

## Pharmaceuticals

Target price: Rs1,575

### Earnings revision

(%)	FY22E	FY23E
Sales	-	-
EPS	(0.1)	0.7

### Target price revision

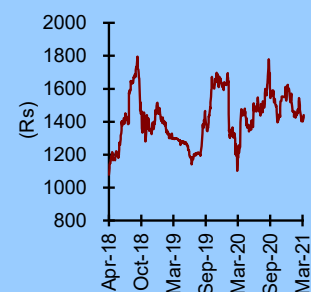
Rs1,575 from Rs1,565

### Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	75.0	75.0	75.0
Institutional investors	12.3	12.2	12.3
MFs and others	4.8	4.5	4.0
Banks / FIs	6.8	6.7	5.5
Insurance	0.0	0.0	0.0
FIs	0.7	1.0	2.8
Others	12.7	12.8	12.7

Source: BSE India

### Price chart



## INDIA

# GSK Pharmaceuticals

**ADD**

Maintained

**Rs1,440**

## Sale of Vemgal plant

GlaxoSmithKline Pharmaceuticals Limited's (GSKP) has announced the sale of its Vemgal plant located in Karnataka to Hetero Labs Ltd for a cash consideration of Rs1.8bn. Post discontinuation of *Zinetac* last year this plant remained unutilized and GSKP had announced a writeoff on it. Company's recent financial performance was healthy led by recovery in its key brands and supported by recently launched products (*Fluarix Tetra, Menveo and Nucala*). We expect this trend in recovery in the acute therapies to continue in the coming quarters. GSKP's exposure only to domestic formulations, strong balance sheet and strong brand equity augurs well. Maintain **ADD** with a revised target price of Rs1,575/share (earlier: Rs1,565/share).

► **Hetero buys Vemgal plant:** GSKP announced sale of its newly constructed manufacturing plant at Vemgal, Karnataka along with the land, plant and machinery, assets, software and equipment to Hetero Labs for a cash consideration of Rs1.8bn. The agreement is expected to complete within the next five days, however, transaction is expected to complete by Sep'21 post necessary approvals and formalities. GSKP had intended to use ~60% of the manufacturing capability towards *Zinetac* (ranitidine), however, after the NDMA impurity issue, GSKP stopped its manufacturing and sale of the product in Sep'20. This would lead to severe underutilisation of the Vemgal plant which was yet to commercialise. In a prudent decision, GSKP impaired the asset to the tune of Rs6.4bn in its Dec'20 quarterly results and was exploring all options for the plant including sale.

► **Financial impact:** Post the impairment, the book value of the asset that was market for sale stood at Rs3.75bn. The sale is announced for a cash consideration of Rs1.8bn. Hence, post the transaction, GSKP would record a loss of Rs1.95bn. The transaction would remove unutilised asset and improve return ratios. Since, the company stopped manufacturing *Zinetac* at its existing plant in Nashik, there is no immediate requirement for a new plant limiting the capex requirement. GSKP may announce higher dividend in FY22E to utilise its surplus cash after FCF of Rs5.4bn in FY21E and additional cash inflow of Rs1.8bn post the transaction.

► **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 6.0% revenue and 11.3% PAT CAGR over FY20-FY23E driven by growth in power brands and key therapies like vaccines, respiratory and VMN. Minimal capex requirement would aid cashflow generation of ~Rs20bn over the next three years.

► **Valuations and risks:** We marginally alter estimates to factor in effect from this transaction and maintain **ADD** with a revised target price of Rs1,575/share based on 40x FY23E earnings (earlier: Rs1,565/share). Key downside risks: addition of key drugs in NLEM, product concentration and government intervention.

Market Cap	Rs244bn/US\$3.3bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1779/1210
Free Float (%)	25.0
FII (%)	2.8
Daily Volume (USD/'000)	1,285
Absolute Return 3m (%)	(11.3)
Absolute Return 12m (%)	17.6
Sensex Return 3m (%)	3.9
Sensex Return 12m (%)	69.8

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	32,244	32,142	35,177	38,389
Net Income (Rs mn)	932	4,913	4,325	6,672
EPS (Rs)	28.6	29.5	34.1	39.4
% Chg YoY	13.5	3.2	15.8	15.3
P/E (x)	50.4	48.8	42.2	36.6
CEPS (Rs)	33.5	34.3	38.5	43.3
EV/E (x)	35.5	33.0	28.3	24.7
Dividend Yield (%)	1.4	1.4	1.1	1.6
RoCE (%)	21.2	22.8	24.5	25.6
RoE (%)	24.4	26.3	28.1	29.3

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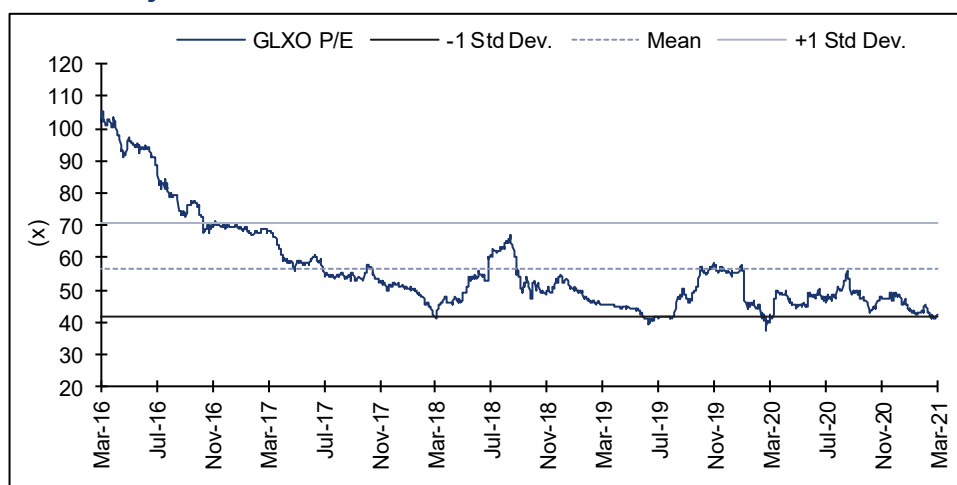
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## Valuations

We expect GSKP to witness an earnings CAGR of 11.3% over FY20-FY23E driven by revenue CAGR of 6.0% and EBITDA margin expansion to 23.4% in FY23E from 20.4% in FY20. Return ratios (RoE and RoCE) would continue to improve with margin expansion. The stock currently trades at valuations of 42.2x FY22E and 36.6x FY23E earnings and EV/EBITDA multiple of 28.3x FY22E and 24.7x 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*, *Menveo* and *Nucala*) augurs well for future growth. We maintain **ADD** with a revised target price of Rs1,575/share based on 40x FY23E earnings (earlier: Rs1,565/share).

**Chart 1: 1-year forward P/E**



Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 1: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Total Net Revenue</b>	<b>32,244</b>	<b>32,142</b>	<b>35,177</b>	<b>38,389</b>
yoy Growth%	3.1	(0.3)	9.4	9.1
<b>Total Op. Exp.</b>	<b>25,671</b>	<b>25,124</b>	<b>27,226</b>	<b>29,424</b>
<b>EBITDA</b>	<b>6,573</b>	<b>7,018</b>	<b>7,951</b>	<b>8,966</b>
Margins %	20.4	21.8	22.6	23.4
yoy Growth%	9.4	6.8	13.3	12.8
Depreciation	827	813	737	661
<b>EBIT</b>	<b>5,746</b>	<b>6,205</b>	<b>7,215</b>	<b>8,304</b>
Other Income	790	511	558	654
Interest	63	39	39	39
EO Income	(3,415)	(109)	(1,951)	-
<b>PBT</b>	<b>3,058</b>	<b>6,568</b>	<b>5,782</b>	<b>8,919</b>
Tax	2,125	1,655	1,457	2,248
Tax Rate (%)	69.5	25.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>932</b>	<b>4,913</b>	<b>4,325</b>	<b>6,672</b>
<b>Adj. PAT</b>	<b>1,973</b>	<b>4,994</b>	<b>5,785</b>	<b>6,672</b>
Net Margins (%)	6.1	15.5	16.4	17.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	16,512	18,036	19,767	22,435
<b>Total Equity</b>	<b>18,206</b>	<b>19,731</b>	<b>21,461</b>	<b>24,129</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred Liabilities	(1,105)	(1,105)	(1,105)	(1,105)
<b>Capital Employed</b>	<b>17,101</b>	<b>18,626</b>	<b>20,356</b>	<b>23,025</b>
Current Liabilities	13,149	13,143	14,300	15,534
<b>Total Liabilities</b>	<b>30,251</b>	<b>31,769</b>	<b>34,655</b>	<b>38,559</b>
<b>Net Fixed Assets</b>	<b>8,782</b>	<b>4,960</b>	<b>4,723</b>	<b>4,561</b>
Investments	-	-	-	-
Inventory	4,830	4,727	5,123	5,536
Debtors	998	995	1,089	1,188
Other Current Assets	4,808	8,553	4,949	5,105
Cash and Equivalents	10,832	12,534	18,772	22,168
<b>Total Cur. Assets</b>	<b>21,469</b>	<b>26,810</b>	<b>29,933</b>	<b>33,997</b>
<b>Total Assets</b>	<b>30,251</b>	<b>31,769</b>	<b>34,655</b>	<b>38,559</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,058	6,568	5,782	8,919
Depreciation	827	813	737	661
Net Chg in WC	(1,160)	129	(193)	(189)
Taxes	(1,859)	(1,655)	(1,457)	(2,248)
Others	3,976	(23)	4,464	755
<b>CFO</b>	<b>4,842</b>	<b>5,831</b>	<b>9,333</b>	<b>7,899</b>
Capex	(1,524)	(500)	(500)	(500)
Net Investments made	920	-	-	-
Others	674	-	-	-
<b>CFI</b>	<b>70</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Change in Share capital	-	-	-	-
Change in Debts	(151)	-	-	-
Div. & Div Tax	(4,085)	(3,388)	(2,595)	(4,003)
Others	(616)	(241)	-	-
<b>CFF</b>	<b>(4,851)</b>	<b>(3,630)</b>	<b>(2,595)</b>	<b>(4,003)</b>
<b>Total Cash Generated</b>	<b>60</b>	<b>1,702</b>	<b>6,238</b>	<b>3,396</b>
<b>Cash Opening Balance</b>	<b>988</b>	<b>1,048</b>	<b>2,750</b>	<b>8,988</b>
<b>Cash Closing Balance</b>	<b>1,048</b>	<b>2,750</b>	<b>8,988</b>	<b>12,384</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	28.6	29.5	34.1	39.4
YoY Growth%	13.5	3.2	15.8	15.3
Cash EPS	33.5	34.3	38.5	43.3
EBITDA - Core (%)	20.4	21.8	22.6	23.4
NPM (%)	6.1	15.5	16.4	17.4
Net Debt to Equity (x)	(0.6)	(0.6)	(0.9)	(0.9)
P/E (x)	50.4	48.8	42.2	36.6
EV/EBITDA Core (x)	35.5	33.0	28.3	24.7
P/BV (x)	13.4	12.4	11.4	10.1
EV/Sales (x)	7.2	7.2	6.4	5.8
RoCE (%)	21.2	22.8	24.5	25.6
RoE (%)	24.4	26.3	28.1	29.3
RoIC (%)	39.7	44.9	66.5	108.1
Book Value (Rs)	107	116	127	142
DPS (Rs)	20.0	20.0	15.3	23.6
Dividend Payout (%)	363.5	69.0	60.0	60.0
Div Yield (%)	1.4	1.4	1.1	1.6
Asset Turnover Ratio	2.8	5.0	7.9	9.0
Avg Collection days	12	11	11	11
Avg Inventory days	69	69	66	66

Source: Company data, I-Sec research

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