**35,508**	**38,703**
Change (%)	3.9	4.7	6.8	-1.1	8.0	3.1	-0.8	11.0	9.0
EBITDA	**6,009**	**4,516**	**3,455**	**5,058**	**6,008**	**6,573**	**6,953**	**8,050**	**8,417**
Change (%)	-3.1	-6.1	-23.5	46.4	18.8	9.4	5.8	15.8	4.6
Margin (%)	18.4	16.5	11.8	17.5	19.2	20.4	21.7	22.7	21.7
Depreciation	254	248	264	380	486	827	793	724	494
EBIT	**5,756**	**4,269**	**3,192**	**4,678**	**5,522**	**5,746**	**6,161**	**7,326**	**7,923**
Int. and Fin. Charges	0	0	0	2	6	63	35	30	65
Other Income - Rec.	2,320	1,500	1,463	545	1,023	790	680	650	690
PBT	**8,076**	**5,769**	**4,655**	**5,222**	**6,540**	**6,472**	**6,805**	**7,946**	**8,548**
Tax	2,793	2,026	1,744	1,893	2,373	1,698	1,818	2,066	2,103
Tax Rate (%)	34.6	35.1	37.5	36.2	36.3	26.2	26.7	26.0	24.6
Adj PAT	**5,283**	**3,742**	**2,911**	**3,329**	**4,167**	**4,775**	**4,985**	**5,880**	**6,445**
Change (%)	11.1	-29.2	-22.2	14.4	25.2	14.6	4.4	18.0	9.6
One-off income (net of tax)	519	-135	457	178	-21	-3,843	-1,406	156	0
Reported PAT	**5,802**	**3,607**	**3,368**	**3,507**	**4,454**	**932**	**3,582**	**6,036**	**6,445**
Change (%)	-7.5	-22.3	-22.2	14.4	25.2	-79.1	284.3	68.5	6.8
Margin (%)	17.7	13.2	11.5	12.1	14.2	2.9	11.2	17.0	16.7

Balance Sheet									(INR m)
Y/E December	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Equity Share Capital	847	847	847	847	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	15,419	17,968
Capital Reserve	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**	**17,130**	**19,679**
Loans	26	16	10	6	2	0	0	0	0
Capital Employed	**18,316**	**21,848**	**20,078**	**20,579**	**21,400**	**18,206**	**14,991**	**17,130**	**19,679**
Gross Block	3,212	2,284	3,313	4,020	5,590	10,190	6,740	7,740	8,740
Less: Accum. Deprn.	1,981	243	464	792	1,278	2,105	2,897	3,621	4,116
Net Fixed Assets	**1,231**	**2,040**	**2,850**	**3,228**	**4,300**	**7,566**	**3,843**	**4,119**	**4,624**
Capital WIP	1,152	2,677	5,732	9,229	10,026	1,201	132	-618	-1,368
Investments	1	1	1	18	17	15	14	14	14
Curr. Assets	**28,942**	**24,820**	**20,540**	**25,962**	**24,148**	**21,469**	**26,114**	**26,098**	**29,721**
Inventory	3,756	5,259	4,258	5,002	4,865	4,830	5,467	5,681	5,689
Account Receivables	1,003	1,266	1,708	1,470	1,205	998	2,156	2,486	2,129
Cash & Bank Balance	19,106	13,919	9,321	12,964	11,714	10,832	11,580	11,185	14,549
Others	5,077	4,376	5,253	6,527	6,364	4,808	6,911	6,746	7,354
Curr. Liability & Prov.	**13,841**	**8,700**	**9,960**	**18,896**	**17,713**	**13,149**	**16,143**	**13,514**	**14,343**
Account Payables	4,434	5,393	6,750	15,046	13,642	7,763	11,006	7,812	8,128
Provisions	9,406	3,307	3,210	3,850	4,071	5,386	5,137	5,702	6,215
Net Current Assets	**15,101**	**16,119**	**10,580**	**7,066**	**6,435**	**8,319**	**9,971**	**12,585**	**15,378**
Deferred Tax Assets	831	1011	916	1037	622	1105	1031	1031	1031
Appl. of Funds	**18,316**	**21,848**	**20,078**	**20,579**	**21,400**	**18,206**	**14,991**	**17,130**	**19,679**

Financials and valuations

Ratios									
Y/E December	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
EPS	**31.2**	**22.1**	**17.2**	**19.7**	**24.6**	**28.2**	**29.4**	**34.7**	**38.0**
Cash EPS	32.7	23.6	18.7	21.9	27.5	33.1	34.1	39.0	41.0
BV/Share	108.0	128.9	118.5	121.4	126.3	107.5	88.5	101.1	116.2
DPS	62.5	50.0	30.0	35.0	20.0	20.0	30.0	20.0	20.0
Payout (%)	120.6	136.2	175.1	91.9	97.9	85.4	122.7	69.4	63.3
Valuation									
P/E	63.8	72.1	92.6	81.0	64.7	56.5	54.1	45.9	41.8
Cash P/E	60.9	67.6	85.0	72.7	58.0	48.1	46.7	40.8	38.9
P/BV	14.7	12.4	13.4	13.1	12.6	14.8	18.0	15.7	13.7
EV/Sales	9.6	9.3	8.9	8.9	8.2	8.0	8.1	7.3	6.6
EV/EBITDA	52.1	56.6	75.4	50.8	42.9	39.4	37.1	32.1	30.3
Dividend Yield (%)	3.9	3.1	1.9	2.2	1.3	1.3	1.9	1.3	1.3
Return Ratios (%)									
RoE	23.1	17.1	14.5	16.2	19.5	26.2	33.3	34.3	32.8
RoCE	21.9	18.6	13.9	16.4	19.9	24.3	30.2	36.7	35.3
Working Capital Ratios									
Fixed Asset Turnover (x)	23.5	16.8	12.0	9.5	8.3	5.4	5.6	8.9	8.9
Debtor (Days)	14	17	21	19	14	11	25	26	20
Inventory (Days)	52	70	53	63	57	55	62	58	54
Creditor days	49	72	84	190	159	88	126	80	77
Leverage Ratio									
Debt/Equity	-1.0	-0.6	-0.5	-0.6	-0.5	-0.6	-0.8	-0.7	-0.7

Cash Flow Statement									(INR m)
Y/E December	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Oper. Profit/(Loss) bef. Tax	6,528	4,381	3,912	5,236	5,987	2,730	5,547	8,050	8,417
Interest/Div. Recd.	2,320	1,500	1,463	545	1,023	790	680	650	690
Direct Taxes Paid	-2,703	-2,207	-1,649	-2,013	-1,958	-2,180	-1,744	-2,066	-2,103
(Inc)/Dec in WC	410	-6,205	942	7,156	-619	-2,766	-904	-3,008	571
CF from Operations	**6,555**	**-2,531**	**4,669**	**10,925**	**4,434**	**-1,427**	**3,579**	**3,626**	**7,575**
EO expense	519	-135	457	178	-21	-3,843	-1,406	0	0
CF frm Op. incl EO exp.	**3,376**	**1,389**	**2,344**	**4,728**	**4,095**	**4,905**	**5,779**	**3,626**	**7,575**
(inc)/dec in FA	-603	-596	-4,085	-4,255	-2,367	4,225	4,519	-250	-250
Free Cash Flow	**3,292**	**657**	**-1,284**	**651**	**1,707**	**5,287**	**8,892**	**3,376**	**7,325**
(Pur)/Sale of Investments	576	-0	0	-18	1	2	1	0	0
Others	1,828	5,586	7,091	3,231	831	-4,796	4,115		
CF from investments	**1,800**	**4,990**	**3,006**	**-1,042**	**-1,535**	**-568**	**8,636**	**-250**	**-250**
Change in Equity capital	0	-	0	0	847	-	0	0	0
Inc/(Dec) in Debt	-10	-10	-6	-4	-4	-2	0	0	0
Interest Paid	0	-	0	-2	-6	-63	-35	-30	-65
Dividend Paid	-6,374	-5,097	-5,097	-3,058	-4,080	-4,078	-6,117	-4,078	-4,078
Others	-791	4,898	422	234	-109	-46	-680	338	181
Others	2,205	-6,173	-427	-235	-232	-87	-129		
CF from Fin. Activity	**-4,970**	**-6,383**	**-5,108**	**-3,066**	**-3,583**	**-4,276**	**-6,961**	**-3,770**	**-3,962**
Inc/Dec of Cash	**207**	**-4**	**243**	**620**	**-1,023**	**60**	**7,454**	**-394**	**3,363**
Add: Beginning Balance	946	1,153	1,149	1,391	2,011	988	1,048	8,502	8,107
Closing Balance	**1,153**	**1,149**	**1,391**	**2,011**	**988**	**1,048**	**8,502**	**8,107**	**11,470**
Bank balances other than cash	17,953	12,770	7,930	10,953	10,725	9,784	3,078	3,078	3,078
Closing Balance	**19,106**	**13,919**	**9,321**	**12,964**	**11,714**	**10,832**	**11,580**	**11,185**	**14,549**

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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