

Focus on key brands

We attended the GSK analyst meet represented by MD, Mr Sridhar Venkatesh and CFO, Ms Puja Thakur. The management emphasised on the three pillar approach Grow, Build and Shred. The top-20 brands focus continues to be key driver for growth. Building new speciality brands over a period of time would enable more focused growth. Along continuous cost optimisation and consistent approach to curb cost with zero budget scenario and enabling the platform to operate more digitalized environment looks optimistic on the mid-long term growth. We believe that the pressure in the anti-infective segment, derma and base effect of Zinetac and other brands would make the 2nd half recovery a bit under our expectations and working on the same we have cautiously reduced our earnings by 5%/3% for FY21E/FY22E, respectively. We maintain our Buy Call with a TP of Rs 1780 at 39x FY22.

Management focus on core brands and new launches.

The company continues to focus on the core 20 products (which has seen a higher growth as compared to peers) and existing products in the portfolio. The company has received approval for Trelegy, Augmentin ES 600 and Fluarix Tetra. The current product pipeline includes Shingrix, Rotarix (loquid oral vaccine) and Nucala (liquid pediatric indication).

EBITDA margins expected to improve every year

The management guided that the Gross margins will remain around 60%. The company plans to move towards the high margin speciality businesses such as respiratory, oncology and immunology. The company plans to use the existing capacities to its fullest and is working on the vision of strengthening the CMOs. The expansion on the cost controls and continuous focus on cost optimisation will put the costs on leash. A favourable mix and cost control measures will improve EBITDA margins over time.

Vemgal update

The company is taking in to consideration all its options regarding the unit. The management also mentioned that both internal options as well as external options including sale of the Vemgal unit is being looked into. There has been a delay on internal assessment due to COVID. All the production from the unit has been moved to Nashik unit (except Zinetac which is now discontinued) Delays in financial decision due to COVID-19.

Valuation and risks

We are seeing the strategy to focus on core brands and vaccines is working well for the company. Assuming the core brand sustain their 20% growth the remaining 35%-40% of portfolio need to at least come to growth in-line with IPM. The underlying mid double digit / closer to IPM growth is expected to be visible by 2H21E (as base includes Zinetac in 1H21). Management remains focus on bringing more innovative drugs to India, 2-3 products in coming fiscal followed by oncology pipeline. Post Vemgal, management has been focusing on improving cost efficiency which will be visible in the earnings. We value GSK in line with our lead pack, valuing the stock at 39x FY22E with a TP of Rs 1780. At CMP of Rs 1,578 the stock trades at 44.3x FY21E EPS of Rs 35.6 and 34.6x FY22E EPS of Rs 45.6.

Financial and valuation summary

YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	28,957	31,285	32,244	34,018	38,593
EBITDA	5,082	6,026	6,611	7,428	9,427
EBITDA margin (%)	17.6	19.3	20.5	21.8	24.4
Adj. Net profit	3,353	4,171	4,606	6,056	7,754
Adj. EPS (Rs)	19.7	24.5	27.1	35.6	45.6
EPS growth (%)	(8.0)	24.4	10.4	31.5	28.0
PE (x)	74.9	60.2	54.5	41.5	32.4
EV/EBITDA (x)	47.4	40.2	36.8	32.9	25.6
PBV (x)	6.1	5.9	6.9	6.3	5.3
RoE (%)	16.5	19.9	23.3	31.9	35.9
RoCE (%)	14.5	17.4	20.4	27.5	31.0

Source: Bloomberg, Centrum Broking

Company Update

India I Pharmaceuticals

7 October, 2020

BUY

Price: Rs1,578

Target Price: Rs1,780

Forecast return: 13%

Institutional Research

Market Data

Bloomberg:	GLXO IN
52 week H/L:	1,808/950
Market cap:	Rs267bn
Shares Outstanding:	169mn
Free float:	17.8%
Avg. daily vol. 3mth:	108,198

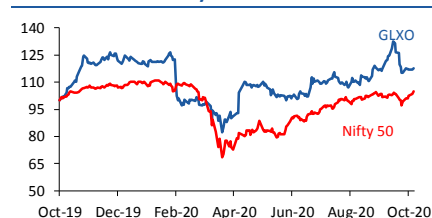
Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs 1780 from Rs 1841
EPS:	(5.2%) FY21E, (3.4%) FY22E

Source: Centrum Broking

GLXO relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	75.0	75.0	75.0	75.0
FIs	0.2	0.3	0.5	0.5
DIs	11.6	11.4	11.0	11.0
Public/other	13.2	13.3	13.5	13.5

Source: BSE



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Pharmaceuticals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Revenue	34,018	34,204	-0.5	38,593	38,848	-0.7
EBITDA	7,428	7,879	-5.7	9,427	9,731	-3.1
EBITDA margin	21.8%	23.0%	(120)bps	24.4%	25.0%	(60)bps
Adj. PAT	6,056	6,389	-5.2	7,754	8,026	-3.4
Diluted EPS (Rs)	35.7	37.7	-5.2	45.8	47.4	-3.4

Source: Centrum Broking

GSK versus NIFTY 50

	1m	6m	1 year
GLXO IN	(2.9)	28.1	19.2
NIFTY 50	3.4	33.6	5.5

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY21E	FY22E
Revenue growth %	5.5	13.4
Material cost (%)	41.0%	40.3%

Source: Centrum Broking

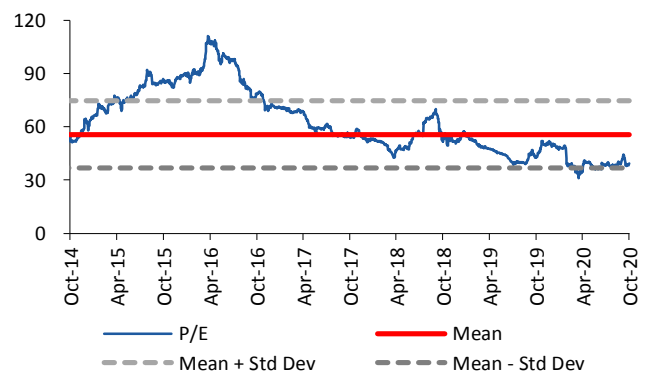
Valuations

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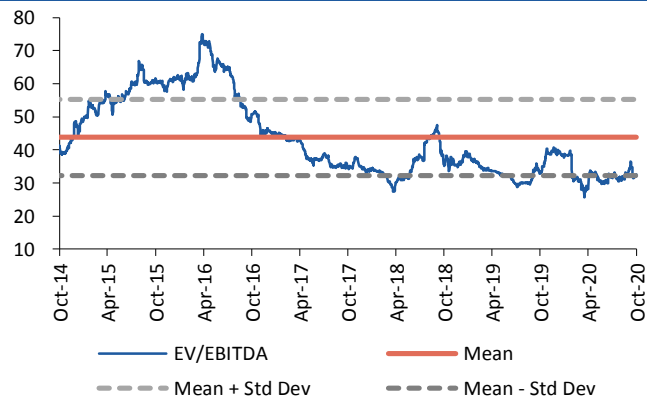
Valuations

EPS FY22E	Rs45.6
PER FY22E	34.6x

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Peer comparison

Company	Mkt Cap Rs mn	CAGR FY20-FY22E (%)				PE (x)		EV/EBITDA (x)			RoE (%)		
		Sales	EBIDTA	PAT	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GSK Pharma	268,510	9.4	19.4	29.8	58.2	44.3	34.6	38.9	34.8	27.0	23.3	31.9	35.9
Pfizer	224,990	4.7	10.2	8.7	48.4	35.0	36.6	35.4	33.7	26.4	14.5	23.0	25.9
Sanofi*	199,720	2.6	4.3	8.4	42.6	41.1	36.2	30.3	33.5	27.8	20.3	21.2	24.0
Abbott	340,010	11.9	23.2	23.2	57.4	45.7	36.0	42.0	33.4	26.3	26.6	29.9	35.0

Source: Company, Centrum Broking, *Dec ending

KTAs from Analyst Meet

MD Speech Highlights

- Sridhar Venkatesh succeeds Mr. Annaswamy Vaidheesh as Managing Director of GSK Pharma.
- The investments into digital transformation have helped the company immensely during these times to keep them connected to the healthcare professionals (HCPs) and pay closer attention to their needs.
- The company witnessed an accelerated growth in the anti-infectives, dermatology and anti-pyretic therapy areas, through a skill-enhanced sales force and improved engagement with HCPs.
- In the first year of its launch, the company increased access and adoption of Nucala - a biologic for patients suffering from severe refractory eosinophilic asthma in adults.
- In preventive healthcare, GSK continues to be the No.1 vaccines company in the self-pay segment with almost 40% value market share in represented segments.
- The company continues to operate at 100% of the production capacity at the Nashik manufacturing site and also commenced operation at the new Eltroxin manufacturing facility at the Nashik site.
- FY20 results were impacted due to voluntary global recall of ranitidine products leading to impairment charges towards the manufacturing facility at Vemgal. The company is exploring future options for the Vemgal facility including a potential sale of the site.
- The focus is to grow, build and shed; growing existing products, new launches and cost optimization

Management Discussion and Highlights

Finance and Account

- Delivered double digit growth in key therapeutic areas where the company is investing its resources to drive growth.
- It continues to be the No.1 vaccines company in self-pay segment with almost 40% value market share in represented segments.
- Seen some early success on the launch of Nucala (Mepolizumab) which is a humanised monoclonal antibody and indicated as an add-on treatment for severe refractory eosinophilic asthma in adult patients.
- In Dec'19 it launched Menveo (Quadrivalent Meningococcal Conjugate Vaccine), which has demonstrated early success and within four months of its launch, has a 30% unit share.
- The underlying sales growth, adjusting for tail-end brand rationalisation and divestments, is a healthy 13% driven by key brands that grew over 20%.
- The other income was lower primarily on account of a liability write back payable to a group company in the previous year.
- A focused drive to improve operational efficiencies, use of smart technology, cost reduction and a positive product mix has resulted in EBITDA margin improving by 1% points versus previous year.
- PAT at Rs 1.10bn is lower, primarily impacted exceptional charges of Rs 3.24bn including costs related to voluntary recall of Zinetac of Rs 1.08bn, impact of financial impairment of Rs 6.37bn connected to the underutilisation of its manufacturing facilities, and other charges.
- Voluntarily suspended the release, distribution and supply of all dose forms of ranitidine hydrochloride products, including Zinetac due to detection of NDMA in ranitidine products.

- Capex of Rs 410mn was spent towards renovation of its corporate office into a modern workplace.
- There may be reduction in few costs but the savings will be redeployed to other expenses which may not lead to absolute reduction in costs
- Gross margins of 59-60% are best in class and will be able to hold on those margins
- In the last few years due to discontinuation and supply issues growth is not being observed in the topline, almost Rs 4bn sales has been given up out of which Rs 2bn given up due to lower profits and Rs 1.5bn is associated to Zinetac

Business Performance and Outlook

Pharmaceuticals

- GSK Rx maintained its dominant position by further gaining market share of 0.5% (YTD Aug'20 vs. last year)
- Except Eltroxin all other key brands grew faster than market with market share gains. Eltroxin market share declined to forward purchase and the company was not able to supply the product
- It accelerated growth in the anti-infectives, dermatology and anti-pyretic therapy areas, through a skill-enhanced sales force and improved engagement with healthcare professionals (HCPs).
- It has reached 21.6 million HCP touchpoints through various channels like webinars, e-mails, text messages, virtual calls and through the GSK Pro platform.
- Company's major primary care brands are growing faster than the Indian Pharmaceutical Market.
- The Evolution Index for top brands are: Augmentin at 114; Ceftum at 106; Calpol at 108 and CCM at 107.
- It maintained and consolidated its leadership in the dermatology segment in the Indian Pharmaceutical Market during the year.
- It now consistently gaining share in the anti-fungal market with Zimig and Zoderm, two key anti-fungal medications.
- Small players may not be able to engage with doctors therefore large players gained market share in the last 3 months but the company believes that most of the gain will be retained due to strong brand positioning
- The focus on core 20 brands remains intact and has grown double than the market
- Derma and anti-infective market has shrunk but the company was able to garner additional market share
- Nucala market is significant and still has huge unmet need
- Incremental capabilities will not be required for respiratory
- 35% of portfolio is under price control

Vaccines

- It is the No.1 vaccines company in the self-pay segment with almost 40% value market share in represented segments.
- The vaccines self-pay market is currently estimated to be Rs 24bn and is growing at around 10% (IMS MAT Mar 2020).
- Infanrix Hexa (6-in-1 combination DTP vaccine), launched in April 2018, is already a market leader in the Inactivated Polio Vaccine (IPV) containing combination vaccine segment.
- It is partnering with Sanofi for COVID vaccine and will be able to comment early next year once data is generated

Opportunities, risks, concern and threats

- The Covid-19 pandemic has exposed sectoral vulnerabilities, forcing the policy-makers to take corrective measures.

- Government's decision on promotion of domestic manufacturing of critical APIs and Key Starting Material (KSM) bodes well for the country.
- The government has begun a fresh exercise to revise the National List of Essential Medicines (NLEM) hoping that it would result in better quality of medical care, better management of medicines and cost-effective use of healthcare resources.
- New regulations like the Personal Data Protection Bill 2019 and the E-Pharmacy Rules are expected to be introduced in the current financial year.

Regulatory Affairs

- Applications were made for registration of a new fixed dose combination of Fluticasone Furoate, Umeclidinium and Vilanterol Powder for Inhalation (Trelegy) for chronic obstructive pulmonary disease (COPD)
- New strength of an already marketed oral suspension of Augmentin viz. Amoxicillin and Potassium Clavulanate Oral Suspension 642.9 mg/5ml (Augmentin ES)
- ready-to-use liquid formulation of Rotavirus vaccine (Rotarix)
- Indication expansion application was submitted and 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 for solution for Injection (Nucala) to include paediatric population of severe eosinophilic asthma is under consideration by the regulator.
- New assets approved in Q3FY21 are Trelegy, Augmentin ES600, Fluarix Tetra and new assets filed in Q3FY21E are Shingrix, Rotarix (liquid oral vaccine), Nucala (liquid pediatric indication)

Dividends

- Directors recommended a dividend of Rs 40 per equity share including special dividend of Rs 20 per equity share, and will absorb Rs 67.8mn.

Related Party Transactions

- All related party transactions that are entered during the year ended were on arm's length basis and were in ordinary course of business. There were no materially significant related party transactions made with the promoters, directors or key managerial personnel that may have a potential conflict of interest of your company at large.

Vemgal Update

- The Vemgal greenfield site was completed in March'19 and the registration batches of Zinetac 150 mg was initiated in April'19 and completed by the end of June'19.
- The site did not start the planned commercial production in Oct'19 as the NDMA issue in ranitidine was brought to notice in Sep'19.
- Following GSK Plc's decision to initiate a global voluntary recall of ranitidine products including Zinetac, the company took a financial impairment of Rs 6.37bn connected to the underutilisation of the Vemgal site.
- The company is exploring future option for the Vemgal facility, including a potential sale of the site.
- All options are available and there is delay in internal assessment and financials have changed due to COVID. Capacity of existing products at Vemgal plant will be shifted to Nashik plant which will now run at full capacity

Major brands and their performance

As per IQVIA (IMS) Aug'20 TTM data, GSK grew at 2.58% YoY compared to the domestic pharma industry growth of negative 2.7%. The company markets eight vaccines in the domestic market. GSK's Synflorix is the largest selling vaccine (by volume) in India.

Exhibit 1: Major brands & their performance

SSA IQVIA Rs mn	Therapy Category	Jun'20			Jul'20			Aug'20			Aug-20 MAT		
		Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)
GSK		2,709	2.58	4.9	2,850	2.5	-6.2	2,903	2.52	-6.4	32,778	2.58	-2.7
IPM		1,05,079		8.6	1,14,134		3.7	1,15,278		0.8	12,68,589		5.2
AUGMENTIN	Antiinfective	373	36.0	38.0	360	32.0	4.3	412	36.0	-7.5	4,410	35.0	10.9
CALPOL	Antipyretic	147	14.0	-13.3	221	19.0	-11.2	250	22.0	-12.2	2,562	20.0	9.1
BETNOVATE-C	Dermatological	234	22.0	82.5	162	14.0	20.8	142	12.0	-2.7	2,155	17.0	9.4
BETNOVATE-N	Dermatological	170	16.0	25.5	122	11.0	-38.1	200	17.0	36.6	1,956	15.0	-2.9
ELTROXIN	Thyroid Hormone	169	16.0	9.1	199	17.0	18.2	153	13.0	2.0	1,937	15.0	7.2
T-BACT	Antiinfective	164	16.0	9.8	202	18.0	17.8	190	16.0	18.2	1,854	15.0	19.6
CEFTUM	Antiinfective	116	11.0	8.3	130	11.0	-19.7	169	15.0	21.1	1,445	11.0	1.1
BETNESOL	Antiinflammatory	111	11.0	-13.4	108	9.0	3.0	103	9.0	-16.0	1,346	11.0	4.0
PHEXIN	Antiinfective	73	7.0	0.5	91	8.0	4.5	98	9.0	0.1	961	8.0	-4.0
NEOSPORIN	Antiinfective	93	9.0	31.7	97	8.0	19.2	102	9.0	20.7	936	7.0	31.5
SYNFLORIX	Pneumonia vaccine	70	7.0	-6.7	72	6.0	-8.7	76	7.0	13.6	820	6.0	-9.7
CCM	Vitamins	63	6.0	-10.0	68	6.0	16.8	62	5.0	5.2	674	5.0	5.0

Source: IQVIA (IMS) monthly data- Aug'20

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	28,957	31,285	32,244	34,018	38,593
Operating Expense	14,879	16,620	16,298	17,350	19,422
Employee cost	5,234	5,372	6,286	6,123	6,638
Others	3,761	3,281	3,088	3,117	3,106
EBITDA	5,082	6,026	6,611	7,428	9,427
Depreciation & Amortisation	380	486	827	672	705
EBIT	4,702	5,540	5,784	6,756	8,723
Interest expenses	2	6	63	0	0
Other income	545	1,009	762	1,427	1,756
PBT	5,246	6,544	6,483	8,183	10,479
Taxes	1,893	2,373	1,877	2,128	2,724
Effective tax rate (%)	36.1	36.3	29.0	26.0	26.0
PAT	3,353	4,171	4,606	6,056	7,754
Minority/Associates	0	0	0	0	0
Recurring PAT	3,353	4,171	4,606	6,056	7,754
Extraordinary items	180	287	(3,415)	0	0
Reported PAT	3,533	4,458	1,191	6,056	7,754
Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
Revenue	(0.4)	8.0	3.1	5.5	13.4
EBITDA	3.2	18.6	9.7	12.4	26.9
Adj. EPS	(8.0)	24.4	10.4	31.5	28.0
Margins (%)					
Gross	57.1	56.6	59.6	59.0	59.7
EBITDA	17.6	19.3	20.5	21.8	24.4
EBIT	16.2	17.7	17.9	19.9	22.6
Adjusted PAT	11.6	13.3	14.3	17.8	20.1
Returns (%)					
ROE	16.5	19.9	23.3	31.9	35.9
ROCE	14.5	17.4	20.4	27.5	31.0
ROIC	24.7	30.2	35.5	42.2	48.0
Turnover (days)					
Gross block turnover ratio (x)	8.0	6.5	4.0	4.3	4.8
Debtors	20	16	12	11	11
Inventory	136	133	135	121	109
Creditors	115	122	107	90	80
Net working capital	74	65	85	95	122
Solvency (x)					
Net debt-equity	(0.5)	(0.4)	(0.4)	(0.3)	(0.4)
Interest coverage ratio	2,687.6	1,087.2	104.9	0.0	0.0
Net debt/EBITDA	(2.0)	(1.4)	(1.2)	(0.9)	(1.1)
Per share (Rs)					
Adjusted EPS	19.7	24.5	27.1	35.6	45.6
BVPS	242.0	251.7	214.2	232.7	276.1
CEPS	43.9	54.8	63.9	79.1	99.5
DPS	59.8	39.9	79.7	43.8	39.9
Dividend payout (%)	143.8	76.0	569.0	61.5	43.7
Valuation (x)					
P/E	74.9	60.2	54.5	41.5	32.4
P/BV	6.1	5.9	6.9	6.3	5.3
EV/EBITDA	47.4	40.2	36.8	32.9	25.6
Dividend yield (%)	4.0	2.7	5.4	3.0	2.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity share capital	1,694	1,694	1,694	1,694	1,694
Reserves & surplus	18,879	19,704	16,512	18,095	21,783
Shareholders fund	20,573	21,398	18,206	19,782	23,470
Minority Interest	0	0	0	0	0
Total debt	2,903	3,172	2,907	3,190	3,616
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	23,476	24,570	21,113	22,972	27,086
Gross block	3,608	4,786	7,999	7,935	8,028
Less: acc. Depreciation	(380)	(486)	(827)	(672)	(705)
Net block	3,228	4,300	7,173	7,264	7,324
Capital WIP	9,229	10,026	1,201	1,201	1,201
Net fixed assets	12,457	14,326	8,767	8,858	8,919
Non Current Assets	1,077	923	622	613	687
Investments	18	17	15	15	15
Inventories	5,004	4,865	4,830	4,442	4,853
Sundry debtors	1,470	1,205	998	1,053	1,195
Cash & Cash Equivalents	12,964	11,713	10,832	9,572	13,633
Loans & advances	581	900	310	327	371
Other current assets	1,798	1,412	779	654	741
Trade payables	5,012	4,058	3,576	3,292	3,536
Other current liab.	9,964	9,561	3,898	4,287	4,696
Provisions	976	924	2,768	(419)	(307)
Net current assets	5,865	5,551	7,506	8,887	12,868
Total assets	23,476	24,570	21,113	22,972	27,086

Cashflow					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit Before Tax	5,426	6,831	3,068	8,183	10,479
Depreciation & Amortisation	380	486	827	672	705
Net Interest	(544)	(1,003)	(699)	(1,427)	(1,756)
Net Change – WC	5,772	(551)	(3,318)	(896)	568
Direct taxes	(3,531)	(2,066)	(2,328)	(2,523)	(2,724)
Net cash from operations	7,504	3,696	(2,450)	4,009	7,271
Capital expenditure	(4,255)	(2,355)	4,732	(763)	(765)
Acquisitions, net	0	0	0	0	0
Investments	36	1	1	0	0
Others	2,192	1,057	939	1,112	1,688
Net cash from investing	(2,027)	(1,297)	5,673	350	924
FCF	5,476	2,399	3,222	4,358	8,194
Issue of share capital	0	0	0	(7)	0
Increase/(decrease) in debt	(4)	(4)	(2)	0	0
Dividend paid	(4,558)	(4,072)	(8,053)	(5,341)	(4,134)
Interest paid	(2)	(6)	(63)	0	0
Others	3,056	432	4,013	(270)	0
Net cash from financing	(1,508)	(3,650)	(4,104)	(5,618)	(4,134)
Net change in Cash	3,968	(1,251)	(882)	(1,260)	4,061

Source: Company, Centrum Broking

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Glaxo SK Pharma



Source: Bloomberg

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