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Q1FY21 result review
and earnings revision

Pharmaceuticals

Target price: Rs1,432

Earnings revision

(%)	FY21E	FY22E
Sales	(1.0)	(1.8)
EPS	(3.7)	(1.5)

Target price revision

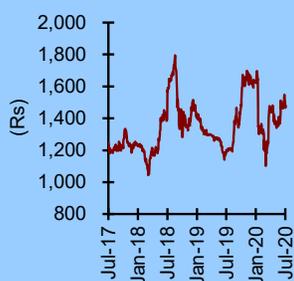
Rs1,432 from Rs1,453

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	75.0	75.0	75.0
Institutional investors	11.5	11.7	12.3
MFs and others	4.0	4.6	4.8
Banks / FIs	7.0	6.8	6.8
Insurance	0.0	0.0	0.0
FIs	0.5	0.3	0.7
Others	13.7	13.3	12.7

Source: BSE India

Price chart



INDIA

GSK Pharmaceuticals

HOLD

Maintained

Rs1,482

Weak quarter impacted by COVID-19

GlaxoSmithKline Pharmaceuticals Limited's (GSKP) Q1FY21 results were below our estimates on all fronts. Revenue declined 17.7% YoY to Rs6.5bn (I-Sec: Rs7.1bn), EBITDA margin declined 340bps YoY to 17.6% (I-Sec: 20.0%) and adjusted PAT declined 26.7% YoY to Rs791mn (I-Sec: Rs1.0bn). Weaker than expected performance was decline in top brands owing to lockdown caused by COVID-19. As GSKP's focus is on acute therapies we expect pressure in the uncertain near term to sustain. GSKP's exposure only to domestic formulations, strong balance sheet and strong brand equity augurs well for the company but current valuations seem fair, hence we maintain HOLD recommendation with a revised target price of Rs1,432/share (earlier: Rs1,453/share).

- **Weak than anticipated performance:** Revenue declined 17.7% during the quarter against our estimate of a 10.0% decline due to negligible sales of *Zinetac (ranitidine)* as well as impact from nationwide lockdown post COVID-19. Declining sales of low margin *Zinetac (ranitidine)* as well as lower raw material cost lifted gross margins by 370bps YoY but lower sales resulted in margin dropping 370bps QoQ. Employee cost rose 6.4% but other expenses declined 16.0% YoY to support EBITDA. As a percentage of sales employee cost and other expenses jumped 530bps and 40bps YoY respectively resulting in a contraction of 340bps in EBITDA margin. Company reported a gain of Rs427mn in the form of interest on income tax refund.
- **Key products performance:** As per AIOCD data the GSKP has reported decline of 15.4%. *Betnovate*, *Betnovate N* and *Eltroxin* have reported healthy YoY growth of 12.6%, 12.7% and 7.7% respectively for the quarter. However, *Augmentin*, *Synflorix*, *Calpol*, *T-BACT*, *Ceftum* and *Betnesol* have reported a YoY decline of 6.0%, 14.3%, 7.1%, 8.1%, 16.0% and 16.9% respectively. *Infanrix Hexa* continues its strong momentum with 34.9% YoY growth albeit on a smaller base. Company has stated that despite the challenging environment its market share has grown in the quarter.
- **Outlook:** FY21 estimates would optically appear lower due to *Zinteac (ranitidine)* sales in the base. However, we expect FY22 to report a strong growth both on revenue and earnings front. We expect 6.8% revenue and 11.9% PAT CAGR over FY20-FY22E driven by growth in power brands and key therapies like vaccines and VMN. Minimal capex requirement would aid cashflow generation of ~Rs13bn over the next two years.
- **Valuations and risks:** We reduce our revenue and earnings estimates for FY21E-FY22E by 1-2% and 1-4% to factor in the weaker than anticipated quarter performance impacted due to COVID-19. We maintain **HOLD** with a revised target price of Rs1,432/share based on 40x FY22E earnings (earlier: Rs1,453/share). Key downside risks: addition of key drugs in National List of Essential Medicines (NLEM), product concentration and government intervention. Key upside risks: better than expected performance in key products and new significant product launches.

Market Cap	Rs251bn/US\$3.4bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1698/1102
Free Float (%)	25.0
FII (%)	0.7
Daily Volume (USD/'000)	1,208
Absolute Return 3m (%)	5.5
Absolute Return 12m (%)	26.9
Sensex Return 3m (%)	17.0
Sensex Return 12m (%)	2.2

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	28,715	32,244	33,761	36,807
Net Income (Rs mn)	3,507	932	5,345	6,064
EPS (Rs)	25.2	28.6	29.7	35.8
% Chg YoY	25.8	13.5	3.8	20.7
P/E (x)	58.8	51.9	50.0	41.4
CEPS (Rs)	28.1	33.5	34.9	41.2
EV/E (x)	39.8	36.6	33.7	29.4
Dividend Yield (%)	1.2	1.3	1.3	1.4
RoCE (%)	17.8	21.2	22.7	24.8
RoE (%)	20.3	24.4	26.2	28.4

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Table 1: Q1FY21 performance*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Net Sales	6,486	7,880	(17.7)	7,758	(16.4)
EBITDA	1,141	1,653	(31.0)	1,736	(34.3)
Other income	152	222	(31.3)	158	(3.7)
PBIDT	1,293	1,875	(31.0)	1,894	(31.7)
Depreciation	218	191	14.2	226	(3.6)
Interest	11	9	16.1	15	(28.5)
PBT	1,491	1,761	(15.3)	1,766	(15.5)
Tax	383	626	(38.8)	385	(0.4)
Minority Interest	-	-		-	
Adjusted PAT	791	1,080	(26.7)	1,293	(38.8)
Extra ordinary income/ (exp.)	427	86	394.6	113	278.7
Reported PAT	1,108	1,135	(2.4)	1,381	(19.7)
EBITDA margins (%)	17.6	21.0	(340)bps	22.4	(480)bps

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY20-FY22E, we forecast net sales and earnings to increase at CAGRs of 6.8% and 11.9% respectively. We revise our revenue and earnings estimates for FY21E-FY22E by 1-2% and 1-1% to factor in in the weaker than anticipated quarter performance impacted due to COVID-19.

Table 2: Earnings revision

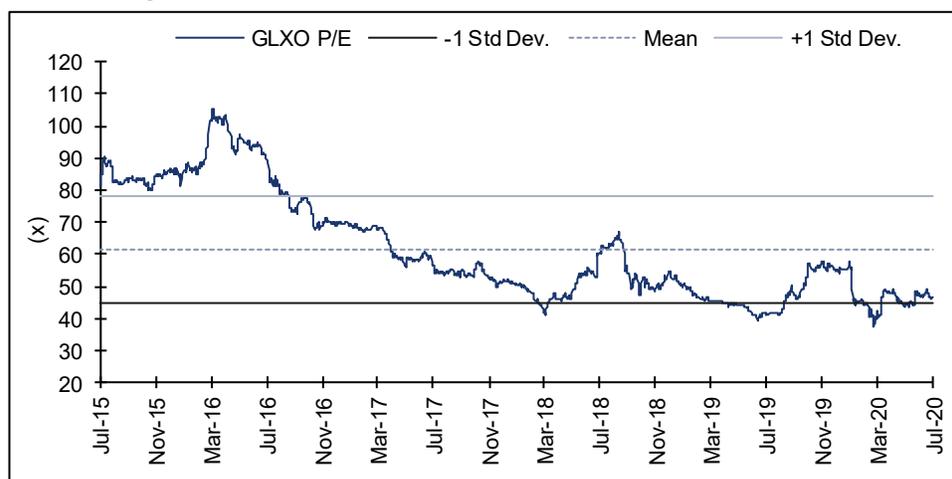
	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	33,761	36,807
Sales – old	34,096	37,479
Change (%)	(1.0)	(1.8)
EPS (Rs)		
EPS – new	29.7	35.8
EPS – old	30.8	36.3
Change (%)	(3.7)	(1.5)

Source: I-Sec research

Valuations

We expect GSKP to witness an earnings CAGR of 11.9% over FY20-FY22E driven by revenue CAGR of 6.8% and EBITDA margin expansion to 21.6% in FY22E from 20.4% in FY20. Return ratios (RoE and RoCE) would continue to improve with margin expansion. The stock currently trades at valuations of 50.0x FY21E and 41.4x FY22E earnings and EV/EBITDA multiple of 33.7x FY21E and 29.4x FY22E. 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. However, GSKP's focus is on acute therapies where we expect pressure in the uncertain near term to sustain. Current valuations seem fair, hence, we maintain **HOLD** with a revised target price of Rs1,432/share based on 40x FY22E earnings (earlier: Rs1,453/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Net Revenue	31,281	32,244	33,761	36,807
yoy Growth%	8.9	3.1	4.7	9.0
Total Op. Exp.	25,273	25,671	26,709	28,852
EBITDA	6,008	6,573	7,052	7,955
Margins %	19.2	20.4	20.9	21.6
yoy Growth%	18.8	9.4	7.3	12.8
Depreciation	486	827	886	916
EBIT	5,522	5,746	6,165	7,038
Other Income	1,023	790	617	1,132
Interest	6	63	63	63
EO Income	287	(3,415)	427	-
PBT	6,827	3,058	7,146	8,107
Tax	2,373	2,125	1,801	2,043
Tax Rate (%)	34.8	69.5	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	4,454	932	5,345	6,064
Adj. PAT	4,267	1,973	5,026	6,064
Net Margins (%)	13.6	6.1	14.9	16.5

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	19,704	16,512	18,469	20,895
Total Equity	21,398	18,206	20,163	22,589
Minority Interest	-	-	-	-
Total Debt	2	0	0	0
Deferred Liabilities	(622)	(1,105)	(1,105)	(1,105)
Capital Employed	20,778	17,101	19,059	21,484
Current Liabilities	17,713	13,149	13,751	14,952
Total Liabilities	38,491	30,251	32,809	36,436
Net Fixed Assets	14,343	8,782	8,396	7,979
Investments	1	-	-	-
Inventory	4,865	4,830	5,026	5,429
Debtors	1,205	998	1,045	1,139
Other Current Assets	6,364	4,808	4,882	5,029
Cash and Equivalents	11,713	10,832	13,461	16,860
Total Cur. Assets	24,148	21,469	24,414	28,457
Total Assets	38,491	30,251	32,809	36,436

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	6,827	3,058	7,146	8,107
Depreciation	486	827	886	916
Net Chg in WC	(595)	(1,160)	(70)	(159)
Taxes	(2,000)	(1,859)	(1,801)	(2,043)
Others	(629)	3,976	356	716
CFO	4,089	4,842	6,518	7,537
Capex	(2,866)	(1,524)	(500)	(500)
Net Investments made	200	920	-	-
Others	799	674	-	-
CFI	(1,867)	70	(500)	(500)
Change in Share capital	-	-	-	-
Change in Debts	(4)	(151)	-	-
Div. & Div Tax	(3,574)	(4,085)	(3,388)	(3,638)
Others	333	(616)	-	-
CFF	(3,245)	(4,851)	(3,388)	(3,638)
Total Cash Generated	(1,023)	60	2,629	3,398
Cash Opening Balance	2,011	988	1,048	3,677
Cash Closing Balance	988	1,048	3,677	7,076

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj EPS	25.2	28.6	29.7	35.8
YoY Growth%	25.8	13.5	3.8	20.7
Cash EPS	28.1	33.5	34.9	41.2
EBITDA - Core (%)	19.2	20.4	20.9	21.6
NPM (%)	13.6	6.1	14.9	16.5
Net Debt to Equity (x)	(0.5)	(0.6)	(0.7)	(0.7)
P/E (x)	58.8	51.9	50.0	41.4
EV/EBITDA Core (x)	39.8	36.6	33.7	29.4
P/BV (x)	11.7	13.8	12.5	11.1
EV/Sales (x)	7.7	7.5	7.0	6.4
RoCE (%)	17.8	21.2	22.7	24.8
RoE (%)	20.3	24.4	26.2	28.4
RoIC (%)	30.8	39.7	45.4	55.3
Book Value (Rs)	126	107	119	133
DPS (Rs)	17.5	20.0	20.0	21.5
Dividend Payout (%)	66.6	363.5	63.4	60.0
Div Yield (%)	1.2	1.3	1.3	1.4
Asset Turnover Ratio	2.3	2.8	4.1	4.7
Avg Collection days	16	12	11	11
Avg Inventory days	71	69	67	66

Source: Company data, I-Sec research

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