



Robust growth from key brands, sustainable margin growth

GlaxoSmithKline Pharmaceuticals Q2FY22 results were far better than estimates due to growth in key brands namely AUGMENTIN and CALPOL. Operational efficiencies improved profitability to CY2013 levels, with 27.4% EBITDA margins.

- Sales came in at Rs 10.1 bn +15% yoy/+28% qoq.
- Gross Profit was at Rs 6068 mn (+19% yoy/+26% qoq). Gross margins 60.1%, (+190 bps yoy/-60 bps qoq) due to increase in material costs (+10% yoy/+30% qoq).
- EBITDA came in at Rs 2765 mn +35% yoy/+82% qoq.
- EBITDA margins came in at 27.4% (+410 bps yoy/+820 bps qoq).
- PBT came in at Rs 2735 mn, +43% yoy.
- PBT margins were at 27.1%.
- Adjusted PAT came in at Rs 2042 mn +45% yoy/+69% qoq.
- EPS for the quarter was at Rs 12.1.

Key Developments

- AUGMENTIN regained its ranking in Top 5 brands in the Indian Pharmaceuticals market. CALPOL regained double digit growth in the market.
- Established brands grew with recovery in the acute segment.
- The growth in brands improved operational efficiencies resulting in profitability.
- In view of the addition of CEFTUM, T Bact and ZIMIG to NLEM 2021, we believe the revenues will be impacted by Rs 375 mn over FY22 and FY23, assuming the price revision will come in Q4FY22.
- Glaxo Pharma will continue to grow through patented products (NUCAL, ZEJULA, INFANRIX HEXA).

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	31,281	32,244	31,989	35,626	37,331
EBITDA	6,008	6,561	6,953	8,173	8,536
Adjusted net profit	4,167	3,688	5,308	6,035	6,393
Free cash flow	3,751	(3,940)	(2,724)	29,524	6,422
EPS (Rs)	24.6	21.8	31.3	35.6	37.7
growth (%)	(1.2)	(93.5)	1,212.3	479.4	(69.2)
P/E (x)	65.0	73.5	51.1	44.9	42.4
P/B (x)	12.7	14.9	18.1	8.8	8.5
EV/EBITDA (x)	43.2	40.4	37.4	29.9	28.5
D/E	0.0	0.0	0.0	0.0	0.0
RoC (%)	6.5	2.4	5.3	4.4	3.7
RoE (%)	19.5	20.3	35.4	19.7	20.0
Dividend yield (%)	3.1	3.1	3.1	3.1	3.4

Source: Company

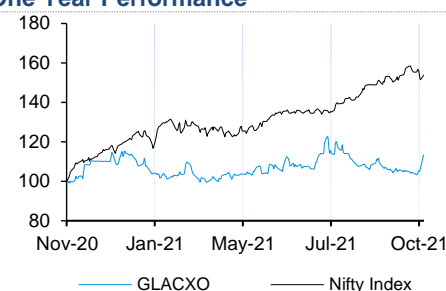
Rating	TP (Rs)	Up/Dn (%)
ACCUUMULATE	1,709	7

Market data

Current price	Rs	1,598
Market Cap (Rs.Bn)	(Rs Bn)	271
Market Cap (US\$ Mn)	(US\$ Mn)	3,614
Face Value	Rs	10
52 Weeks High/Low	Rs	1,767 / 1,376
Average Daily Volume	('000)	60
BSE Code		500660
Bloomberg		GLXO.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

(%) Shareholding	Sep-21	Jun-21
Promoter	75.0	75.0
Public	25.0	25.0
Total	100	100

Source: Bloomberg

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Quarterly Financials

Particulars	Q2FY22	Q1FY22	Q2FY21	% YOY	% QOQ	H1FY22	H1FY21	% change
Net Sales	10098.7	7899.9	8793.2	15%	28%	17998.6	15279.2	18%
Total income	10098.7	7899.9	8793.2			17998.6	15279.2	18%
Raw Material Consumed	(4031)	(3101)	(3675)			-7132.3	-6248.0	
Employee Expenses	(1600)	(1678)	(1540)			-3278.0	-3059.3	
Other Expenses	(1702)	(1604)	(1530)			-3306.4	-2780.3	
Total Exp	(7334)	(6383)	(6745)	9%	15%	(13717)	(12088)	13%
PBDIT	2765.2	1516.7	2048.6	35%	82%	4281.9	3191.6	34%
OPM (%)	27.4%	19.2%	23.3%			23.8%	20.9%	
Other Income	149.7	317.3	90.4			467.0	668.3	
Interest	(3.5)	(7.9)	(8.8)			-11.4	-19.6	
Depreciation	(176.0)	(177.1)	(219.6)			-353.1	-437.3	
Profit before tax	2735.4	1649.0	1910.6	43%	66%	4384.4	3403.0	29%
Tax - normal	(693.0)	(438.2)	(504.6)			-1131.2	-887.9	
Adjusted PAT	2042.4	1210.8	1406.0	45%	69%	3253.2	2515.1	29%
Exceptional Items*	0.0	0.0	(641.7)			0.0	-641.7	
Tax on exceptional	0.0	0.0	0.0			0.0	0.0	
PAT incl. exceptional	2042.4	1210.8	764.3	167%	69%	3253.2	1873.4	74%
NPM (%)	20.2%	15.3%	16.0%			18.1%	16.5%	
Number of shares	169.41	169.41	169.41			169.41	169.41	
EPS (Rs)	12.06	7.15	4.51			19.2	11.1	
Adj EPS (Rs)	12.06	7.15	8.30			19.2	14.8	

Robust revenue growth from key brands

EBITDA margins highest due to operating efficiencies

20% PAT margin highest since CY12

Profitability	Q2FY22	Q1FY22	Q2FY21	+/- bps yoy	+/- bps qoq	H1FY22	H1FY21	+/- bps
Gross margin	60.1	60.7	58.2	187	81	60.4	59.1	127
EBITDA margin	27.4	19.2	23.3	408	68	23.8	20.9	290
PBT margin	27.1	20.9	21.7	536	171	24.4	22.3	209
Adj. PAT margin	20.2	15.3	8.7	1153	957	18.1	12.3	581

Cost Analysis	Q2FY22	Q1FY22	Q2FY21	H1FY22	H1FY21
Raw materials	-39.9	-39.3	-41.8	-39.6	-40.9
Employee Costs	-15.8	-21.2	-17.5	-18.2	-20.0
Other expenses	-16.9	-20.3	-17.4	-18.4	-18.2

Additions to NLEM

Glaxo Pharma’s 3 brands (Ceftum, T Bact, and Zimig) have been added to NLEM 2021.

1. Ceftum (Approx. MAT Rs 2000 Mn, Cefuroxime) and T Bact (MAT Rs 2300 mn, Mupirocin) are amongst the top 10 products in India, together comprising 12-13% of sales.
 - a. In Cefuroxime, Glaxo competes with Sun (Ceroxin), Alkem (Zocef), FDC (ZEFU) and Glenmark (Altacef). With prices ranging from Rs 35 to 100 per tablet, Glaxo will see an impact on Ceftum revenues. Assuming a 20% decline in price for CEFTUM, we believe CEFTUM MAT will come down to Rs 1700 mn for FY22. Ceftum MAT has been hovering around Rs 1600 - 1700 mn. The MAT value exceeded Rs 2000 mn during the second wave, as the number of prescriptions increased as an antibiotic.
 - b. In T BACT (Mupicorin), Glaxo competes with Glenmark (Supirocin), Cipla (Mupinase) and Alkem (Mupikem). With pricing around Rs 120-140 for a 5 mg ointment, we do not see much impact on T BACT.
 - c. Zimig is an anti fungal that has been used during the second wave and is s small product for Glaxo Pharma.

Valuation & Outlook

The rank improvements for AUGMENTIN and CALPOL have augmented topline growth for Glaxo Pharma. We have factored in the impact of revenues due to NLEM and transfer of IODEX and OSTOCALCIUM to Glaxo Consumer. The closure of the transaction will add Rs 14 bn by FY22. The utilization of funds will hold key to future growth of the stock. At Rs 1600, Glaxo Pharma trades at 40x FY23E EPS of Rs 37.7 and 24x EV/EBITDA. **We have valued Glaxo Pharma on DCF and arrived at a target price of Rs 1709. We upgrade our rating from NEUTRAL to ACCUMULATE.**

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Income from Operativ	31,281.2	32,243.8	31,988.6	35,626.5	37,331.0	Net Profit	4,215.9	272.9	3,581.0	20,747.2	6,393.4
Raw materials	(13,580.3)	(13,089.8)	(13,127.0)	(14,250.6)	(14,932.4)	Add: Dep. & Amort.	485.9	826.8	792.8	713.0	750.8
Employee costs	(5,372.0)	(6,285.5)	(6,146.9)	(6,577.2)	(6,906.0)	Cash profits	4,701.8	1,099.7	4,373.8	21,460.2	7,144.2
Other Expenses	(6,321.0)	(6,307.1)	(5,761.4)	(6,625.6)	(6,956.9)	(Inc)/Dec in					
Cost of sales	(25,273.3)	(25,682.4)	(25,035.3)	(27,453.4)	(28,795.3)	-Sundry debtors	264.7	206.9	(1,158.0)	399.7	(84.0)
Operating Profit	6,007.9	6,561.4	6,953.3	8,173.1	8,535.6	-Inventories	136.9	34.6	(636.7)	(267.2)	109.0
Depreciation	(485.9)	(826.8)	(792.8)	(713.0)	(750.8)	-Loans/advances	(286.9)	603.0	(137.2)	(55.2)	(60.7)
PBIT	5,522.0	5,734.6	6,160.5	7,460.1	7,784.8	-Sundry creditors	(1,000.5)	(482.3)	1,068.9	(350.0)	0.9
Other income	1,023.2	142.1	1,105.8	829.4	995.2	-Others	237.8	(3,896.1)	2,151.3	1,162.3	1,312.9
Interest Income	(5.5)	(63.4)	(35.3)	(22.0)	(22.0)	Change in working capital	(648.0)	(3,533.9)	1,288.3	889.5	1,278.0
						CF from Oper. activities	4,053.8	(2,434.2)	5,662.1	22,349.7	8,422.2
Profit before tax	6,539.7	5,813.3	7,231.0	8,267.4	8,758.0	CF from Inv. activities	(2,286.2)	751.0	6,429.0	(1,895.0)	(2,028.4)
Provision for tax	(2,372.7)	(2,125.5)	(1,923.5)	(2,232.2)	(2,364.7)	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	6,035.2	6,393.4	Cash generated/(utilised)	(1,321.5)	(5,602.2)	5,001.3	15,080.2	1,000.2
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	11,335.0	26,615.2
Adjusted PAT	4,215.9	272.9	3,581.0	20,747.2	6,393.4	Cash at end of the year	11,714.0	6,271.1	11,335.0	26,615.2	27,615.4
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	22.9	22.9
Reserves	19,704.2	16,512.0	13,296.7	28,961.6	30,272.7	NPM	13.1	0.8	10.8	56.9	16.7
Net worth	21,398.3	18,206.1	14,990.8	30,655.7	31,966.8	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)	11.4	4.8
Total debt	1.8	0.2	0.2	0.2	0.2	Operating Profit	3.3	9.2	6.0	17.5	4.4
Other non curr liab	22.1	20.7	20.6	20.6	20.6	PAT	(1.2)	(93.5)	1,212.3	479.4	(69.2)
CAPITAL EMPLOYED	21,422.2	18,227.0	15,011.6	30,676.5	31,987.6	Per Share (Rs.)					
Gross block	4,798.7	13,185.0	6,011.0	8,011.0	10,011.0	Adj. Earnings (EPS)	24.60	21.77	31.3	35.6	37.7
Accumulated depreci	(1,154.2)	(1,981.0)	(2,773.8)	(3,486.7)	(4,237.6)	Cash Earnings (CPS)	27.8	6.5	25.8	126.7	42.2
Net block	3,644.5	11,204.0	3,237.2	4,524.3	5,773.4	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	181.0	188.7
Total fixed assets	13,670.9	12,405.2	3,369.3	4,524.3	5,773.4	Free Cash Flow	10.4	(9.9)	71.4	120.7	37.7
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)	65.0	73.5	51.1	44.9	42.4
Inventories	4,864.9	4,830.3	5,467.0	5,734.2	5,625.2	P/B(x)	12.7	14.9	18.1	8.8	8.5
Sundry debtors	1,204.9	998.0	2,156.0	1,756.3	1,840.4	EV/EBIDTA(x)	43.2	40.4	37.4	29.9	28.5
Cash & bank	11,714.0	6,271.1	11,335.0	26,615.2	27,615.4	EV/SALES(x)	8.3	8.2	8.1	6.9	6.5
Loans & advances	1,018.0	415.0	552.2	607.4	668.2	Div. Yield(%)	3.1	3.1	3.1	3.1	3.4
Other current assets	1,378.4	777.6	765.4	780.7	796.3	FCF Yield(%)	0.7	(0.6)	4.5	7.5	2.4
Sundry creditors	(4,058.1)	(3,575.8)	(4,644.7)	(4,294.7)	(4,295.6)	Return Ratios (%)					
Acceptances	(9,561.4)	(3,750.1)	(6,138.2)	(7,058.9)	(8,117.8)	ROE	19.5	20.3	35.4	19.7	20.0
Provisions	(4,071.4)	(5,385.8)	(5,136.8)	(5,393.6)	(5,663.3)	ROCE	25.8	31.5	41.0	24.3	24.3
Working capital	2,489.3	580.3	4,355.9	18,746.5	18,468.7	Asset turn	6.5	2.4	5.3	4.4	3.7
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	30,676.5	31,987.6						

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