

Glaxo SK Pharma

Margins to expand beyond Cx sale

We attended the GSK Pharma analyst meet. The management highlighted that the ongoing global specialty focus by Plc would enable India share of specialty going up over the coming decade. The recent launch pipeline holds *Shingrix*, *Trelegy*, indication expansion for *Nucala* and *Fluarix Tetra*. The management is confident on *Nucala* upcoming expansion given the patient reach expansion by 4x. Considering the healthy launch pipeline, the management is confident of expanding EBITDA margins beyond the Cx transaction. Valued at 16x EBITDA and 6x Sales, closure is expected in FY22E. We have adjusted for near-term EBITDA impact (1-1.5%) by reducing estimates by 4.5% for FY23E. Maintain BUY. We are optimistic on future pipeline including Covid vaccine.

Vaccine availability could be on fast track if trial results favorable

Globally, the GSK group is working with Sanofi and Medicago to harness the adjuvant technology in developing Covid-19 vaccines while also collaborating with CureVac to develop mRNA vaccines that have the potential to address multiple Covid-19 variants that are emerging across the world. Sanofi is conducting phase 3 trial in India; post the trials completion, GSK would be able to share more details.

Management believes Cx transaction is fairly valued

GSK India entered into an agreement GSK Asia (consumer arm of GSK plc) to sell *lodox* and *Ostocalcium* brands (Cx) for Rs16.49bn, valued at 16xEBITDA / 6xsales. Management believes valuation is fair, as GSK only owned the distribution rights for the brands. This Cx transaction would impact the EBITDA for FY23 by ~Rs1bn.

Core brands and vaccines to drive growth

The key focus brands under pharma account for ~70% of revenue and have registered a growth of 14% in the last five years. The management expects this trend to continue for the pharma segment. The vaccine business grew at ~10% CAGR over the last five years and is expected to grow faster ahead, with new vaccine additions. According to the guidance provided, vaccine margins would be ~9-10%, largely considered as distribution margins. We believe if core Pharma brands continue to grow at mid-double digits, then EBITDA margin expansion with some support from operating leverage should allow margin expansion beyond Cx transaction.

Valuation and risks

The management strategy is to drive growth by following the three pillar approach: Grow, Build and Shred. The top-20 focus brands continue to be key growth drivers. Building new specialty brands (parent's pipeline) would enable room for focused growth. We expect 2-3 innovative product launches in India in the coming fiscal, followed by oncology pipeline. The management focus on improving cost efficiency should be earnings accretive. The divestment of two brands has come at much better valuation post the Vemgal asset sale. We have increased the valuation multiple for GSK to 41x FY23E and arrive at a TP of Rs1,805. At CMP of Rs1,575, the stock trades at 42x FY22E EPS of Rs37.5 and 36.1x FY23E EPS of Rs43.6. Maintain BUY.

Financial and valuation summary

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	31,285	32,244	31,989	35,088	38,449
EBITDA	6,026	6,611	6,953	8,143	8,924
EBITDA margin (%)	19.3	20.5	21.7	23.2	23.2
Adj. Net profit	4,171	4,606	5,343	6,367	7,415
Adj. EPS (Rs)	24.5	27.1	31.4	37.5	43.6
EPS growth (%)	24.4	10.4	16.0	19.2	16.5
PE (x)	64.9	58.8	50.7	42.5	36.5
EV/EBITDA (x)	43.5	39.7	37.7	32.2	29.2
PBV (x)	6.3	7.4	9.0	7.8	7.3
RoE (%)	19.9	23.3	32.2	39.4	41.3
RoCE (%)	17.4	20.4	27.5	33.2	34.7

Source: Bloomberg, Centrum Broking

Company Update

India I Pharmaceuticals

18 August, 2021

BUY

Price: Rs1,575

Target Price: Rs1,805

Forecast return: 15%

Institutional Research

Market Data

Bloomberg:	GLXO IN
52 week H/L:	1,808/1,376
Market cap:	Rs266.8bn
Shares Outstanding:	169.4mn
Free float:	18.6%
Avg. daily vol. 3mth:	76,396

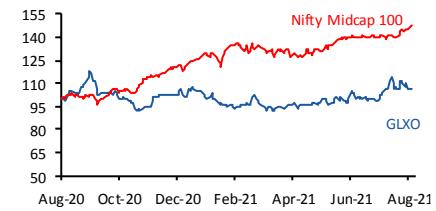
Source: Bloomberg

Changes in the report

Rating:	Unchanged at BUY
Target price:	Changed to Rs.1,800
EPS:	+1.5% FY22E, -1.7% FY23E

Source: Centrum Broking

GLXO relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	75.0	75.0	75.0	75.0
FII	1.6	1.6	1.5	1.0
DII	5.5	5.3	5.3	5.7
Public/other	17.9	18.1	18.2	18.3

Source: BSE



Cyndrella Carvalho
Analyst, Pharmaceuticals
+91-22-4215 9643
cyndrella.carvalho@centrum.co.in

Pharmaceuticals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	35,532	34,913	1.8	38,449	39,215	-2.0
EBITDA	8,232	8,126	1.3	8,953	9,780	-8.5
EBITDA margin	23.2%	23.3%	-10bps	23.3%	24.9%	-165bps
Adj. PAT	6,382	6,285	1.5	7,415	7,762	-4.5
Diluted EPS (Rs)	37.7	37.1		43.6	45.8	

Source: Centrum Broking

GSK versus NIFTY 50

	1m	6m	1 year
GLXO IN	(0.1)	9.4	4.8
NIFTY 50	5.2	10.6	45.2

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY22E	FY23E
Revenue growth %	11.1	8.2
Material cost (%)	41.3	40.7

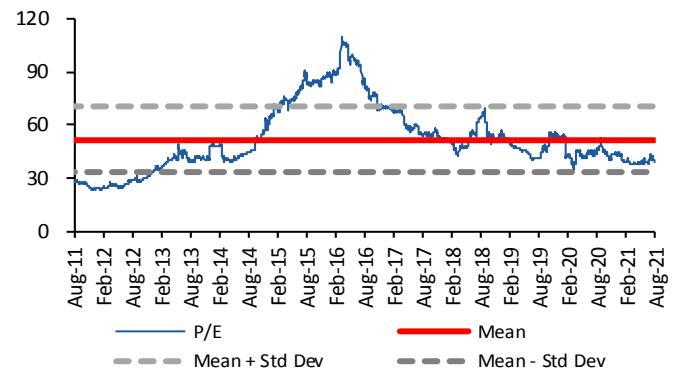
Source: Centrum Broking

Valuations

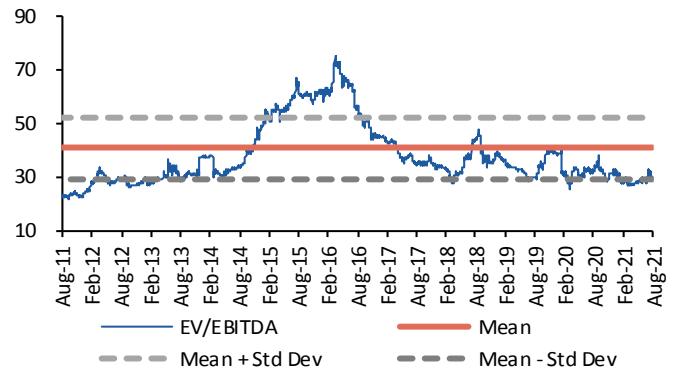
We have increased the valuation multiple for GSK to 41x FY23E and arrive at a TP of Rs1,800. At CMP of Rs1,575, the stock trades at 42x FY22E EPS of Rs37.5 and 36.1x FY23E EPS of Rs43.6. Maintain BUY.

Valuations	Rs/share
FY23E PE (x)	36.1
FY23E Adj EPS (Rs.)	43.6

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap		CAGR (FY21-23E)			P/E (x)		EV/EBITDA (x)			ROE (%)		
	(Rs mn)	Sales	EBITDA	PAT	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
GLXO	266,975	9.6	13.5	17.8	50.1	42.0	36.1	8.9	7.7	9.9	32.2	39.5	48.1
BOOT	400,762	15.5	23.7	27.4	58.6	43.1	36.0	41.3	32.1	26.6	27.2	33.0	33.8
SNAL	205,097	4.7	11.5	16.3	39.4	32.6	29.1	28.7	24.6	23.1	28.1	29.1	27.3
PFIZ	268,994	12.8	14.5	21.1	54.1	39.7	36.9	36.2	28.6	26.7	17.2	27.8	26.8

Source: Company, Centrum Broking

Key takeaways from Analyst Meet

- Sale of *Iodox* and *Ostocalcium* brands (Cx) valued at 16x EBITDA (6x sales) for Rs16.49bn. While GSK India doesn't own these brands, valuation may seem low. This transaction is expected to normalize tax rate still under discussion. It would impact near-term EBITDA margins by 1-1.5%, but the company is confident of growing the margins beyond this transaction.
- The management would be working on better utilization of this cash and is currently looking at all possible options.
- Globally, the GSK group is working with Sanofi and Medicago to harness the adjuvant technology in developing Covid-19 vaccines while also collaborating with CureVac to develop mRNA vaccines that have the potential to address multiple Covid-19 variants that are emerging across the world. Sanofi is conducting phase 3 trial in India; post the trials completion, GSK would share more details.
- Specialty brands will be launched in the 2nd-3rd phase of expansion (Zejula and other oncology assets acquisition of Tesaro) over the coming 2-3 years. As of now, the company has *Nucala* as the only specialty asset as a part of revenues.
- *Nucala* sales are expected to grow 5x in H2FY22 over H1FY20 (4x patient growth).
- Other near-term applications include *Benlysta*, indication expansion for Vaccine *Fluarix* tetra – for the use in adults above 64 years, *Shingrix* - for prevention of Herpes Zoster and Post-Herpetic Neuralgia in adults aged \geq 50 years, *Trelegy*, Phase 3 study for - RSV Maternal (RSVPreF3) vaccine in India.
- The company launched brand extension, *Augmentin ES* and *Neosporine* 10mg.
- Key focus pharma brands account for ~70% of revenue and grew at 14-15% in the last five years. The company anticipates the same growth, going ahead. Growth for the rest of the pharma portfolio was flat to negative in the same period.
- Vaccine business grew at ~10% in last five years, and is expected to grow faster ahead with near-term launch of *Shingrix* Vaccine.
- The company's focus is on fixed cost reduction and over the coming 2-3 years, EBITDA margins are expected to be ~24% (ex-consumer brands).
- Vaccine margins at 9-10% are largely considered as distribution margins.
- In-house and CMO manufacturing split stood at 35-65% in FY21.
- The company does not see any re-launch opportunity for *Ranitidine*.
- The company ranks 1st in vaccine and derma segment.
- Currently, 24% of portfolio is under NELM. Management has taken nearly 5% price hike in this fiscal.
- Semi-urban and rural markets are growing faster than "big towns" and the management expects this trend to continue post Covid, as well.

Exhibit 1: Revenue break up

	FY17	FY18	FY19	FY20	FY21	CAGR
Vaccine	514	478	629	679	762	10.3
% of sales	21.8	19.6	22.5	22.2	24.3	
Consumer	213	188	226	243	274	6.5
% of sales	9.0	7.7	8.1	7.9	8.7	
Pharma	1,633	1,776	1,939	2,138	2,096	6.4
% of sales	69.2	72.7	69.4	69.9	66.9	
Total	2,360	2,442	2,794	3,060	3,132	7.3
 EBITDA	 420	 510	 631	 638	 695	 13.4
EBITDA margin	14.0	18.0	20.0	21.0	22.0	

Source: Company, Centrum Broking

Highlights from AR 2020-2021

Management Discussion and Analysis

Finance and Accounts

- Despite Covid, the Company not only maintained but successfully consolidated its market position during the year. Its market share in represented segments increased, while key established brands quickly bounced back to double-digit growth.
- At Rs31.9bn, revenue from operations declined 1%.
- Despite the detrimental impact of Covid-19 on operations for the year, the company registered an underlying sales growth of 3%, driven by sustained focus on key brands and appropriate rationalization of tail-end brands. Other income was higher on account of Rs710mn in interest on refunds from the income tax authorities.
- Exceptional charges during the year, amounting to Rs1.7bn largely comprise impairment charge to reflect the estimated realizable value of assets, reversal of associated costs and of earlier provisions no longer required on account of the Zinatac recall. Profit before exceptional items and tax amounted to Rs7.2bn, at 23% of sales for the year.

Business Performance and Outlook

Pharmaceuticals

- Amid the lockdown, GSK's field force remained active on the ground, using digital channels effectively to engage remotely with Health Care Professionals (HCPs).
- GSK reached 30 million touch points through its robust digital infrastructure such as enhanced use of tele-calling, webinars and emailers, coupled with adoption of state-of-the-art technology platforms such as Veeva Engage.

Vaccines

- GSK delivered 0.9 billion packs of medicines and over 5.1 million vaccine doses (IQVIA March 2021 dataset).
- The company added two vaccines in the Flu category.
- The self-pay vaccines market is estimated to be over Rs25bn. It is currently not reflecting any value growth (IMS MAT March 2021) on account of the slower uptake of vaccination during the Covid-19 related lockdowns.
- GSK currently markets 10 vaccines across age groups.
- In September 2020, the company launched tetravalent influenza northern hemisphere vaccine (Fluarix Tetra NH 2020-21) to combat influenza. Within three months of the launch, the vaccine had garnered 30% volume share in the market.
- GSK plc, the parent company, entered into an in-principle global partnership with Novavax to produce up to 60 million doses of the Covid-19 vaccine.
- It is also working with Sanofi and Medicago to harness the adjuvant technology in developing Covid-19 vaccines.
- Collaborating with CureVac to develop mRNA vaccines that have the potential to address multiple Covid-19 variants emerging across the world.

Regulatory Affairs

- The company applied to Central Drugs Standard Control Organization (CDSCO) for registration of
- Herpes Zoster Vaccine [Shingrix] for prevention of Herpes Zoster and Post-Herpetic Neuralgia in adults aged ≥50 years
- Belimumab Solution for Injection 200mg/ml [Benlysta] for treatment of adults with systemic Lupus Erythematosus and Lupus Nephritis

- Indication expansion for Quadrivalent Inactivated Influenza Vaccine (Fluarix tetra) for use in adults over 64 years of age.
- Applications were made for registration of
 - a new fixed dose combination of Fluticasone Furoate, Umeclidinium and Vilanterol Powder for Inhalation (Trelegy) for chronic obstructive pulmonary disease
 - new strength of an already marketed oral suspension of Augmentin viz. Amoxycillin and Potassium Clavulanate oral suspension 642.9 mg/5ml (Augmentin ES)
 - a ready-to-use liquid formulation of Mepolizumab Injection 100mg (Nucala) for treatment of severe refractory eosinophilic asthma in adults.
- A Global Clinical Trial (GCT) application was approved during the year, for conducting a multi-country phase 3 study with Respiratory Syncytial Virus (RSV) Maternal (RSVPreF3) vaccine in India.

Dividends

- Directors recommended a dividend of Rs30 per equity share and will absorb Rs5.08bn.

Related Party Transactions

- All related party transactions entered during the year were on arm's length basis and were in ordinary course of business. There were no materially significant related party transactions made with the promoters, directors or key managerial personnel that may have a potential conflict of interest with GSK India at large.

Vemgal Update

- During FY21, GSK charged Rs1.73bn as exceptional charges, largely comprising of impairment charge to reflect the estimated realizable value of the assets, reversal of associated costs and of earlier provisions no longer required on account of the Zinetac recall.
- In Q4, GSK entered into a binding agreement for the sale of Vemgal assets to Hetro Labs. The conclusion of this sale is subject to necessary statutory and regulatory approvals.
- A deposit of Rs1.8bn was received towards the sale of Vemgal assets.

Opportunities, risks, concern and threats

- Several experts have predicted that India may experience future waves of Covid-19, which could further stretch the country's healthcare ecosystem. This may also impact GSK India's ability to service its patients and HCPs on time.
- The outbreak of the global pandemic has also created raw material (Active Pharmaceuticals Ingredients or APIs) related disruptions for the Indian pharmaceutical industry.
- The revised National List of Essential Medicines (NLEM) is expected to be released by the Government later in 2021. The company is engaging in various stakeholder discussions on NLEM.
- The healthcare policy landscape in India is at an inflection point. Amid the pandemic, the uptake and acceptance of new areas of healthcare delivery, such as telemedicine, e-pharmacies, Over-the-Counter (OTC) medicines, are at an all-time high. New Government regulations could redefine the healthcare sector in the long term, and GSK is in discussions with policymakers and stakeholders on the subject.

MD Speech Highlights

- During FY21, GSK delivered 0.9 billion packs of medicines and over 5.1 million vaccine doses (IQVIA March 2021 dataset). This was even more exceptional considering the current challenging times we were all going through and were concerned about the safety and wellbeing of our families and loved ones.
- Notwithstanding the challenges posed by disrupted supply chains and production lines due to the pandemic, GLXO adopted tireless efforts to keep the operations up and

running. Its manufacturing facilities and workplaces attempted their best to ensure that our manufacturing and distribution networks operated at full capacity.

- GSK's foresight in adopting digital transformation and consolidating its reach through multi-channel marketing helped us connect with Health Care Professionals (HCPs) remotely and expand our touchpoints on a variety of platforms. This leveraged to build on partnerships with leading professional healthcare bodies. Helping GSK to drive engagement on several initiatives that included appropriate administering and usage of antibiotics in the wake of COVID-19 and anti-microbial resistance (AMR).
- GSK plc, the parent company, entered into an in-principle global partnership with Novavax to produce up to 60 million doses of the Covid-19 vaccine and is also working with Sanofi and Medicago to harness the adjuvant technology in developing Covid-19 vaccines while also collaborating with CureVac to develop mRNA vaccines which have the potential to address multiple Covid-19 variants that are emerging across the world.
- FY 2021-22 is expected to be a promising year. The board remains set to introduce new assets during the next year to reiterate the company's position as a science and innovation-led pharmaceutical major.

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	31,285	32,244	31,989	35,088	38,449
Operating Expense	16,620	16,298	15,514	17,911	19,509
Employee cost	5,372	6,286	6,147	6,404	6,729
Others	3,281	3,088	3,374	2,631	3,287
EBITDA	6,026	6,611	6,953	8,143	8,924
Depreciation & Amortisation	486	827	793	591	606
EBIT	5,540	5,784	6,161	7,552	8,318
Interest expenses	6	63	0	0	0
Other income	1,009	762	1,106	1,087	1,648
PBT	6,544	6,483	7,266	8,639	9,966
Taxes	2,373	1,877	1,924	2,272	2,551
Effective tax rate (%)	36.3	29.0	26.5	26.3	25.6
PAT	4,171	4,606	5,343	6,367	7,415
Minority/Associates	0	0	0	0	0
Recurring PAT	4,171	4,606	5,343	6,367	7,415
Extraordinary items	287	(3,415)	(1,726)	0	13,192
Reported PAT	4,458	1,191	3,617	6,367	20,607
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	8.0	3.1	(0.8)	9.7	9.6
EBITDA	18.6	9.7	5.2	17.1	9.6
Adj. EPS	24.4	10.4	16.0	19.2	16.5
Margins (%)					
Gross	56.6	59.6	59.0	58.8	59.3
EBITDA	19.3	20.5	21.7	23.2	23.2
EBIT	17.7	17.9	19.3	21.5	21.6
Adjusted PAT	13.3	14.3	16.7	18.1	53.6
Returns (%)					
ROE	19.9	23.3	32.2	39.4	41.3
ROCE	17.4	20.4	27.5	33.2	34.7
ROIC	30.2	35.5	54.9	63.3	71.2
Turnover (days)					
Gross block turnover ratio (x)	6.5	4.0	7.4	8.0	8.3
Debtors	16	12	18	17	11
Inventory	133	135	143	98	56
Creditors	122	107	114	99	80
Net working capital	65	85	99	112	114
Solvency (x)					
Net debt-equity	(0.4)	(0.4)	(0.6)	(0.5)	(0.5)
Interest coverage ratio	1,087.2	104.9	0.0	0.0	0.0
Net debt/EBITDA	(1.4)	(1.2)	(1.3)	(1.0)	(1.1)
Per share (Rs)					
Adjusted EPS	24.5	27.1	31.4	37.5	43.6
BVPS	251.7	214.2	176.4	203.4	218.6
CEPS	54.8	63.9	72.2	81.9	94.4
DPS	39.9	79.7	59.8	39.9	189.3
Dividend payout (%)	76.0	569.0	140.5	53.2	78.1
Valuation (x)					
P/E	64.9	58.8	50.7	42.5	36.5
P/BV	6.3	7.4	9.0	7.8	7.3
EV/EBITDA	43.5	39.7	37.7	32.2	29.2
Dividend yield (%)	2.5	5.0	3.8	2.5	11.9

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	1,694	1,694	1,694	1,694	1,694
Reserves & surplus	19,704	16,512	13,304	15,604	16,898
Shareholders fund	21,398	18,206	14,991	17,292	18,585
Minority Interest	0	0	0	0	0
Total debt	3,172	2,907	2,819	3,289	3,603
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	24,570	21,113	17,809	20,581	22,188
Gross block	4,786	7,999	4,323	4,380	4,639
Less: acc. Depreciation	(486)	(827)	(793)	(591)	(606)
Net block	4,300	7,173	3,530	3,789	4,033
Capital WIP	10,026	1,201	132	132	132
Net fixed assets	14,326	8,767	3,975	4,234	4,477
Non Current Assets	923	622	622	635	692
Investments	17	15	14	14	14
Inventories	4,865	4,830	5,467	2,285	2,484
Sundry debtors	1,205	998	2,156	1,057	1,159
Cash & Cash Equivalents	11,713	10,832	11,580	11,784	13,495
Loans & advances	900	310	257	3,801	4,165
Other current assets	1,412	779	2,567	2,474	2,539
Trade payables	4,058	3,576	4,645	3,213	3,633
Other current liab.	9,561	3,898	6,138	4,331	7,222
Provisions	924	2,768	2,542	3,123	946
Net current assets	5,551	7,506	8,702	10,734	12,040
Total assets	24,570	21,113	17,809	20,581	22,188
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	6,831	3,068	5,540	8,639	23,158
Depreciation & Amortisation	486	827	793	591	606
Net Interest	(1,003)	(699)	(1,106)	(1,087)	(1,648)
Net Change – WC	(551)	(3,318)	1,622	(159)	(1,827)
Direct taxes	(2,066)	(2,328)	(2,217)	(2,741)	(2,551)
Net cash from operations	3,696	(2,450)	4,633	5,243	17,738
Capital expenditure	(2,355)	4,732	4,000	(850)	(850)
Acquisitions, net	0	0	0	0	0
Investments	1	1	(1,799)	0	0
Others	1,057	939	790	1,038	1,595
Net cash from investing	(1,297)	5,673	2,991	188	745
FCF	2,399	3,222	7,624	5,432	18,483
Issue of share capital	0	0	(7)	0	0
Increase/(decrease) in debt	(4)	(2)	0	0	0
Dividend paid	(4,072)	(8,053)	(6,076)	(5,026)	(16,772)
Interest paid	(6)	(63)	0	0	0
Others	432	4,013	(793)	(203)	0
Net cash from financing	(3,650)	(4,104)	(6,876)	(5,228)	(16,772)
Net change in Cash	(1,251)	(882)	748	204	1,711

Source: Company, Centrum Broking

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Glaxo SK Pharma



Source: Bloomberg

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Website: www.centrum.co.in**Investor Grievance Email ID:** investor.grievances@centrum.co.in**Compliance Officer Details:**

Ashok D Kadambi

(022) 4215 9937; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered Office Address**

Bombay Mutual Building,
2nd Floor, Dr. D. N. Road,
Fort, Mumbai - 400 001

Corporate Office & Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai
400 098.
Tel: (022) 4215 9000 Fax: +91 22 4215 9344