

Q4FY21 result review  
and earnings revision

## Pharmaceuticals

Target price: Rs1,613

### Earnings revision

(%)	FY22E	FY23E
Sales	0.7	1.0
EPS	2.2	2.4

### Target price revision

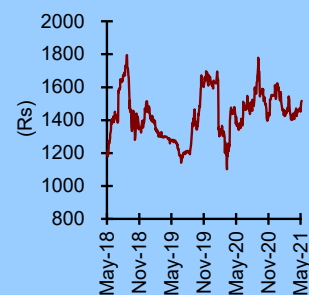
Rs1,613 from Rs1,575

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	75.0	75.0	75.0
Institutional investors	12.2	12.3	12.4
MFs and others	4.5	4.0	3.9
Banks / FIs	1.2	1.3	1.4
Insurance	0.0	0.0	0.0
FIs	1.0	1.5	1.6
Others	5.5	5.5	5.5
Others	12.8	12.7	12.6

Source: BSE India

### Price chart



# GSK Pharmaceuticals

**ADD**

Maintained

**Rs1,516**

## Inline result, PAT impacted by impairment

GlaxoSmithKline Pharmaceuticals Limited's (GSKP) Q4FY21 results were broadly inline with our estimates. Revenue grew 4.9% YoY to Rs8.1bn (I-Sec: Rs8.2bn), EBITDA margin dropped 140bps YoY (-300bps QoQ) to 21.0% (I-Sec: 21.4%) while reported PAT declined 89.6% YoY to Rs143mn (I-Sec: Rs1.3bn). Lower than estimated PAT was due to impairment taken on Vemgal plant. Recovery in its key brands and supported by recently launched products (*Fluarix Tetra and Menveo*) have supported the performance. 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 Rs1,613/share.

- **Inline performance:** Revenue grew 4.9% YoY during the quarter as acute therapies witnessed recovery with falling COVID-19 cases. Although, recent surge in cases may have some near term pressures we expect recovery in the growth to continue with traction in key brands supported by healthy growth in recently launched products (*Fluarix Tetra and Menveo*) especially with the ongoing vaccination. Gross margin dropped 540bps YoY on a very high base of last year but it was largely stable sequentially. Lower employee and S,G&A expenses cushioned the drop in EBITDA margin to 140bps YoY. Company has impaired Vemgal by Rs1.19bn to reflect the estimated realizable value of Rs1.8bn at which it is being sold to Hetero. Hence, reported PAT declined 89.6% YoY. Adjusting for it PAT fell 20.0% YoY to Rs1.0bn.
- **Key products performance:** As per AIOCD data the GSKP has reported a flattish YoY performance. *T-Bact*, *Betnovate N* and *Betnovate C* have reported healthy YoY growth of 30.5%, 41.3% and 34.9% respectively for the quarter. However, *Augmentin*, *Synflorix*, *Calpol* and *Betnesol* have reported a YoY decline of 16.9%, 25.6%, 16.3% and 3.5% respectively. *Infanrix Hexa* continues its strong momentum with 10.1% YoY growth. *Fluarix Tetra* and *Menveo* are tracking well with revenue of Rs19mn and Rs61mn respectively during the quarter.
- **Outlook:** While FY21 performance would optically appear muted, its due to *Zintec (ranitidine)* sales in the base. However, we expect FY22 to report a strong growth both on revenue and earnings front. We expect 10.1% revenue and 24.2% 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 ~Rs16bn over the next two years.
- **Valuations and risks:** We largely maintain our revenue estimates but raise our EPS estimates by 2-3% for FY22E-FY23E to factor in higher other income. Maintain **ADD** with a revised target price of Rs1,613/share based on 40x FY23E earnings (earlier: Rs1,575/share). Key downside risks: addition of key drugs in NLEM, product concentration and government intervention.

Market Cap	Rs257bn/US\$3.5bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1779/1341
Free Float (%)	25.0
FII (%)	1.6
Daily Volume (USD/'000)	1,169
Absolute Return 3m (%)	5.4
Absolute Return 12m (%)	14.2
Sensex Return 3m (%)	(2.1)
Sensex Return 12m (%)	69.0

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	32,244	31,989	35,437	38,768
Net Income (Rs mn)	932	3,582	5,909	6,832
EPS (Rs)	28.6	26.1	34.9	40.3
% Chg YoY	13.5	(8.6)	33.5	15.6
P/E (x)	53.0	58.0	43.5	37.6
CEPS (Rs)	33.5	30.8	39.1	44.6
EV/E (x)	37.4	35.3	30.6	26.6
Dividend Yield (%)	1.3	2.6	2.0	1.6
RoCE (%)	21.2	22.7	32.1	33.4
RoE (%)	24.4	26.7	38.4	39.8

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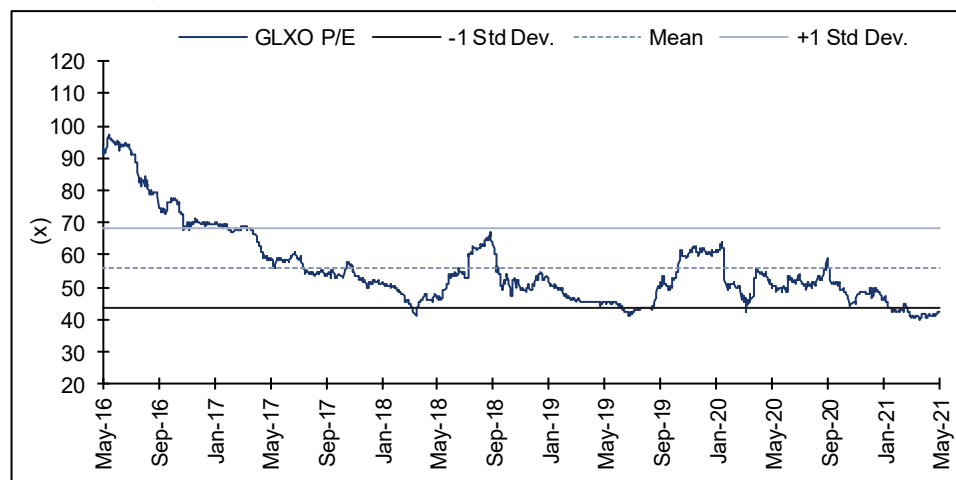
**Table 1: Q4FY21 performance***(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
<b>Net Sales</b>	<b>8,138</b>	<b>7,758</b>	<b>4.9</b>	<b>8,572</b>	<b>(5.1)</b>
EBITDA	1,709	1,736	(1.5)	2,055	(16.8)
Other income	296	158	87.1	140	111.1
<b>PBITD</b>	<b>2,005</b>	<b>1,894</b>	<b>5.9</b>	<b>2,195</b>	<b>(8.7)</b>
Depreciation	179	226	(21.0)	177	0.8
Interest	6	15	(58.3)	9	(33.0)
Extra ordinary income/ (exp.)	(1,190)	113		105	
<b>PBT</b>	<b>630</b>	<b>1,766</b>	<b>(64.3)</b>	<b>2,114</b>	<b>(70.2)</b>
Tax	487	385	26.5	549	(11.3)
Minority Interest	-	-		-	
<b>Reported PAT</b>	<b>143</b>	<b>1,381</b>	<b>(89.6)</b>	<b>1,565</b>	<b>(90.8)</b>
<b>Adjusted PAT</b>	<b>1,033</b>	<b>1,293</b>	<b>(20.0)</b>	<b>1,503</b>	<b>(31.2)</b>
EBITDA margins (%)	21.0	22.4	(140)bps	24.0	(300)bps

Source: Company data, I-Sec research

## Valuations

We expect GSKP to witness an earnings CAGR of 24.2% over FY21-FY23E driven by revenue CAGR of 10.1% and EBITDA margin expansion to 23.1% 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 43.5x FY22E and 37.6x FY23E earnings and EV/EBITDA multiple of 30.6x FY22E and 26.6x 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. Hence, we maintain **ADD** with a revised target price of Rs1,613/share based on 40x FY23E earnings (earlier: Rs1,575/share).

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

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 2: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Total Net Revenue</b>	<b>32,244</b>	<b>31,989</b>	<b>35,437</b>	<b>38,768</b>
yoy Growth%	3.1	(0.8)	10.8	9.4
<b>Total Op. Exp.</b>	<b>25,671</b>	<b>25,035</b>	<b>27,536</b>	<b>29,805</b>
<b>EBITDA</b>	<b>6,573</b>	<b>6,953</b>	<b>7,901</b>	<b>8,963</b>
Margins %	20.4	21.7	22.3	23.1
yoy Growth%	9.4	5.8	13.6	13.4
Depreciation	827	793	719	728
<b>EBIT</b>	<b>5,746</b>	<b>6,161</b>	<b>7,182</b>	<b>8,234</b>
Other Income	790	679	753	934
Interest	63	35	35	35
EO Income	(3,415)	(1,299)	-	-
<b>PBT</b>	<b>3,058</b>	<b>5,505</b>	<b>7,900</b>	<b>9,133</b>
Tax	2,125	1,924	1,991	2,302
Tax Rate (%)	69.5	34.9	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>932</b>	<b>3,582</b>	<b>5,909</b>	<b>6,832</b>
<b>Adj. PAT</b>	<b>1,973</b>	<b>4,427</b>	<b>5,909</b>	<b>6,832</b>
Net Margins (%)	6.1	13.8	16.7	17.6

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	14,123	16,856
<b>Total Equity</b>	<b>18,206</b>	<b>14,991</b>	<b>15,818</b>	<b>18,550</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Liabilities	(1,105)	(1,031)	(1,031)	(1,031)
<b>Capital Employed</b>	<b>17,101</b>	<b>13,960</b>	<b>14,786</b>	<b>17,519</b>
Current Liabilities	13,126	16,143	17,808	19,399
<b>Total Liabilities</b>	<b>30,227</b>	<b>30,102</b>	<b>32,594</b>	<b>36,918</b>
<b>Net Fixed Assets</b>	<b>8,782</b>	<b>3,988</b>	<b>3,769</b>	<b>3,541</b>
Investments	-	-	-	-
Inventory	4,830	5,467	6,013	6,509
Debtors	998	2,156	2,388	2,613
Other Current Assets	4,785	6,911	5,274	5,433
Cash and Equivalents	10,832	11,580	15,149	18,822
<b>Total Cur. Assets</b>	<b>21,445</b>	<b>26,114</b>	<b>28,825</b>	<b>33,377</b>
<b>Total Assets</b>	<b>30,227</b>	<b>30,102</b>	<b>32,594</b>	<b>36,918</b>

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	7,900	9,133
Depreciation	827	793	719	728
Net Chg in WC	(1,160)	(393)	(314)	(288)
Taxes	(1,859)	(1,470)	(1,991)	(2,302)
Others	3,976	1,309	2,837	1,000
<b>CFO</b>	<b>4,842</b>	<b>5,744</b>	<b>9,151</b>	<b>8,272</b>
Capex	(1,524)	(436)	(500)	(500)
Net Investments made	920	2,250	-	-
Others	36	2,371	-	-
<b>CFI</b>	<b>(568)</b>	<b>4,186</b>	<b>(500)</b>	<b>(500)</b>
Change in Share capital	-	-	-	-
Change in Debts	(151)	(150)	-	-
Div. & Div Tax	(4,085)	(6,776)	(5,082)	(4,099)
Others	22	-	-	-
<b>CFF</b>	<b>(4,213)</b>	<b>(6,926)</b>	<b>(5,082)</b>	<b>(4,099)</b>
<b>Total Cash Generated</b>	<b>60</b>	<b>3,004</b>	<b>3,569</b>	<b>3,673</b>
<b>Cash Opening Balance</b>	<b>988</b>	<b>1,048</b>	<b>4,052</b>	<b>7,621</b>
<b>Cash Closing Balance</b>	<b>1,048</b>	<b>4,052</b>	<b>7,621</b>	<b>11,294</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	28.6	26.1	34.9	40.3
YoY Growth%	13.5	(8.6)	33.5	15.6
Cash EPS	33.5	30.8	39.1	44.6
EBITDA - Core (%)	20.4	21.7	22.3	23.1
NPM (%)	6.1	13.8	16.7	17.6
Net Debt to Equity (x)	(0.6)	(0.8)	(1.0)	(1.0)
P/E (x)	53.0	58.0	43.5	37.6
EV/EBITDA Core (x)	37.4	35.3	30.6	26.6
P/BV (x)	14.1	17.1	16.2	13.8
EV/Sales (x)	7.6	7.7	6.8	6.1
RoCE (%)	21.2	22.7	32.1	33.4
RoE (%)	24.4	26.7	38.4	39.8
RoIC (%)	39.7	47.7	104.5	172.3
Book Value (Rs)	107	88	93	109
DPS (Rs)	20.0	40.0	30.0	24.2
Dividend Payout (%)	363.5	189.2	86.0	60.0
Div Yield (%)	1.3	2.6	2.0	1.6
Asset Turnover Ratio	2.8	5.3	9.9	11.6
Avg Collection days	12	18	23	24
Avg Inventory days	69	75	76	77

Source: Company data, I-Sec research

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