



GSK Pharma Q4FY21 results were better than estimates. 21% growth in raw material costs lowered gross margins. Higher other income increased PBT margins to 22.4%. The company has taken an impairment of Rs 1270 mn to reflect the estimated realizable value of Vemgal assets.

- **Sales** came in at Rs 8138 mn +5% yoy/-5% qoq, 2% above our estimate of Rs 8000 mn.
- Gross Profit was at Rs 4771 mn -4%yoy due to 21% increase in raw material costs. Gross margins 58.6%, -540 bps yoy/-40 bps qoq.
- **EBITDA** came in at Rs 1709 mn -2% yoy/ -17 qoq, 6% above our estimate, due to lower employee costs.
- **EBITDA margins** came in at 21%(-140 bps yoy/-300 bps qoq).
- **PBT** came in at Rs 1820 mn, +10% yoy/-9% qoq.
- PBT margins were at 22.4% (+110 bps yoy/ -100 bps qoq).
- Q4FY21 includes exceptional expense of Rs 1190 mn (impairment of Rs 1270 mn to reflect the estimated realizable value of Vemgal assets and reversal of provision of Rs 80 mn on account of Zinetac recall).
- Adjusted PAT came in at Rs 1333 mn +5% yoy/-9% qoq.
- EPS for the quarter was at Rs 7.8.

Key Developments

- The company paid dividend of Rs 30 per share (300%) for FY21.
- The established portfolio improved market share in anti infectives (Ceftum) and pain management (Calpol).
- In dermatology, Betnovate C and Betnovate N, T Bact grew better than market.
- In vaccines, Infanrix Hexa and recent launches Fluarix Tetra and Menveo have grown better than market.

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,63,624	1,71,320	1,91,596	2,13,359	2,29,875
EBITDA	30,973	32,060	42,524	52,229	57,332
OPM	18.9%	18.7%	22.2%	24.5%	24.9%
Adjusted net profit	14,572	14,525	23,722	31,066	34,312
Free cash flow	8,344	23,909	28,914	34,795	33,711
EPS (Rs)	18.1	18.0	29.4	38.5	42.5
growth (%)	3	(0)	63	31	10
P/E (x)	50	50	31	23	21
P/B (x)	5	5	4	3	3
EV/EBITDA (x)	25	23	17	13	12
D/E	0.3	0.2	0.1	0.1	0.1
RoIC (%)	8.8	9.1	15.1	20.1	22.0
RoE (%)	9.7	9.2	12.9	14.7	14.1
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company

Rating TP (Rs) Up/Dn (%)

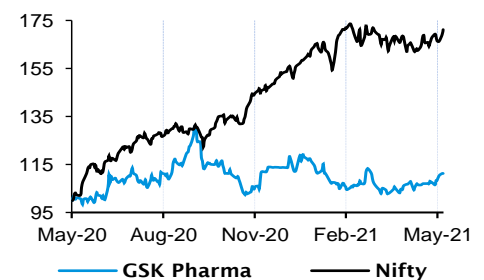
NEUTRAL

Market data

Current price	Rs	1480
Market Cap (Rs.Bn)	(Rs Bn)	251
Market Cap (US\$ Mn)	(US\$ Mn)	3429
Face Value	Rs	10
52 Weeks High/Low	Rs	1805/1258
Average Daily Volume	('000)	101
BSE Code		500660
Bloomberg		GLXO:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	75.00	75.00
FII	1.59	1.54
DII	10.85	10.77
Others	12.56	12.69
Total	100	100

Source: BSE

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Key Highlights

Particulars	Q4FY21	Q3FY21	Q4FY20	% YOY	% QOQ	FY21	FY20	% change
Net Sales	8137.5	8572.0	7758.0	5%	-5%	31988.6	32243.8	-1%
Total income	8137.5	8572.0	7758.0			31988.6	32243.8	-1%
Raw Material Consumed	(3367)	(3513)	(2795)			(13127)	(13090)	
Employee Expenses	(1496)	(1592)	(1716)			(6147)	(6286)	
Other Expenses	(1567)	(1412)	(1508)			(5761)	(6307)	
Total Exp	(6429)	(6517)	(6018)	7%	-1%	(25035)	(25682)	-3%
PBDIT	1708.9	2055.1	1740.0	-2%	-17%	6953.3	6561.4	6%
OPM (%)	21.0%	24.0%	22.4%			21.7%	20.3%	
Other Income	296.0	140.2	151.6			1105.8	790.1	
Interest	(6.3)	(9.4)	(15.1)			(35.3)	(63.4)	
Depreciation	(178.5)	(177.1)	(225.9)			(792.8)	(826.8)	
Profit before tax	1820.1	2008.8	1650.6	10%	-9%	7231.0	6461.3	40%
Tax - normal	(486.8)	(549.0)	(384.7)			(1923.5)	(2125.5)	
Adjusted PAT	1333.3	1459.8	1265.9	5%	-9%	5307.5	4335.8	53%
Exceptional Items*	(1190.0)	105.2	112.7			(1726.5)	(3414.9)	
Tax on exceptional	0.0	0.0	0.0			0.0	0.0	
PAT incl. exceptional	143.3	1565.0	1378.6	-90%	-91%	3581.0	920.9	386%
NPM (%)	16.4%	17.0%	16.3%			16.6%	13.4%	
Number of shares	169.41	169.41	169.41			169.41	169.41	
EPS (Rs)	0.85	9.24	8.14			21.1	5.4	
Adj EPS (Rs)	7.87	8.62	7.47			31.3	25.6	

Higher material costs and other expenses impact profitability

Other Income higher due to interest on income tax refund

Profitability	Q4FY21	Q3FY21	Q3FY21	+/- bps yoy	+/- bps qoq	FY21	FY20	+/- bps
Gross margin	58.6	59.0	64.0	112	81	59.0	59.4	-44
EBITDA margin	21.0	24.0	22.4	800	68	21.7	20.3	139
PBT margin	22.4	23.4	21.3	808	171	22.6	20.0	257
Adj. PAT margin	1.8	18.3	17.8	10552	957	11.2	2.9	834

Cost Analysis	Q4FY21	Q3FY21	Q3FY21	FY21	FY20
Raw materials	-41.4	-41.0	-36.0	-41.0	-40.6
Employee Costs	-18.4	-18.6	-22.1	-19.2	-19.5
Other expenses	-19.3	-16.5	-19.4	-18.0	-19.6

Source: Dalal & Broacha Research, Company

Valuation & Outlook

GlaxoSmithKline Pharmaceuticals has been impacted due to Ranitidine (Zinetac) recall, followed by the impairment of the Vemgal plant. In FY21, the company has been impacted due to the lockdown and supply chain issues.

At Rs 1479, Glaxo Pharma trades at 36x FY23E EPS of Rs 40. We believe the stock is adequately priced.

We revise our rating from ACCUMULATE to NEUTRAL.

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Income from Operati	31,281.2	32,243.8	31,988.6	34,227.8	36,623.7	Net Profit	4,215.9	272.9	3,581.0	7,775.6	6,811.5
Raw materials	(13,580.3)	(13,089.8)	(13,127.0)	(14,033.4)	(14,649.5)	Add: Dep. & Amort.	485.9	826.8	792.8	708.3	789.6
Employee costs	(5,372.0)	(6,285.5)	(6,146.9)	(6,331.3)	(6,647.9)	Cash profits	4,701.8	1,099.7	4,373.8	8,483.9	7,601.1
Other Expenses	(6,321.0)	(6,307.1)	(5,761.4)	(5,934.2)	(6,231.0)	(Inc)/Dec in					
Cost of sales	(25,273.3)	(25,682.4)	(25,035.3)	(26,298.9)	(27,528.3)	-Sundry debtors	264.7	206.9	(1,158.0)	468.6	(118.1)
Operating Profit	6,007.9	6,561.4	6,953.3	7,928.9	9,095.4	-Inventories	136.9	34.6	(636.7)	(42.1)	(9.6)
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	7,220.5	8,305.8	-Sundry creditors	(1,000.5)	(482.3)	1,068.9	(415.5)	(15.0)
Other income	1,023.2	142.1	1,105.8	884.6	928.9	-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	1,118.1	1,109.5
Profit before tax	6,539.7	5,813.3	7,231.0	8,075.2	9,204.7	CF from Oper. activities	4,053.8	(2,434.2)	5,662.1	9,602.1	8,710.5
Provision for tax	(2,372.7)	(2,125.5)	(1,923.5)	(2,099.5)	(2,393.2)	CF from Inv. activities	(2,286.2)	751.0	6,569.7	(1,895.0)	(2,029.4)
Reported PAT	4,167.0	3,687.8	5,307.5	5,975.6	6,811.5	CF from Fin. activities	(3,089.1)	(3,918.9)	(7,089.8)	(5,374.6)	(5,392.6)
Extraordinary Items	48.9	(3,414.9)	(1,726.5)	1,800.0	-	Cash generated/(utilised)	(1,321.5)	(5,602.2)	5,142.0	2,332.5	1,288.5
Adjusted PAT	4,215.9	272.9	3,581.0	7,775.6	6,811.5	Cash at start of the year	12,964.1	11,714.0	6,271.1	11,475.7	13,808.2
						Cash at end of the year	11,714.0	6,271.1	11,475.7	13,808.2	15,096.8
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	23.2	24.8
Reserves	19,704.2	16,512.0	13,296.7	15,990.0	17,719.2	NPM	13.1	0.8	10.8	22.1	18.1
Net worth	21,398.3	18,206.1	14,990.8	17,684.1	19,413.3	Tax rate	(36.3)	(36.6)	(26.6)	(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	(0.8)	7.0	7.0
Total debt	1.8	0.2	0.2	0.2	0.2	Operating Profit	18.8	9.2	6.0	14.0	14.7
Other non curr liab	22.1	20.7	20.6	20.6	20.6	PAT	20.1	(93.5)	1,212.3	117.1	(12.4)
CAPITAL EMPLOYED	21,422.2	18,227.0	15,011.6	17,704.9	19,434.1	Per Share (Rs.)					
Gross block	4,798.7	13,185.0	5,870.3	7,870.3	9,870.3	Net Earnings (EPS)	24.60	21.77	21.1	45.9	40.2
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	50.1	44.9
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	104.4	114.6
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	45.5	39.4
Intangible assets	655.4	496.2	433.6	433.6	433.6	Valuation Ratios					
Investments	16.4	14.9	13.5	13.5	13.5	P/E(x)	59.2	66.9	68.9	31.7	36.2
Inventories	4,864.9	4,830.3	5,467.0	5,509.1	5,518.6	P/B(x)	11.5	13.5	16.5	13.9	12.7
Sundry debtors	1,204.9	998.0	2,156.0	1,687.4	1,805.5	EV/EBIDTA(x)	39.1	36.6	33.8	29.4	25.5
Cash & bank	11,714.0	6,271.1	11,475.7	13,808.2	15,096.8	EV/SALES(x)	7.5	7.5	7.4	6.8	6.3
Loans & advances	1,018.0	415.0	552.2	607.4	668.2	Div. Yield(%)	3.4	3.4	3.4	3.4	3.8
Other current assets	1,378.4	777.6	765.4	780.7	796.3	FCF Yield(%)	0.7	(0.7)	5.0	3.1	2.7
Sundry creditors	(4,058.1)	(3,575.8)	(4,644.7)	(4,229.2)	(4,214.2)	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	44.0	35.1
Provisions	(4,071.4)	(5,385.8)	(5,136.8)	(5,393.6)	(5,663.3)	ROCE	25.8	31.5	41.0	40.8	42.7
Working capital	2,489.3	580.3	4,496.6	5,711.0	5,890.1						
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	17,704.9	19,434.1						

Source: Dalal & Broacha Research, Company

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