



EBITDA margins 24%, highest in last 16 quarters with cost controls

- Sales came in at Rs 8572 mn +10% yoy/-3% qoq, 3% lower than our estimate of Rs 8800 mn.
- EBITDA came in at Rs 2055 mn +65% yoy/ flat qoq, 1% lower than our estimate of Rs 2080 mn.
- EBITDA margins came in at 24% (+800 bps yoy/+70 bps qoq), highest in the last 16 quarters.
- PBT came in at Rs 2009 mn, +68% yoy/+5% qoq.
- PBT margins were at 23.4% (+800 bps yoy/ +170 bps qoq), highest in the last 7 quarters.
- Adjusted PAT came in at Rs 1460 mn +96% yoy/+3% qoq.
- EPS for the quarter was at Rs 8.6, against our estimate of Rs 8.7.

Market share gains in key brands, patented products

- Q3FY21 includes exceptional income of Rs 105.3 mn includes writeback of Zinetac Rs 89.3 mn, profit on sale of property Rs 18.4 mn and other charges Rs 2.4 mn.
- Q3FY20 saw an exceptional loss of Rs 7359 mn, towards underutilization of the Vemgal facility and some other assets.
- RMC +7% to Rs 3512 mn, leading to gross margins at 59% (+110 bps yoy/+80 bps qoq).
- Employee costs -4% Rs 1592 mn, other expenses -12% Rs 1412 mn.
- Depreciation -3% Rs 177 mn, interest Rs 9.4 mn.
- Other income -15% yoy Rs 140.2 mn.
- Most of the key brands gained market share. The company continues to focus on vaccines and respiratory which comprise 28-30% of sales.
- Glaxo's patented launches namely Fluarix Tetra, Menveo and Nucala continue to grow in the Indian market.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	31,281	32,244	32,566	34,846	37,285
Adjusted net profit	4,216	273	6,028	6,573	7,163
Vs Consensus			8%	-3%	5%
Free cash flow	3,751	(3,940)	(566)	6,438	7,368
EPS (Rs)	24.6	21.8	35.6	38.8	42.3
growth (%)	20.1	(93.5)	2,109.1	9.0	9.0
P/E (x)	59.2	66.9	40.9	37.5	34.4
P/B (x)	11.5	13.5	12.3	11.0	9.8
EV/EBITDA (x)	39.1	36.6	30.8	27.3	24.6
D/E	0.0	0.0	0.0	0.0	0.0
RoC (%)	43.6	2.3	48.5	56.3	60.6
RoE (%)	19.7	1.5	30.1	29.4	28.5
Dividend yield (%)	3.4	3.4	3.4	3.4	3.8

Source: Company

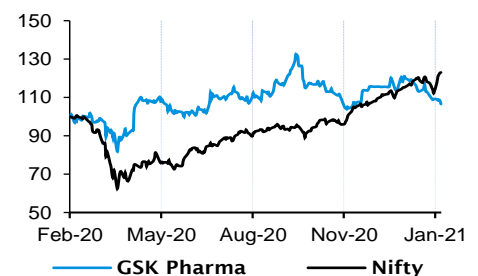
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	1747	22

Market data

Current price	Rs	1,431
Market Cap (Rs.Bn)	(Rs Bn)	242
Market Cap (US\$ Mn)	(US\$ Mn)	3328
Face Value	Rs	10
52 Weeks High/Low	Rs	1805/1046
Average Daily Volume	('000)	63
BSE Code		500660
Bloomberg		GLXO:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	75.00	75.00
Public	25.00	25.00
Others	0.00	0.00
Total	100	100

Source: BSE

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Quarterly Performance Analysis

Exhibit 1

Particulars	Q3FY21	Q2FY21	Q3FY20	% YOY	% QOQ	9MFY21	9MFY20	% change
Net Sales	8572.0	8793.2	7785.9	10%	-3%	23851.2	24487.1	-3%
Total income	8572.0	8793.2	7785.9			23851.2	24487.1	-3%
Raw Material Consumed	(3513)	(3675)	(3278)			-9760.5	(10284)	
Employee Expenses	(1592)	(1540)	(1667)			-4651.4	(4624)	
Other Expenses	(1412)	(1530)	(1598)			-4192.6	(4792)	
Total Exp	(6517)	(6745)	(6542)	0%	-3%	(18605)	(19700)	-6%
PBDIT	2055.1	2048.6	1243.9	65%	0%	5246.7	4787.1	10%
OPM (%)	24.0%	23.3%	16.0%			22.0%	19.5%	
Other Income	140.2	90.4	165.0			808.5	627	
Interest	(9.4)	(8.8)	(29.8)			-29.0	(48)	
Depreciation	(177.1)	(219.6)	(183.3)			-614.4	(601)	
Profit before tax	2018.2	1919.4	1195.8	69%	5%	5411.8	4764.4	42%
Tax - normal	(549.0)	(504.6)	(268.4)			-1436.9	(1740)	
Adjusted PAT	2187.6	2088.8	1365.2	60%	5%	5581.2	4933.8	41%
Exceptional Items*	105.2	(641.7)	(7539.0)			-536.5	(3528)	
Tax on exceptional	0.0	0.0	(182.8)			0.0	(573)	
PAT incl. exceptional	2292.8	1447.1	(6356.6)			5044.7	833.5	657%
NPM (%)	25.5%	23.8%	17.5%			23.4%	20.1%	
Number of shares	169.41	169.41	169.41			169.41	169.41	
EPS (Rs)	13.53	8.54	-37.52			29.78	4.92	
Adj EPS (Rs)	12.91	12.33	8.06			32.94	29.12	

Sales growth better than IPM growth

Significant improvement in yoy EBITDA margins due to lower employee costs & other expenses.

Robust recovery in earnings

Profitability	Q3FY21	Q2FY21	Q3FY20	+/- bps yoy	+/- bps qoq	9MFY21	9MFY20	+/- bps
Gross margin	59.0	58.2	57.9	112	81	59.1	58.0	108
EBITDA margin	24.0	23.3	16.0	800	68	22.0	19.5	245
PBT margin	23.5	21.8	15.4	819	172	22.7	19.5	323
Adj. PAT margin	26.7	16.5	-81.6	10839	1029	21.2	3.4	1775

Cost Analysis	Q3FY21	Q2FY21	Q3FY20	9MFY21	9MFY20	+/- bps
Raw materials	-41.0	-41.8	-42.1	-40.9	-42.0	
Employee Costs	-18.6	-17.5	-21.4	-19.5	-18.9	
Other expenses	-16.5	-17.4	-20.5	-17.6	-19.6	

Source: Dalal & Broacha Research, Company

Valuation & Outlook

GlaxoSmithKline Pharmaceuticals sales have grown better than IPM. With a better sales mix and cost control, the earnings have steadily grown over the last two quarters. Going forward, further profitability improvement and sale of the Vemgal plant remain near term triggers for the stock.

At Rs 1431, Glaxo trades at 37x FY22E EPS of Rs 39.1.

We revise our rating from ACCUMULATE to BUY on Dips with a target price of Rs 1747.

Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Income from Operati	31,281.2	32,243.8	32,566.2	34,845.9	37,285.1	Net Profit	4,215.9	272.9	6,028.1	6,572.8	7,163.1
Raw materials	(13,580.3)	(13,089.8)	(13,026.5)	(13,589.9)	(14,541.2)	Add: Dep. & Amort.	485.9	826.8	780.2	971.1	1,091.1
Employee costs	(5,372.0)	(6,285.5)	(6,599.8)	(6,929.8)	(7,276.3)	Cash profits	4,701.8	1,099.7	6,808.3	7,543.9	8,254.2
Other Expenses	(6,321.0)	(6,307.1)	(5,171.8)	(5,689.0)	(5,973.5)	(Inc)/Dec in					
Cost of sales	(25,273.3)	(25,682.4)	(24,798.1)	(26,208.7)	(27,790.9)	-Sundry debtors	264.7	206.9	(114.5)	(77.9)	(83.3)
Operating Profit	6,007.9	6,561.4	7,768.1	8,637.2	9,494.2	-Inventories	136.9	34.6	(65.8)	(342.7)	(379.5)
Depreciation	(485.9)	(826.8)	(780.2)	(971.1)	(1,091.1)	-Loans/advances	(286.9)	603.0	(41.5)	(45.7)	(50.2)
PBIT	5,522.0	5,734.6	6,988.0	7,666.1	8,403.1	-Sundry creditors	(1,000.5)	(482.3)	171.5	162.1	273.7
Other income	1,023.2	142.1	1,224.7	1,285.9	1,350.2	-Others	237.8	(3,896.1)	1,062.2	1,198.5	1,352.7
Interest Income	(5.5)	(63.4)	(66.6)	(69.9)	(73.4)	Change in working capital	(648.0)	(3,533.9)	1,012.0	894.3	1,113.4
						CF from Oper. activities	4,053.8	(2,434.2)	7,820.3	8,438.2	9,367.6
Profit before tax	6,539.7	5,813.3	8,146.1	8,882.1	9,679.9	CF from Inv. activities	(2,286.2)	751.0	(2,025.8)	(825.9)	(2,029.5)
Provision for tax	(2,372.7)	(2,125.5)	(2,118.0)	(2,309.3)	(2,516.8)	CF from Fin. activities	(3,089.1)	(3,918.9)	(4,508.4)	(4,526.2)	(4,713.5)
Reported PAT	4,167.0	3,687.8	6,028.1	6,572.8	7,163.1	Cash generated/(utilised)	(1,321.5)	(5,602.2)	1,286.0	3,086.1	2,624.6
Extraordinary Items	48.9	(3,414.9)	-	-	-	Cash at start of the year	12,964.1	11,714.0	6,271.1	7,557.1	10,643.2
Adjusted PAT	4,215.9	272.9	6,028.1	6,572.8	7,163.1	Cash at end of the year	11,714.0	6,271.1	7,557.1	10,643.2	13,267.7
Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,694.1	1,694.1	1,694.1	1,694.1	1,694.1	OPM	19.2	20.3	23.9	24.8	25.5
Reserves	19,704.2	16,512.0	18,304.8	20,642.3	23,400.8	NPM	13.1	0.8	17.8	18.2	18.5
Net worth	21,398.3	18,206.1	19,998.9	22,336.4	25,094.9	Tax rate	(36.3)	(36.6)	(26.0)	(26.0)	(26.0)
Secured loans	-	-	-	-	-	Growth Ratios (%)					
Unsecured loans	1.8	0.2	0.2	0.2	0.2	Net Sales	8.0	3.1	1.0	7.0	7.0
Total debt	1.8	0.2	0.2	0.2	0.2	Operating Profit	18.8	9.2	18.4	11.2	9.9
Other non curr liab	22.1	20.7	20.7	20.7	20.7	PAT	20.1	(93.5)	2,109.1	9.0	9.0
CAPITAL EMPLOYED	21,422.2	18,227.0	20,019.8	22,357.3	25,115.8	Per Share (Rs.)					
Gross block	4,798.7	13,185.0	15,185.0	17,185.0	19,185.0	Net Earnings (EPS)	24.60	21.77	35.6	38.8	42.3
Accumulated depreci	(1,154.2)	(1,981.0)	(2,761.1)	(3,732.2)	(4,823.3)	Cash Earnings (CPS)	27.8	6.5	40.2	44.5	48.7
Net block	3,644.5	11,204.0	12,423.9	13,452.8	14,361.7	Dividend	50.0	50.0	50.0	50.0	55.0
Capital WIP	10,026.4	1,201.2	1,201.2	-	-	Book Value	126.3	107.5	118.1	131.8	148.1
Total fixed assets	13,670.9	12,405.2	13,625.1	13,452.8	14,361.7	Free Cash Flow	10.4	(9.9)	34.2	44.9	43.3
Intangible assets	655.4	496.2	496.2	496.2	496.2	Valuation Ratios					
Investments	16.4	14.9	14.9	14.9	14.9	P/E(x)	59.2	66.9	40.9	37.5	34.4
Inventories	4,864.9	4,830.3	4,896.1	5,238.8	5,618.3	P/B(x)	11.5	13.5	12.3	11.0	9.8
Sundry debtors	1,204.9	998.0	1,112.5	1,190.3	1,273.7	EV/EBIDTA(x)	39.1	36.6	30.8	27.3	24.6
Cash & bank	11,714.0	6,271.1	7,557.1	10,643.2	13,267.7	EV/SALES(x)	7.5	7.5	7.3	6.8	6.3
Loans & advances	1,018.0	415.0	456.5	502.2	552.4	Div. Yield(%)	3.4	3.4	3.4	3.4	3.8
Other current assets	1,378.4	777.6	816.5	857.3	900.2	FCF Yield(%)	0.7	(0.7)	2.3	3.1	3.0
Sundry creditors	(4,058.1)	(3,575.8)	(3,747.3)	(3,909.4)	(4,183.1)	Return Ratios (%)					
Acceptances	(9,561.4)	(3,750.1)	(4,312.6)	(4,959.5)	(5,703.4)	ROE	19.7	1.5	30.1	29.4	28.5
Provisions	(4,071.4)	(5,385.8)	(5,924.4)	(6,516.8)	(7,168.5)	ROCE	25.8	31.5	34.9	34.3	33.5
Working capital	2,489.3	580.3	854.3	3,046.0	4,557.2	ROIC	43.6	2.3	48.5	56.3	60.6
Deferred Tax Assets	3,752.0	4,202.9	4,476.1	4,767.0	5,076.9						
Other non current ass	838.1	527.5	553.3	580.4	608.9						
CAPITAL DEPLOYED	21422.2	18227.0	20019.8	22357.3	25115.8						

Source: Dalal & Broacha Research, Company

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