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Q2FY22 result review
and earnings revision

Pharmaceuticals

Target price: Rs1,564

Earnings revision

(%)	FY22E	FY23E
Sales	(2.3)	(5.3)
EPS	(1.7)	(5.0)

Target price revision

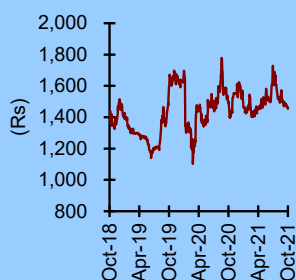
Rs1,564 from Rs1,646

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	75.0	75.0	75.0
Institutional investors	12.4	12.5	12.5
MFs and others	3.9	4.1	4.1
Banks / FIs	1.4	1.4	1.4
Insurance	0.0	0.1	0.0
FIs	1.6	1.6	1.8
Others	5.5	5.3	5.2
Others	12.6	12.5	12.5

Source: BSE India

Price chart



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INDIA

GSK Pharmaceuticals

HOLD

Maintained

Rs1,503

Robust growth driven by key brands

GlaxoSmithKline Pharmaceuticals Limited's (GSKP) Q2FY22 result was above our estimates. Revenue grew 14.8% YoY to Rs10.1bn (I-Sec: Rs8.3bn), EBITDA margin grew 410bps YoY (+820bps QoQ) to 27.4% (I-Sec: 18.6%) while reported PAT grew 167/68.7% YoY/QoQ to Rs2.0bn (I-Sec: Rs1.2bn). Robust growth in key brands with continuous traction from newly launched products (*Fluarix Tetra* and *Menveo*) have supported the performance. Growth is also supported by favourable seasonality benefit. Sequential improvement in margins were mainly driven by operational leverage. Pure play domestic formulator, strong balance sheet with strong brand equity are key catalyst for the GSKP. We expect recovery in the acute therapies to continue in the coming quarters. However, the current valuation already captures all near term upside, hence, maintained HOLD.

- Robust growth in key brands:** Revenue grew 14.8% YoY during the quarter to Rs10.1bn beat our expectation of Rs8.3bn amid strong growth in brands like *Augmentin* and *Calpol* partially supported by favorable seasonality. Declining COVID-19 cases should support the recovery in the acute segment in the coming quarters. Gross margin improved 190bps YoY but it dropped 60bps QoQ. However, EBITDA margins improved 820bps QoQ to 27.4% mainly due to operational leverage. Subsequently net profit grew 68.7% QoQ to Rs2.0bn. Company has announced transfer of the OTC brands *Iodex* and *Ostocalcium* to GSK Asia Pvt Ltd for a consideration of Rs16.5bn implying valuation of ~6x of sales and ~16x of EBITDA. This transaction is expected to complete before year end subject to shareholders and regulatory approvals.
- Key products performance:** As per AIOCD data the GSKP has reported 16.5% YoY growth and top 10 brands grew 21.7%. All brands reported strong growth with *Augmentin*, *Calpol* and *Ceftum* reporting growth of 25.9%, 87.7% and 30.9% respectively. *T-Bact*, *Betnovate N* and *Betnovate C* grew 25.1%, 24.0% and 5.2% respectively for the quarter. *Synflorix* and *Infanrix Hexa* declined 29.7% and 2.6% YoY with low demand due to COVID-19.
- Outlook:** Excluding transfer of brands, we expect FY22 to report a strong growth both on revenue and earnings with healthy recovery in the acute segment and low base. We expect 7.1% revenue and 22.3% PAT CAGR over FY21-FY23E driven by growth in power brands, traction in newly launched products and recovery in key therapies like vaccines, respiratory and VMN. Minimal capex requirement would aid cashflow generation of ~Rs18bn in next two years.

Valuations and risks: We decrease earnings estimates by 2-5% for FY22E-FY23E to factor-in transfer of OTC brands. Maintain HOLD with a target price of Rs1,564/share based on 40x FY23E earnings (earlier: Rs1,646/share). Key downside risks: addition of key drugs in NLEM, product concentration and government intervention. Key upside risks: faster than expected growth in brands and swift recovery in vaccines.

Market Cap	Rs255bn/US\$3.4bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1728/1395
Free Float (%)	25.0
FII (%)	1.8
Daily Volume (USD/'000)	1,358
Absolute Return 3m (%)	(6.5)
Absolute Return 12m (%)	4.6
Sensex Return 3m (%)	13.0
Sensex Return 12m (%)	51.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	32,244	31,989	34,611	36,706
Net Income (Rs mn)	932	3,582	18,256	6,624
EPS (Rs)	28.6	26.1	35.0	39.1
% Chg YoY	13.5	(8.6)	33.8	11.9
P/E (x)	52.6	57.5	43.0	38.4
CEPS (Rs)	33.5	30.8	39.2	43.4
EV/E (x)	37.1	35.0	30.8	27.7
Dividend Yield (%)	1.3	2.7	6.6	1.6
RoCE (%)	21.2	22.7	31.7	31.6
RoE (%)	24.4	26.7	37.7	37.3

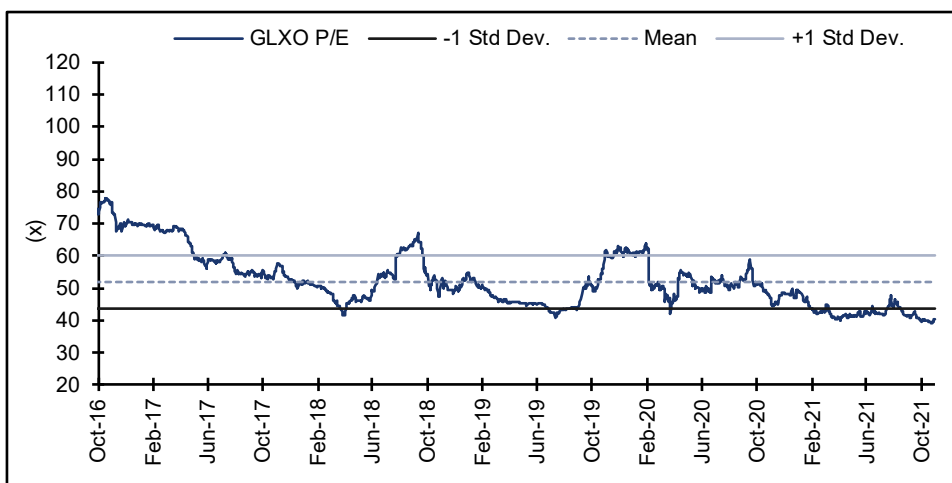
Table 1: Q2FY22 performance*(Rs mn, year ending March 31)*

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
Net Sales	10,099	8,793	14.8	7,900	27.8
EBITDA	2,765	2,049	35.0	1,517	82.3
Other income	150	90	65.6	105	42.3
PBITD	2,915	2,139	36.3	1,622	79.7
Depreciation	176	220	(19.9)	177	(0.6)
Interest	4	9	(60.2)	8	(55.7)
Extra ordinary income/ (exp.)	-	(641)		212	
PBT	2,735	1,269	115.5	1,649	65.9
Tax	693	505	37.3	438	58.1
Minority Interest	-	-		-	
Reported PAT	2,042	765	167.1	1,211	68.7
Adjusted PAT	2,042	1,151	77.5	1,055	93.6
EBITDA margins (%)	27.4	23.3	410bps	19.2	820bps

Source: Company data, I-Sec research

Valuations

We expect GSKP to witness an earnings CAGR of 22.3% over FY21-FY23E driven by revenue CAGR of 7.1% and EBITDA margin expansion to 23.2% in FY23E from 21.7% in FY21. Return ratios (RoE and RoCE) would continue to improve with margin expansion. The stock currently trades at valuations of 43.0x FY22E and 38.4x FY23E earnings and EV/EBITDA multiple of 30.8x FY22E and 27.7x FY23E. We remain positive on the long-term outlook considering the company's strong growth powered by its key brands, healthy return profile and rich cash reserves. GSKP is witnessing recovery in its key brands from the pandemic as lockdown restrictions are easing with healthy growth in newly launched products (*Fluarix Tetra and Menveo*) augurs well for future growth. We believe current valuation has already capture the near term upside, hence, maintain **HOLD** with a target price of Rs1,564/share based on 40x FY23E earnings (earlier: Rs1,646/share).

Chart 1: 1-year forward P/E

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Net Revenue	32,244	31,989	34,611	36,706
yoy Growth%	3.1	(0.8)	8.2	6.1
Total Op. Exp.	25,671	25,035	26,846	28,208
EBITDA	6,573	6,953	7,765	8,498
Margins %	20.4	21.7	22.4	23.2
yoy Growth%	9.4	5.8	11.7	9.4
Depreciation	827	793	717	728
EBIT	5,746	6,161	7,048	7,770
Other Income	790	679	904	1,121
Interest	63	35	35	35
EO Income	(3,415)	(1,299)	16,490	-
PBT	3,058	5,505	24,406	8,856
Tax	2,125	1,924	6,150	2,232
Tax Rate (%)	69.5	34.9	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	932	3,582	18,256	6,624
Adj. PAT	1,973	4,427	5,921	6,624
Net Margins (%)	6.1	13.8	17.1	18.0

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	16,512	13,297	14,752	17,402
Total Equity	18,206	14,991	16,446	19,096
Minority Interest	-	-	-	-
Total Debt	0	-	-	-
Deferred Liabilities	(1,105)	(1,031)	(1,031)	(1,031)
Capital Employed	17,101	13,960	15,415	18,065
Current Liabilities	13,126	16,143	17,401	18,387
Total Liabilities	30,227	30,102	32,816	36,451
Net Fixed Assets	8,782	3,988	3,771	3,543
Investments	-	-	-	-
Inventory	4,830	5,467	5,862	6,160
Debtors	998	2,156	2,333	2,474
Other Current Assets	4,785	6,911	5,235	5,335
Cash and Equivalents	10,832	11,580	15,615	18,940
Total Cur. Assets	21,445	26,114	29,045	32,908
Total Assets	30,227	30,102	32,816	36,451

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,058	5,505	24,406	8,856
Depreciation	827	793	717	728
Net Chg in WC	(1,160)	(393)	(226)	(182)
Taxes	(1,859)	(1,470)	(6,150)	(2,232)
Others	3,976	1,309	2,589	629
CFO	4,842	5,744	21,335	7,799
Capex	(1,524)	(436)	(500)	(500)
Net Investments made	920	2,250	-	-
Others	36	2,371	-	-
CFI	(568)	4,186	(500)	(500)
Change in Share capital	-	-	-	-
Change in Debts	(151)	(150)	-	-
Div. & Div Tax	(4,085)	(6,776)	(16,800)	(3,974)
Others	22	-	-	-
CFF	(4,213)	(6,926)	(16,800)	(3,974)
Total Cash Generated	60	3,004	4,035	3,325
Cash Opening Balance	988	1,048	4,052	8,087
Cash Closing Balance	1,048	4,052	8,087	11,412

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	28.6	26.1	35.0	39.1
YoY Growth%	13.5	(8.6)	33.8	11.9
Cash EPS	33.5	30.8	39.2	43.4
EBITDA - Core (%)	20.4	21.7	22.4	23.2
NPM (%)	6.1	13.8	17.1	18.0
Net Debt to Equity (x)	(0.6)	(0.8)	(0.9)	(1.0)
P/E (x)	52.6	57.5	43.0	38.4
EV/EBITDA Core (x)	37.1	35.0	30.8	27.7
P/BV (x)	14.0	17.0	15.5	13.3
EV/Sales (x)	7.6	7.6	6.9	6.4
RoCE (%)	21.2	22.7	31.7	31.6
RoE (%)	24.4	26.7	37.7	37.3
RoIC (%)	39.7	47.7	101.6	154.9
Book Value (Rs)	107	88	97	113
DPS (Rs)	20.0	40.0	99.2	23.5
Dividend Payout (%)	363.5	189.2	92.0	60.0
Div Yield (%)	1.3	2.7	6.6	1.6
Asset Turnover Ratio	2.8	5.3	9.7	11.0
Avg Collection days	12	18	24	24
Avg Inventory days	69	75	77	78

Source: Company data, I-Sec research

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