

Revenue De-growth

Revenues have declined by 17.7% YoY and by 16.4% QoQ to Rs. 6487 mn. EBITDA decreased by 30.9% YoY and by 34.3% QoQ to Rs. 1144 mn. EBITDA margins decreased from 21% in Q1FY20 to 17.6% in Q1FY21. Profits decreased by 2% YoY and 19.6% QoQ to Rs. 1110 mn.

Revenues: Revenues have declined by 17.7% YoY and by 16.4% QoQ to Rs. 6487 mn. The company has seen a slowdown in sales across some of its therapeutic areas during the quarter mainly from deferment of vaccination at clinics and slowdown in the non-essential portfolio. The Company has had a steady cash flow through the lockdown period and has been able to meet all its operational needs.

Margins Impacted: EBITDA margins declined from 21% for Q1FY20 to 17.6% in Q1FY21. Total material cost decreased to 39.7% of revenues, as against 42.7% of revenues in Q1FY20, staff cost increased by 6.4% to Rs. 1519 mn while other expenses decreased by 16% YoY due to lack of personal visits and lower promotion activity. The company has been focusing on digital marketing as a mode to connect to Healthcare Professionals. Other income for the quarter ended June 30, 2020 includes interest on Income tax refund of Rs. 426.8 mn while other income for the quarter ended June 30, 2019 includes interest on Income tax refund of Rs. 86.3 mn. Taxation was 25.7% in Q1FY21 as against 35.5% in Q1FY20. Profits for quarter decreased by 2% YoY to Rs. 1110 mn.

Outlook & Valuation

We downgrade our revenue estimates for FY21E / FY22E by 4.6% / 4.6% to Rs. 32.9 Bn / Rs. 36.3 Bn for FY21E / FY22E. We downgrade our EBITDA margins for FY21E / FY22E by 50 bps to 20.6%/21.9% due to fixed nature of personal cost. We downgrade our EPS estimates for FY21E/FY22E by 3.3% / 6.7% to Rs. 30.7 / Rs. 34.4. We reduce our price target to Rs. 1204 based on 35x FY22E and maintain our 'SELL' rating on the stock.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	28959	31285	32247	32951	36312
EBITDA	5084	6065	6585	6800	7966
Net Profit	3342	4205	4345	5206	5831
Reported Net Profit	3520	4254	1101	5206	5831
EPS (Rs.)	19.7	24.8	25.7	30.7	34.4
EPS growth (%)	14.8	25.8	3.3	19.8	12.0
EBITDA margin (%)	17.6	19.4	20.4	20.6	21.9
PER (x)	73.1	58.1	56.3	47.0	41.9
EV/EBITDA (x)	45.4	38.4	34.9	33.8	28.8
P/S (x)	8.4	7.9	7.6	7.4	6.7
RoCE (x)	25.6	31.4	32.8	37.7	42.2
RoE (%)	15.6	22.2	19.4	28.2	31.6

Source: Company, Karvy Research

Standalone

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Recommendation (Rs.)

CMP (as on Jul 30, 2020)	1443
Target Price	1204
Previous Target Price	1292
Downside (%)	17

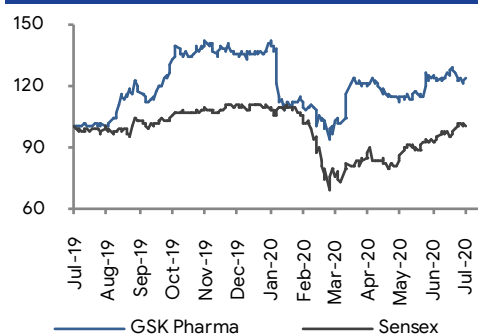
Stock Information

Mkt Cap (Rs.Bn/US\$ Mn)	244 / 3264
52-wk High/Low (Rs.)	1748 / 962
Sensex/Nifty	37736/11102
O/S Shares (mn)	169.0
Face Value (Rs.)	10.0

Shareholding Pattern (%)

Promoters	75.0
FII	0.0
DII	4.8
Others	20.2

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision

%	FY21E	FY22E
Revenue	↓ (4.6)	↓ (4.6)
EBITDA	↓ (6.7)	↓ (6.5)
EPS (Rs.)	↓ (3.3)	↓ (6.7)

Source: Karvy Research

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Exhibit 2: Quarterly performance

YE Mar (Rs. Mn)	Q1FY21	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Net Sales	6487	7759	7880	(16.4)	(17.7)
Cost	5343	6018	6225	(11.2)	(14.2)
EBITDA	1144	1741	1655	(34.3)	(30.9)
EBITDA Margin (%)	17.6	22.4	21.0		
Other Income	578	152	305	281.2	89.2
Depreciation	218	226	191	(3.6)	14.2
EOI	0	113	0		
Profit before Tax	1493	1764	1760	(15.4)	(15.2)
Tax	383	385	626	(0.4)	(38.7)
Tax rate (%)	25.7	21.8	35.5		
Net Profit	1110	1379	1135	(19.6)	(2.2)

Source: Company, Karvy Research

Key Takeaways:

There is no impact on capital and financial resources of the Company. None of the assets have been impacted or impaired as a result of the pandemic. With relaxation of the lockdown across various zones of the country, the Company has redeployed its frontline salesforce as per the guidelines received from the Central/State/Municipal authorities. Both at Company and at channel levels, sufficient inventory is maintained to meet patient requirements.

Management is encouraged to note that during such challenging times their market share has grown despite the established brands not performing up to their expectations due to prevailing market conditions. The FY21 is a promising year for GSK as they are set to introduce new assets, and these launches, as it happens post regulatory approvals, shall contribute to GSK firming its position in the Indian pharma space.

Annual Report Takeaways:

GSK Pharma continues to operate at 100% of the production capacity at their Nashik manufacturing site. During the year, they also commenced operations at the new Eltroxin manufacturing facility at the Nashik site.

Identified key therapies which were supported by incremental sales force investment, have expanded the company's reach by over 30%.

GSK Pharma continues to be the No. 1 vaccines company in the self-pay segment with almost 40% value market share in represented segments. In December 2019, your company launched Menveo (Quadrivalent Meningococcal Conjugate Vaccine), which has demonstrated early success and within four months of its launch, has a 30% unit share.

The vaccines self-pay market is currently estimated to be Rs. 24 Bn and is growing at around 10% (IMS MAT Mar, 2020). Six of the company's vaccines feature in the Top-20 list of vaccines in the self pay market (IMS MAT Mar 2020).

Applications were made for registration of a (i) new fixed dose combination of Fluticasone Furoate, Umeclidinium and Vilanterol Powder for Inhalation (Trelegy) for chronic obstructive pulmonary disease (COPD), (ii) new strength of an already marketed oral suspension of Augmentin viz. Amoxicillin and Potassium Clavulanate Oral Suspension 642.9 mg/5ml (Augmentin ES), (iii) registration of a ready-to-use liquid formulation of Rotavirus vaccine (Rotarix). In addition, indication expansion application was submitted and subsequently successfully approved, for quadrivalent inactivated influenza vaccine (Fluarix tetra) to extend its use in children and adults (approval received). Application for indication expansion for Mepolizumab Powder was also done.

Exhibit 3: Change in Estimates

YE Mar (Rs. Mn)	FY21E			FY22E			Comments
	New	Old	% change	New	Old	% change	
Revenues	32951	34533	(4.6)	36312	38060	(4.6)	lower revenues due to Q1FY21
Net Material consumed	13196	13895	(5.0)	14399	15165	(5.1)	lower gross margins in FY21E and FY22E
Other Expenses	6261	6561	(4.6)	6718	7041	(4.6)	
Personnel cost	6694	6788	(1.4)	7230	7331	(1.4)	lowered staff cost in lieu of Q1FY21
EBITDA	6800	7289	(6.7)	7966	8522	(6.5)	
EBITDA Margin (%)	20.6	21.1		21.9	22.4		
Non-operating Income	1048	859	22.0	867.7	892.3	(2.7)	higher other income due to interest on income tax in Q1FY21
Net Profit	5206	5384	(3.3)	5831	6249	(6.7)	
EPS (Rs.)	30.7	31.8	(3.3)	34.4	36.9	(6.7)	

Source: Company, Karvy Research

Financials

Exhibit 5: Income Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	28959	31285	32247	32951	36312
% growth	(3)	8	3	2	10
Raw Material	12408	13535	13079	13196	14399
Staff	5234	5372	6286	6694	7230
Others Exps	6233	6313	6298	6261	6718
Total Expenditure	23874	25221	25662	26151	28346
EBITDA	5084	6065	6585	6800	7966
EBITDA Margin (%)	17.6	19.4	20.4	20.6	21.9
Other income	535	1015	776	1048	868
Interest	2	6	63	0	0
Depreciation	380	486	827	891	1041
Profit Before Tax	5238	6588	6470	6957	7793
Tax	1896	2383	2125	1751	1961
Effective tax rate (%)	36.2	36.2	32.8	25.2	25.2
Net Profit	3342	4205	4345	5206	5831
Extraordinaries	178	49	(3245)	0	0
Reported Net Profit	3520	4254	1101	5206	5831

Source: Company, Karvy Research

Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20P	FY21E	FY22E
Equity	847	1694	1694	1694	1694
Reserves	19726	19730	16706	16830	16732
Net worth	20573	21424	18400	18524	18426
Total Loans	6	2	0	0	0
Liabilities	20579	21426	18400	18524	18426
Gross Block	3316	4821	9057	10364	11570
Depreciation	797	1160	1987	2879	3920
Net Block	2519	3661	7070	7486	7650
Capital work-in-progress	9229	10026	1201	1244	1388
Other intangible assets	727	655	496	496	496
Investments	477	245	245	245	245
Inventories	5002	4865	4830	5015	5436
Debtors	1470	1205	998	1020	1124
Cash	13585	11554	14674	14365	15168
Other Current assets	6449	6276	7511	7027	7666
Total Current assets	26506	23900	28013	27427	29393
Creditors	5059	4030	3547	3688	4024
Other current liabilities	13820	13637	16167	15776	17812
Total current liabilities	18878	17667	19714	19463	21836
Net current assets	7628	6233	8299	7964	7558
Miscellaneous	1	2	3	3	4
Deferred tax Assest	0	605	1089	1089	1089
Total Assets	20579	21426	18400	18524	18426

Source: Company, Karvy Research

Exhibit 6: Cash Flow Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20P	FY21E	FY22E
EBIT	4704	5579	5758	5909	6925
Change in working capital	7106	(636)	1053	27	1209
Cash flow from operations	11810	4943	6811	5936	8134
Other income	535	1015	776	1048	868
Depreciation	380	486	827	891	1041
Interest paid (-)	(2)	(6)	(63)	(0)	(0)
Tax paid (-)	(2043)	(1928)	(2602)	(1751)	(1961)
Dividends paid (-)	(3587)	(4100)	(4085)	(5082)	(5929)
Extraordinaries	178	49	(3245)	0	0
Cash flow from operations	7271	459	(1581)	1042	2152
Capital Expenditure (-)	(4273)	(2354)	4749	(1350)	(1350)
Cash flow from investing activities	2998	(1895)	3167	(308)	802
Inc./(dec.) in long-term borrowing	(4)	(4)	(2)	0	0
Inc./(dec.) in borrowings	(4)	(4)	(2)	0	0
(Inc.)/Dec. in Investments	53	231	0	0	0
Equity issue/(Buyback)	(0)	847	0	0	0
Cash from financing activities	49	1074	(2)	0	0
Others	1398	(1210)	(46)		
Opening cash	9140	13585	11554	14674	14365
Closing cash	13585	11554	14674	14365	15168
Change in Cash	4445	(2031)	3119	(308)	802

Source: Company, Karvy Research

Exhibit 7: Key Ratios

YE Mar	FY18	FY19	FY20	FY21E	FY22E
EV/EBITDA (x)	45.4	38.4	34.9	33.8	28.8
RoE (%)	15.6	22.2	19.4	28.2	31.6
RoCE (%)	25.6	31.4	32.8	37.7	42.2
PE (x)	73.1	58.1	56.3	47.0	41.9
P/S (x)	8.4	7.9	7.6	7.4	6.7
P/BV (x)	11.9	11.4	13.3	13.2	13.3

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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