

Decline in revenues of major brands

Glaxo SK Pharma (GSK) Q4FY19 revenues and EBIDTA were lower than our expectation due to flat sales growth during the quarter. However, net profit was in line with our expectation due to one-time write back of liabilities. GSK posted flat YoY growth in revenues due to decline in revenues of some of its major brands namely: Calpol, Betnovate-C, Betnovate-N, Rotarix, Havrix, Phexin, Cobadex etc. The company's EBIDTA margin grew by 110bps YoY to 21.8% from 20.7% due to the decline in material cost and other expenses. Material cost declined by 120bps to 40.6% due to change in business mix. GSK's other income grew by 189%YoY to Rs524mn as it included Rs231mn liabilities written back payable to group company Biddle Sawyer. GSK's tax rate enhanced to 37.6% from 35.5%YoY. Net profit after EO item of Rs32mn grew by 17%YoY to Rs1.23bn from Rs1.06bn. We value GSK at 26x FY21E EPS, with a Sell rating and target price of Rs1,030.

Revenue was flat YoY

GSK reported flat YoY revenue in Q4 at Rs7.51bn due to decline in revenues of some of its major brands namely: Calpol, Betnovate-C, Betnovate-N, Rotarix, Havrix, Phexin, Cobadex etc. The company has launched Nucala for asthma and Infanrix Hexa vaccine. GSK markets eight vaccines and expects good growth from the vaccines. Seven of GSK's brands appear in the list of top 50 brands. We expect GSK's revenues to improve due to 4.2% price increase for NLEM products in April'19. GSK's ~17% of revenue comes from price controlled products.

EBITDA margin grew 110bps YoY

GSK's EBITDA margin grew by 110bps YoY to 21.8% from 20.7% due to the decline in material cost and other expenses by 120bps and 170bps respectively. GSK's personnel expenses grew by 190bps to 19.5% from 17.6%YoY. The rise in personnel cost is attributed to the flat revenue growth. GSK's other income grew by 189%YoY to Rs524mn from Rs181mn as it included Rs231mn from the liabilities written back payable to the group company Biddle Sawyer.

Net profit reported 17%YoY growth

Net profit after EO item (Rs32mn expenses on property sale) grew by 17%YoY to Rs1.23bn from Rs1.06bn due to margin expansion and higher other income. GSK's tax rate grew to 37.6% from 35.5%.GSK's seven brands appear in the list of top 50 brands and are likely to drive growth. The launch of new products Nucala and Infanrix Hexa vaccine are likely to improve profitability. GSK has set up a greenfield world-class manufacturing facility at Vemgal near Bangalore with investment of Rs10.0bn.

Valuation and risks

We expect GSK to report good growth from its vaccine business and its well-established derma brands. The launch of new products would improve margins. A focussed drive to improve the operational efficiencies, cost reduction and positive product mix would result in margin improvement. We value GSK at 26x FY21E EPS, with a Sell rating and target price of Rs1,030 due to its rich valuation. Key risks to our call include slowdown of the domestic pharma market and the company's additional brand coming under price control.

Financial and valuation summary

YE Mar (Rs mn)	Q4FY19	Q4FY18	YoY(%)	Q3FY19	QoQ(%)	FY19P	FY20E	FY21E
Revenue	7,512	7,486	0.3	8,254	(9.0)	31,281	35,589	40,690
EBIDTA	1,636	1,549	5.6	1,373	19.2	6,008	7,488	9,287
EBIDTA margin (%)	21.8	20.7	110bps	16.6	520bps	19.2	21.0	22.8
Adj. Net Profit	1,262	1,056	19.5	848	48.8	4,167	5,463	6,703
Diluted EPS Rs.	7.4	6.2	19.5	5.0	48.8	24.6	32.2	39.6
P/E (x)						52.0	39.6	32.3
EV/EBIDTA (x)						39.5	27.7	22.3
RoE (%)						19.9	25.5	30.8

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Market Data

Bloomberg:	GLXO IN
52 week H/L:	Rs1812/1163
Market cap:	Rs217bn
Shares outstanding:	169mn
Free float:	17.1%
Avg. daily vol. 3mth:	17,294

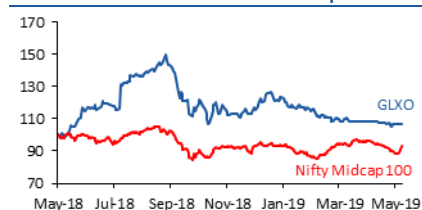
Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target Price:	To Rs 1,030 from Rs1,060
EPS:	FY20E Rs32.2, FY21E Rs39.6

Source: Centrum Research

GSK Pharma relative to NIFTY Midcap 100



Source: Centrum Research

Shareholding pattern

	Mar-19	Dec-18	Sep-18	Jun-18
Promoter	75.0	75.0	75.0	75.0
FIIs	1.5	1.5	1.5	1.6
DIIIs	11.1	11.0	10.9	11.0
Public/oth	12.4	12.5	12.6	12.4

Source: BSE



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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
Sales	35,589	39,476	(9.8)	40,690	45,907	(11.4)
EBITDA	7,488	8,645	(13.4)	9,287	10,554	(12.0)
EBITDA margin (%)	21.0	21.9	(90)bps	22.8	23.0	(20)bps
Net profit	5,463	6,191	(11.8)	6,703	7,479	(10.4)

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q4FY19	Centrum Q4FY19	Variance (%)
Revenue	7,512	8,620	(12.9)
EBITDA	1,636	1,850	(11.6)
EBITDA margin	21.8	21.5	30bps
Tax rate (%)	37.6	33.2	440bps
Adj. net profit	7,512	8,620	(12.9)

Source: Bloomberg Centrum Research estimates

GSK versus NIFTY Midcap 100

	1m	6m	1 year
GLXO IN	(1.6)	(5.6)	6.7
NIFTY 50	(2.9)	0.8	(7.0)

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY19	FY20E	FY21E
Revenue growth %	8.0	13.8	14.3
Material cost (%)	43.4	42.9	42.1

Source: Centrum Research estimates

Valuations

We value GSK at 26x FY21E EPS of Rs39.6 with a target price of Rs1,030.

We recommend Sell rating on the stock. At Rs1,278, GSK is trading at

39.9x FY20E and 32.3x FY21E EPS. The company derives ~825% of its

revenues from the high margin vaccine business

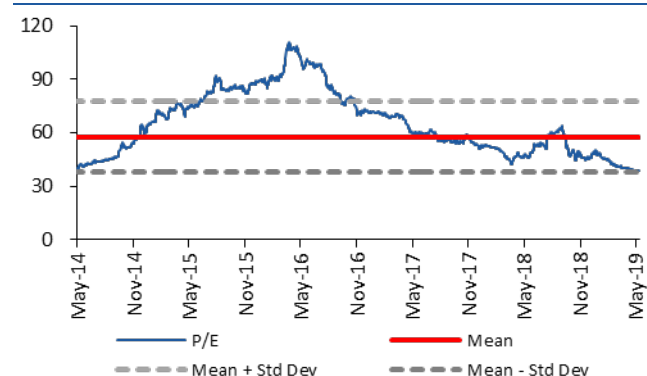
We value peer pharma companies as follows on their FY21E P/E values:

Abbott India 24x, Pfizer 23 x and Sanofi India at 25x.

Valuations

EPS FY21E	Rs39.6
PER FY21E	32.3x
P/BV FY21E	9.8
EV/ EBITDA FY21E	22.3

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs mn	CAGR FY18-FY20E (%)				PE (x)		EV/EBITDA (x)			RoE (%)		
		Sales	EBIDTA	PAT	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
Glaxo SK Pharma	216,493	10.9	21.7	24.8	62.6	57.2	39.6	40.8	39.5	27.7	16.4	19.9	25.5
Abbott India	157,293	17.2	20.7	19.1	39.2	32.6	27.6	16.4	11.8	18.8	26.1	27.1	27.5
Pfizer	137,753	20.1	27.1	30.3	24.1	27.8	22.5	17.4	20.7	17.1	14.1	17.3	18.7
Sanofi India *	123,924	13.1	18.0	20.7	30.1	37.5	27.0	16.9	21.5	15.3	16.7	18.0	20.0

Source: Company, Centrum Research, *March ending, Prices as on 17th May 2019

Major Products & Their Performance

As per IQVIA (IMS) March'19 TTM data, GSK grew at 6.9% YoY compared to the domestic pharma industry growth of 6.4%. Seventeen out of its thirty four brands grew faster than the industry growth of 6.4% and are likely to drive future growth. The top 34 brands contributed 82% to the company's domestic revenues. GSK's flagship vaccine brands Varilrix and Infanrix Hexa grew the fastest at 999.0%YoY. GSK is the leading player in vaccine segment and derives ~25% of its revenues from this segment. The company markets eight vaccines in the domestic market. It's rabies vaccine Rabipur grew by 186%YoY. GSK's Synflorix is the largest selling vaccine (by volume) in India.

Fig 1: Major Brands & their performance

Products	Ther. Category	January'19		February'19		March'19	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma industry		1,12,425	7.8	1,09,509	9.1	1,10,231	6.4
Company		3,483	7.8	3,385	8.9	3,444	6.9
Augmentin	Antiinfective	406	23.9	411	31.3	386	28.7
Synflorix	pneumonia vaccine	208	8.4	191	2.9	212	5.9
Calpol	Antipyretic	161	9.5	180	6.5	183	(1.8)
Betnovate-C	dermatological	181	13.8	193	30.5	183	(1.4)
Zinetac	Antiulcer	171	(1.5)	172	0.1	171	0.1
Betnovate-N	dermatological	172	1.2	185	4.9	181	(3.8)
Eltroxin	Thyroid Hormone	159	12.4	154	14.8	149	7.5
Ceftum	Antiinfective	175	24.5	173	32.2	175	19.0
Betnesol	Antiinflammatory	95	(7.3)	97	(6.2)	99	1.2
Rotarix	rotavirus vaccine	50	(19.4)	44	(21.6)	47	(25.7)
Havrix	Hepatitis A vaccine	64	(1.3)	65	1.1	58	(13.3)
Phexin	Antiinfective	85	3.6	78	1.8	77	(8.9)
T-bact	Antiinfective	127	40.7	124	38.4	121	19.4
CCM	calcium,vitamins	58	2.6	60	20.4	62	21.0
Betnovate-GM	dermatological	22	(58.1)	35	(33.8)	60	21.3
Cobadex-CZS	vitamins, minerals	46	(4.3)	47	(2.8)	49	45.9
Varilrix	chickenpox vaccine	40	38.8	39	196.3	73	999.0
Neosporin Skin	anti infective	54	65.8	52	67.9	52	63.4
Boostrix	vaccine	39	31.9	35	4.6	44	36.9
Cobadex	vitamins	13	(29.8)	11	(33.9)	11	(32.2)
Infanrix Hexa	vaccine	103	999.0	49	999.0	82	999.0
Seretide	antiasthmatic	28	(20.7)	27	(19.9)	25	(34.5)
Cetzine	anti allergic	30	(10.6)	22	(26.2)	17	(39.8)
Supacef	anti infective	35	12.2	37	32.4	40	20.7
Septran	anti infecive	5	(81.4)	3	(82.9)	1	(92.8)
Rabipur	rabies vaccine	69	101.9	65	303.4	76	185.7
Tenovate	anti allergic	33	21.9	29	1.5	31	4.8
Zovirax	herpes	23	21.7	25	18.7	26	11.0
Zentel	antihelmentic	31	55.6	30	63.1	28	12.9
Grisovin- FP	antifungal	19	(28.8)	28	22.3	20	25.9
Zyloric	anti gout	26	28.6	25	4.9	26	(3.3)
Banocide	anti helmintic	24	(4.8)	22	(8.6)	22	(18.5)
Priorix Tetra	vaccine	17	(41.7)	6	(77.2)	2	(93.1)
Becadexamin	multivitamin	24	30.3	23	15.8	24	13.6
Total		2,793	NA	2,737	NA	2,813	

Source: IQVIA (IMS) Monthly data-January-March'19

Other Developments

The company is likely to benefit from various re-structuring measures in commercial and manufacturing operations. GSK has plans to launch its anti-asthmatic product Mukalam in the domestic market. GSK management as focus on 20 brands to drive growth. The company's major brands Augmentin has grown by 29%YoY and contributed 11% to the company's revenues. Its re-launched brand Neosporin powder has grown at 63%YoY.

GSK is focusing on cost efficiencies and has divested tail-end brands. GSK has added 700 MRs in targeted segments taking the total MR strength to 3,500MRs. The company has sold residential property as a re-structuring measure. The company has discontinued the incentive scheme based on the sales generated by the MRs and moved to the scientific details discussed with the doctors.

GSK has set up a greenfield world-class manufacturing facility at Vemgal near Bangalore with investment of Rs10.0bn. the plant has capacity to manufacture 8bn tablets and 1bn capsules. GSK has plans to transfer part of production from CRO to Vemgal. This is likely to improve product quality.

Fig 2: Quarterly Financials

(Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
P & L								
Total revenues	6,071	8,363	7,039	7,486	7,357	8,163	8,254	7,512
Material cost	2,710	3,766	2,802	3,130	3,168	3,491	3,826	3,051
Personnel cost	1,321	1,357	1,239	1,317	1,260	1,395	1,256	1,461
Other expenses	1,843	1,320	1,580	1,490	1,526	1,625	1,799	1,364
Total expenses	5,874	6,443	5,621	5,937	5,954	6,511	6,881	5,876
EBIDTA	197	1,920	1,418	1,549	1,403	1,652	1,373	1,636
Other income	0	0	0	0	0	0	0	0
PBDIT	197	1,920	1,418	1,549	1,403	1,652	1,373	1,636
Interest	(137)	(96)	(120)	(181)	(176)	(146)	(163)	(524)
Depreciation	75	77	134	94	114	115	120	136.8
Profit before tax	259	1,939	1,404	1,636	1,465	1,683	1,416	2,023
Tax provision	120	688	507	580	497	557	568	761.3
Profit after tax before EO	139	1,251	897	1,056	968	1,126	848	1,262
EO items	126	52	0	0	83	118	281	-32
Profit after tax after EO	265	1,303	897	1,056	885	1,008	1,129	1,230
Growth (%)								
Revenues	(13.9)	4.7	(0.4)	(4.5)	21.2	(2.4)	17.3	0.3
EBIDTA	(78.2)	36.4	172.2	13.3	612.2	(14.0)	(3.2)	5.6
Net Profit before EO	(80.3)	26.7	155.6	21.7	596.4	(10.0)	(5.5)	19.5
Margin (%)								
EBIDTA	17.4	3.2	23	20.1	20.7	19.1	20.2	16.6
PBT	18.3	4.3	23.2	19.9	21.9	19.9	20.6	17.2
PAT before EO	11.1	2.3	15	12.7	14.1	13.2	13.8	10.3

Source: Company, Centrum Research estimates

P&L					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	30,000	28,957	31,281	35,589	40,690
Material cost	13,978	12,413	13,580	15,280	17,150
% of revenues	46.6	42.9	43.4	42.9	42.1
Employee cost	4,830	5,234	5,372	5,960	6,570
% of revenues	16.1	18.1	17.2	16.7	16.1
Other Expenses	7,004	6,255	6,321	6,861	7,683
% of revenues	23.3	21.6	20.2	19.3	18.9
EBIDTA	4,188	5,055	6,008	7,488	9,287
EBIDTA margin (%)	14.0	17.5	19.2	21.0	22.8
Depreciation & Amortisation	264	380	486	540	585
EBIT	3,924	4,675	5,522	6,948	8,702
Interest Expenses	-	-	-	-	-
PBT from operations	3,924	4,675	5,522	6,948	8,702
Other income	731	547	1,018	1,456	1,610
PBT	4,655	5,222	6,540	8,404	10,312
Tax provision	1,744	1,892	2,373	2,941	3,609
Effective tax rate (%)	37.5	36.2	36.3	35.0	35.0
Net profit	2,911	3,330	4,167	5,463	6,703
EO items	457	178	287	-	-
Reported net profit	3,368	3,508	4,454	5,463	6,703
Adj. Net profit	2,911	3,330	4,167	5,463	6,703
Ratios					
YE March	FY17	FY18	FY19	FY20E	FY21E
Growth Ratios (%)					
Revenues	5.7	(3.5)	8.0	13.8	14.3
EBIDTA	(12.4)	20.7	18.9	24.6	24.0
Adj. Net Profit	(22.1)	14.4	25.1	31.1	22.7
Margin Ratios (%)					
EBIDTA margin	14.0	17.5	19.2	21.0	22.8
PBT from operations margin	13.1	16.1	17.7	19.5	21.4
Adj. PAT margin	9.7	11.5	13.3	15.3	16.5
Return Ratios (%)					
RoCE	14.6	17.2	20.7	26.5	32.4
RoE	13.9	16.4	19.9	25.5	30.8
RoIC	19.9	16.9	18.8	28.8	49.4
Turnover ratios (days)					
Gross Block Turnover (x)	11.4	9.1	5.4	3.9	3.7
Debtors	21	19	14	23	24
Creditors	34	64	114	101	104
Inventory	52	63	57	70	70
Cash Conversion Cycle	39	18	-43	-8	-10
Solvency Ratio					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.1)	(0.1)	(0.0)	(0.4)	(0.4)
Current Ratio	2.1	1.4	1.3	1.6	1.5
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
Per Share (Rs)					
FDEPS (adjusted)	17.2	19.7	24.6	32.2	39.6
CEPS	37.5	43.8	54.9	70.9	86.0
Book Value	236.9	242.9	126.3	126.4	130.3
Dividend	30.0	35.0	20.0	25.0	30.0
Dividend Payout (%)	89.8	100.6	90.5	92.3	90.2
Valuations (x) (Avg Mkt Cap)					
PER	88.8	62.6	57.2	39.6	32.3
P/BV	12.9	10.1	11.1	10.1	9.8
EV/EBIDTA	61.4	40.8	39.5	27.7	22.3
Dividend Yield (%)	1.2	1.7	1.7	2.3	2.8

Source: Company, Centrum Research estimates

Balance sheet					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	847	847	1,694	1,694	1,694
Reserves & surplus	19,222	19,726	19,704	19,726	20,381
Total shareholders Funds	20,069	20,573	21,398	21,420	22,075
Total Debt	10	6	24	-	-
Minority interest	-	-	-	-	-
Deferred tax Liab.	(916)	(1,037)	(622)	(1,050)	(1,100)
Total Liabilities	19,163	19,542	20,800	20,370	20,975
Gross Block					
Gross Block	2,991	3,344	8,300	10,000	11,850
Less: Acc. Depreciation	463	843	3,236	3,776	4,361
Net Block	2,528	2,501	5,064	6,224	7,489
Capital WIP	5,732	9,229	10,026	10,000	10,000
Net Fixed Assets	8,260	11,730	15,091	16,224	17,489
Investments					
Investments	54	19	17	32	37
Inventories					
Inventories	4,258	5,004	4,865	6,850	7,750
Debtors					
Debtors	1,708	1,470	1,205	2,200	2,730
Loans & Advances					
Loans & Advances	137	150	118	3,400	4,050
Cash & Bank Balance					
Cash & Bank Balance	1,391	2,011	988	8,871	9,562
Other assets					
Other assets	13,316	18,056	16,207	(2,007)	(3,243)
Total Current Assets	20,810	26,691	23,383	19,314	20,849
Trade payable					
Trade payable	2,789	5,059	9,750	9,860	11,580
Other current Liabilities					
Other current Liabilities	3,961	9,988	3,870	420	470
Provisions					
Provisions	3,210	3,851	4,071	4,920	5,350
Net Current Assets	10,850	7,793	5,693	4,114	3,449
Total Assets	19,163	19,542	20,800	20,370	20,975

Cash flow					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Operating profit bef working capital changes	4,190	5,067	6,008	7,588	9,412
Trade and other receivables	201	(4,442)	2,792	12,801	(414)
Trade payables	(468)	8,297	(1,428)	(3,340)	1,770
Net change – WC	(267)	3,855	1,364	9,462	1,356
Direct taxes	(1,606)	(2,020)	(1,928)	(2,200)	(2,550)
Cash flow from operations	2,317	6,902	5,444	14,850	8,218
Net Capex	(2,580)	(3,850)	(3,846)	(1,674)	(1,850)
Acquisitions, net	0	35	2	-15	-5
Others	4732.1	0	0	0	0
Cash flow from investments	2,152	(3,815)	(3,844)	(1,689)	(1,855)
FCF					
Issue of share capital	0	0	847	0	0
Increase/(decrease) in debt	0	(4)	18	(24)	0
Dividend paid	(5,108)	(2,463)	(3,488)	(5,254)	(5,673)
Cash flow from financing	(5,108)	(2,467)	(2,623)	(5,278)	(5,673)
Net change in cash	(639)	620	(1,023)	7,884	690

Source: Company, Centrum Research estimates

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Source: Bloomberg

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