



Healthy Q1FY22 sales growth, EBITDA margins (19-20%) were lower than expected due to sales mix. GLAXO transfer of patent rights of Iodex & Ostocalcium will marginally impact profitability in FY22 & FY23. Fund utilisation plans remain key.

- **Sales** came in at Rs 7900 mn +22% yoy/-3% qoq.
- Gross Profit was at Rs 4799 mn +23% yoy. Gross margins 60.7%, +40 bps yoy/+190 bps qoq.
- **EBITDA** came in at Rs 1517 mn +33% yoy/ -11% qoq.
- **EBITDA margins** came in at 19.2% (+160 bps yoy/-180 bps qoq).
- **PBT** came in at Rs 1649 mn, +11% yoy/-9% qoq.
- PBT margins were at 20.9% (-210 bps yoy/ -130 bps qoq).
- Adjusted PAT came in at Rs 1210 mn +9% yoy/-9% qoq.
- EPS for the quarter was at Rs 7.1.

Key Developments

- In view of its parent's plan to create two companies namely Pharmaceuticals and Consumer Healthcare, GLAXO announced its decision to transfer the brands IODEX and OSTOCALCIUM to GlaxoSmithKline Asia Pvt. Ltd., for a consideration of Rs 16.49 bn.
- The established portfolio improved in pain management (Calpol) during the quarter.
- Vaccines were impacted due to lower footfalls in view of the lockdown.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	31,281	32,244	31,989	33,205	34,846
EBITDA	6,008	6,561	6,953	7,087	7,604
Adjusted net profit	4,167	3,688	5,308	5,442	5,921
Free cash flow	3,751	(3,940)	(2,724)	29,384	5,933
EPS (Rs)	24.6	21.8	31.3	32.1	35.0
growth (%)	(1.2)	(93.5)	1,212.3	462.8	(70.6)
P/E (x)	64.0	72.4	50.3	49.0	45.1
P/B (x)	12.5	14.7	17.8	8.9	8.6
EV/EBITDA (x)	42.5	39.7	36.7	33.9	31.5
D/E	0.0	0.0	0.0	0.0	0.0
RoIC (%)	-	-	-	-	-
RoE (%)	19.7	1.5	23.9	67.0	19.2
Dividend yield (%)	3.2	3.2	3.2	3.2	3.5

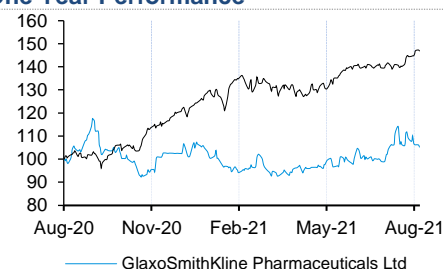
Source: Company

Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	1535	-2

Market data

Current price	Rs	1561
Market Cap (Rs.Bn)	(Rs Bn)	272
Market Cap (US\$ Mn)	(US\$ Mn)	3667
Face Value	Rs	10
52 Weeks High/Low	Rs	1805/1379
Average Daily Volume	('000)	16
BSE Code		500660
Bloomberg		GLXO:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	75.00	75.00
Public	25.00	25.00
Total	100	100

Source: BSE

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KTAs from Analyst meet

- Pharma (76% of sales) +6% CAGR (FY17-21) to Rs 2096 crs in FY21.
- Vaccines (24% of sales) +10% CAGR to Rs 762 crs in FY21.
- Consumer Health Rs 274 crs +6% CAGR.
- GLAXO is the 2nd largest contributor (13%) to Emerging market sales of its parent company.
- Sale of patent rights for Iodex and Ostocalcium, (Consumer Health) transferred to GlaxoSmithKline Consumer for a consideration of Rs 1649 crs. The consideration will accrue to the listed entity GlaxoSmithKline Pharmaceuticals.
- Valuation for Consumer health at 6x sales and 16x EBITDA. Transfer of Consumer health business to GlaxoSmithKline Consumer will impact Glaxo Pharma's FY22 EBITDA margins by 1-1.5%. The company expects the transaction to be completed before end FY22.
- Going forward, the management plans to focus on specialty medicines and vaccines. The company expects specialty medicines to grow double digit from FY21-26 and vaccines to grow high single digit. The general medicines will be stable at FY21 levels.
- In specialty medicines, Glaxo currently has NUCALA in the Indian market and plans to launch Zejula (Niraparib), an oral poly ADP ribose polymerase (PARP) inhibitor, currently approved in US and Europe for patients with recurrent ovarian cancer, who are in response to platinum-based chemotherapy.
- NUCALA has also been approved as a treatment for patients with chronic rhinosinusitis with nasal polyps (CRSwNP) by USFDA. It is also approved as the only biologic for treatment of four eosinophil diseases. NUCALA sales globally were at \$350-400 mn.
- In vaccines, the company plans to launch Shingrix (Herpes Zoster vaccine), Fluarix Tetra – expansion for adults more than 64 years in age.
- General medicines focus on Dermatology (+15%), anti-infectives (+5%), pain management (+31%), hormones (+9%) and nutrition (+21%).

Top 10 brands ~70% of sales, growing at 14-15%.

Brands include Augmentin, Calpol, Cefum, Betnasol, Infanrix, T Bact.

Key Highlights

Particulars	Q1FY22	Q4FY21	Q1FY21	% YOY	% QOQ	FY21	FY20	% change
Net Sales	7899.9	8137.5	6486.0	22%	-3%	31988.6	32243.8	-1%
Total income	7899.9	8137.5	6486.0			31988.6	32243.8	-1%
Raw Material Consumed	(3101)	(3367)	(2573)			(13127)	(13090)	
Employee Expenses	(1678)	(1496)	(1519)			(6147)	(6286)	
Other Expenses	(1604)	(1567)	(1251)			(5761)	(6307)	
Total Exp	(6383)	(6429)	(5343)	19%	-1%	(25035)	(25682)	-3%
PBDIT	1516.7	1708.9	1143.0	33%	-11%	6953.3	6561.4	6%
OPM (%)	19.2%	21.0%	17.6%			21.7%	20.3%	
Other Income	317.3	296.0	577.9			1105.8	790.1	
Interest	(7.9)	(6.3)	(10.8)			(35.3)	(63.4)	
Depreciation	(177.1)	(178.5)	(217.7)			(792.8)	(826.8)	
Profit before tax	1649.0	1820.1	1492.4	10%	-9%	7231.0	6461.3	40%
Tax - normal	(438.2)	(486.8)	(383.3)			(1923.5)	(2125.5)	
Adjusted PAT	1210.8	1333.3	1109.1	9%	-9%	5307.5	4335.8	53%
Exceptional Items*	0.0	(1190.0)	0.0			(1726.5)	(3414.9)	
Tax on exceptional	0.0	0.0	0.0			0.0	0.0	
PAT incl. exceptional	1210.8	143.3	1109.1	9%	745%	3581.0	920.9	386%
NPM (%)	15.3%	16.4%	17.1%			16.6%	13.4%	
Number of shares	169.41	169.41	169.41			169.41	169.41	
EPS (Rs)	7.15	0.85	6.55			21.1	5.4	
Adj EPS (Rs)	7.15	7.87	6.55			31.3	25.6	

Robust yoy sales growth on low base and second wave

Sequential decline in profitability due to higher employee costs and other expenses

Other income lower due to income tax refund in FY21

Profitability	Q1FY22	Q4FY21	Q1FY21	+/- bps yoy	+/- bps qoq	FY21	FY20	+/- bps
Gross margin	60.7	58.6	60.3	112	81	59.0	59.4	-44
EBITDA margin	19.2	21.0	17.6	800	68	21.7	20.3	139
PBT margin	20.9	22.4	23.0	808	171	22.6	20.0	257
Adj. PAT margin	15.3	1.8	17.1	10552	957	11.2	2.9	834

Cost Analysis	Q1FY22	Q4FY21	Q1FY21	FY21	FY20
Raw materials	-39.3	-41.4	-39.7	-41.0	-40.6
Employee Costs	-21.2	-18.4	-23.4	-19.2	-19.5
Other expenses	-20.3	-19.3	-19.3	-18.0	-19.6

Source: Dalal & Broacha Research, Company Valuation & Outlook

Outlook & Valuation

GlaxoSmithKline Pharmaceuticals has benefitted from the second wave in terms of sales growth. However, profitability has been impacted due to increased costs and lower other income.

The sale of patent rights of IODEX and OSTOCALCIUM to GlaxoSmithKline Consumer will impact profitability over FY22 and FY23. The consideration of Rs 16490 mn and the sale of Vemgal plant will bring in post tax Rs 14.7 bn to the company. The deal is subject to regulatory approvals, post which GLAXO will announce their fund utilization plans.

At Rs 1561, Glaxo Pharma trades at 45x FY23E EPS of Rs 35. We believe the stock is adequately priced.

We maintain NEUTRAL rating on the stock.

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Income from Operatic	31,281.2	32,243.8	31,988.6	33,205.0	34,845.5	Net Profit	4,215.9	272.9	3,581.0	20,153.9	5,921.4
Raw materials	(13,580.3)	(13,089.8)	(13,127.0)	(13,614.1)	(14,112.4)	Add: Dep. & Amort.	485.9	826.8	792.8	708.3	789.6
Employee costs	(5,372.0)	(6,285.5)	(6,146.9)	(6,454.2)	(6,777.0)	Cash profits	4,701.8	1,099.7	4,373.8	20,862.3	6,711.0
Other Expenses	(6,321.0)	(6,307.1)	(5,761.4)	(6,049.5)	(6,351.9)	(Inc)/Dec in					
Cost of sales	(25,273.3)	(25,682.4)	(25,035.3)	(26,117.8)	(27,241.3)	-Sundry debtors	264.7	206.9	(1,158.0)	519.0	(80.9)
Operating Profit	6,007.9	6,561.4	6,953.3	7,087.2	7,604.2	-Inventories	136.9	34.6	(636.7)	122.6	93.7
Depreciation	(485.9)	(826.8)	(792.8)	(708.3)	(789.6)	-Loans/advances	(286.9)	603.0	(137.2)	(55.2)	(60.7)
PBIT	5,522.0	5,734.6	6,160.5	6,378.9	6,814.6	-Sundry creditors	(1,000.5)	(482.3)	1,068.9	(541.8)	(43.1)
Other income	1,023.2	142.1	1,105.8	1,105.8	1,327.0	-Others	237.8	(3,896.1)	2,151.3	1,162.3	1,312.9
Interest Income	(5.5)	(63.4)	(35.3)	(30.0)	(30.0)	Change in working capital	(648.0)	(3,533.9)	1,288.3	1,206.8	1,221.9
						CF from Oper. activities	4,053.8	(2,434.2)	5,662.1	22,069.1	7,932.9
Profit before tax	6,539.7	5,813.3	7,231.0	7,454.7	8,111.5	CF from Inv. activities	(2,286.2)	751.0	6,569.7	(1,895.0)	(2,028.4)
Provision for tax	(2,372.7)	(2,125.5)	(1,923.5)	(2,012.8)	(2,190.1)	CF from Fin. activities	(3,089.1)	(3,918.9)	(7,089.8)	(5,374.6)	(5,393.6)
Reported PAT	4,167.0	3,687.8	5,307.5	5,441.9	5,921.4	Cash generated/(utilised)	(1,321.5)	(5,602.2)	5,142.0	14,799.5	510.9
Extraordinary Items	48.9	(3,414.9)	(1,726.5)	14,712.0	-	Cash at start of the year	12,964.1	11,714.0	6,271.1	11,475.7	26,475.2
Adjusted PAT	4,215.9	272.9	3,581.0	20,153.9	5,921.4	Cash at end of the year	11,714.0	6,271.1	11,475.7	26,475.2	26,986.1
Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Ratios	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,694.1	1,694.1	1,694.1	1,694.1	1,694.1	OPM	19.2	20.3	21.7	21.3	21.8
Reserves	19,704.2	16,512.0	13,296.7	28,368.3	29,207.4	NPM	13.1	0.8	10.8	58.7	16.4
Net worth	21,398.3	18,206.1	14,990.8	30,062.4	30,901.5	Tax rate	(36.3)	(36.6)	(26.6)	(27.0)	(27.0)
Secured loans	-	-	-	-	-	Growth Ratios (%)					
Unsecured loans	1.8	0.2	0.2	0.2	0.2	Net Sales	5.3	3.1	(0.8)	3.8	4.9
Total debt	1.8	0.2	0.2	0.2	0.2	Operating Profit	3.3	9.2	6.0	1.9	7.3
Other non curr liab	22.1	20.7	20.6	20.6	20.6	PAT	(1.2)	(93.5)	1,212.3	462.8	(70.6)
CAPITAL EMPLOYED	21,422.2	18,227.0	15,011.6	30,083.2	30,922.3	Per Share (Rs.)					
Gross block	4,798.7	13,185.0	5,870.3	7,870.3	9,870.3	Adj. Earnings (EPS)	24.60	21.77	31.3	32.1	35.0
Accumulated depreci	(1,154.2)	(1,981.0)	(2,773.8)	(3,482.1)	(4,271.7)	Cash Earnings (CPS)	27.8	6.5	25.8	123.1	39.6
Net block	3,644.5	11,204.0	3,096.5	4,388.2	5,598.6	Dividend	50.0	50.0	50.0	50.0	55.0
Capital WIP	10,026.4	1,201.2	132.1	-	-	Book Value	126.3	107.5	88.5	177.5	182.4
Total fixed assets	13,670.9	12,405.2	3,228.6	4,388.2	5,598.6	Free Cash Flow	10.4	(9.9)	72.2	119.1	34.9
Intangible assets	655.4	496.2	433.6	233.6	233.6	Valuation Ratios					
Investments	16.4	14.9	13.5	13.5	13.5	P/E(x)	64.0	72.4	50.3	49.0	45.1
Inventories	4,864.9	4,830.3	5,467.0	5,344.4	5,250.7	P/B(x)	12.5	14.7	17.8	8.9	8.6
Sundry debtors	1,204.9	998.0	2,156.0	1,637.0	1,717.8	EV/EBIDTA(x)	42.5	39.7	36.7	33.9	31.5
Cash & bank	11,714.0	6,271.1	11,475.7	26,475.2	26,986.1	EV/SALES(x)	8.2	8.1	8.0	7.2	6.9
Loans & advances	1,018.0	415.0	552.2	607.4	668.2	Div. Yield(%)	3.2	3.2	3.2	3.2	3.5
Other current assets	1,378.4	777.6	765.4	780.7	796.3	FCF Yield(%)	0.7	(0.6)	4.6	7.6	2.2
Sundry creditors	(4,058.1)	(3,575.8)	(4,644.7)	(4,102.9)	(4,059.7)	Return Ratios (%)					
Acceptances	(9,561.4)	(3,750.1)	(6,138.2)	(7,058.9)	(8,117.8)	ROE	19.7	1.5	23.9	67.0	19.2
Provisions	(4,071.4)	(5,385.8)	(5,136.8)	(5,393.6)	(5,663.3)	ROCE	25.8	31.5	41.0	21.2	22.0
Working capital	2,489.3	580.3	4,496.6	18,289.3	17,578.3						
Deferred Tax Assets	3,752.0	4,202.9	4,496.3	4,788.6	5,099.8						
Other non current ass	838.1	527.5	2,343.0	2,370.1	2,398.5						
CAPITAL DEPLOYED	21,422.2	18,227.0	15,011.6	30,083.2	30,922.3						

Source: Dalal & Broacha Research, Company

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