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Investors' Delight: GlaxoSmithKline Pharmaceuticals Limited (GSK Pharma) - "BUY" **August 20, 2021**

Background..

GlaxoSmithKline Pharmaceuticals Limited is a subsidiary of GlaxoSmithKline PLC, one of the world's leading research based pharmaceutical and healthcare companies. The Company has consolidated its leadership in the therapy areas where it provides healthcare solutions to patients, with a wide range of prescription medicines across therapy areas covering anti-infectives, respiratory, dermatology, nutrition, gastrointestinal and rare diseases. The Company's five products feature in the top 60 Indian Pharmaceutical Market (IPM) brands: Augmentin, Betnovate, Calpol, Ceftum, Synflorix (Source: IMS MAT March 2021). The Company's top 10 brands account for 74 of total sales.

According to External IQVIA Jun'21 Dataset -

a) Therapy Leadership: The Company is No.# 1 in Dermatology, Vaccines self-pay market

b) Rx Leadership: The Company is No.# 1 in its represented market across key customers: GP, Pediatrician, Dentist, Dermatologist, ENT

c) Brand Leadership: The Company is No. #1 in its represented market - Augmentin, Calpol, Ceftum, T-Bact, Neosporin, Betnovates, Infanrix Hexa, Havrix, Varilrix, Boostrix

Strong play in vaccines segment and new launches to drive growth..

The Company's key brands in vaccine space are Synflorix, Havrix, Infanrix Hexa, Rotarix. The Company also continued to lead the private market in the vaccines segment with its diversified portfolio to protect children, adolescents and adults. Despite the headwinds caused by COVID-19, the vaccines business bounced back to pre-COVID performance in the last quarter of 2020. The Company launched the tetravalent influenza Northern Hemisphere vaccine (Fluarix tetra NH 2020-21) in September 2020 and garnered 35% volume share within three months of launch, taking the second position in a market occupied by four brands. In FY21, vaccines accounted for 24 percent of topline. The launch of new vaccine brands Fluarix Tetra (Influenza) and Menveo (Meningitis) will augur well for the Company. The Company is heavily dependent on acute therapy brands which is expected to reduce with Oncology drugs to come in future.

Opportunities presented in COVID-19 crisis..

The COVID-19 crisis presented the group the opportunity to partner with governments and help support the national health goals of India. The Company's parent organisation, GSK plc, has entered into an in-principle global partnership with Novavax to produce up to 60 million doses of the Covid-19 vaccine. It is also working with Sanofi and Medicago to harness the adjuvant technology in developing Covid-19 vaccines while also collaborating with CureVac to develop mRNA vaccines which have the potential to address multiple Covid-19 variants that are emerging across the world. The Company's parent GSK plc and Vir Biotechnology on May 26, 2021 announced that USFDA granted Emergency Use Authorisation (EUA) of Sotrovimab (previously VIR-7831), for treatment of mild-to-moderate COVID-19 in high-risk adults and paediatric patients. Treatment with Sotrovimab resulted in an 85 percent reduction in the risk of hospitalisation or death in high-risk adult COVID-19 outpatients compared to placebo, based on interim results from the Phase 3 COMET-ICE trial. The group said that it plans to make monoclonal antibody Sotrovimab available in India quickly.

Good Q1F22 result amidst COVID-19 crisis instills confidence..

The Company witnessed YoY growth of 21.8 percent to Rs. 790 Crore in Q1FY22 demand for key brands especially Calpol during COVID-19 crisis.On QoQ, there was degrowth of 2.9 percent. GSK vaccine business in the quarter got affected due to second wave of COVID-19. EBITDA jumped by 33 percent on YoY basis to Rs. 151.7 Crore. However, on QoQ basis, it declined by 8.6 percent. PAT grew by 9.3 percent to Rs. 121.1 Crore on YoY basis.

CMP	Rs. 1,575.15 (Face value: Rs. 10)
Book value	Rs. 89.6 per share
Recommendation	BUY
Target price	Rs. 1,925
Upside	22.2 %
52 Week High/Low	Rs. 1,808 /Rs. 1,376
Beta	0.36
Market Cap	Rs. 26,620 Crore
EPS (TTM)/P/E(x)	Rs. 21.75 /72.4x
NSE/BSE code	GLAXO/500660
Included	BSE 200, BSE500
Bloomberg code	GLXO:IN
Promoter holding	75%
3 year CAGR	Revenue: 3.7%, EBITDA: 9.2 %
Price performance	1 month: -0.14 %, 3 months: 3.87 %, YTD: -3.01 %, I Year: 4.79%, 3 years: -4.52%,

Particulars (Rs. Crore)	FY21	FY20	FY19	FY18
Topline	3,199	3,244	3,128	2,871
EBITDA	659	108	581	506
EBITDA (%)	20.60	3.32	18.57	17.62
Profit after tax	358	93	445	351
PAT margin (%)	11.19	2.87	14.23	12.22
Equity share cap.	169	169	169	85
Networth	1,499	1,820	2,139	2,058
Total Debt	-	-	-	-
Debtor days	25	11	14	19
EPS (Rs.)	21.14#	5.50#	26.29	20.70
Adjusted EPS (Rs.)	31.32	26.69	26.33	20.70
P/E (x)	50.29	59.02	59.82	76.09
RoNW (%)	23.88	5.11	20.80	17.05

Source: Company, # Without considering exceptional items, Earnings per equity share for the period 2019-20 would be 26.69 and 2020-21 would be 31.32 respectively. Kindly note: FY21 includes exceptional items Impairment of Rs. 200 Crore of reversal of associated costs (recall on Ranitidine products in India and manufacturing site at Vemgal site), reversal of provision of Rs. 34.8 Crore on account of Zinetac recall and others. .

Investment recommendation and rationale

At CMP of Rs. 1,575.15, the stock is valued at a P/E of 50.29x at FY21 adjusted EPS of Rs. 31.32. We recommend "BUY" with a price target price of Rs. 1925 (55x at FY22E EPS of Rs. 35 due to the following factors: a) strong parentage - GSK plc; b) one of the best play in MNC Pharma space, c) Company having strong brands in Indian Pharmaceutical Market, d) one of the leading players in the vaccines space, d) vaccines segment accounted for ~24% of GSK sales in FY21 led by key brands like Synflorix, Havrix, Infanrix Hexa, Rotarix, e) launch of new vaccine brands Fluarix Tetra (Influenza) and Menveo (Meningitis) will augur well for the Company, f) new innovative products will drive growth for the Company, g) vaccines and respiratory segment expected to grow in higher double digit, h) past issues or key overhang like Zinetac brand (Ranitidine) recall - a story of the past and the sale Vemgal unit completed which was producing it; the Company is now poised for rerating, i) strong balance sheet with zero debt and enjoying positive operating cashflow, g) GSK Pharma's focused strategy on top 20 well recognised brands is expected to improve operating performance going forward.

Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

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Top 10 brands of GSK

Therapeutic area	Brand
Anti-infectives	Augmentin
Vaccines	Synflorix
Pain/Analgesics	Calpol
Derma	Betnovate N
Hormones	Eltroxin
Derma	Betnovate C
Anti-infectives	Ceftum
Derma	T Bact
Hormones	Betnesol
Vaccines	Infanrix Hexa

Source: Company

Key vaccine portfolio

Brand	Active ingredients
Boostrix	Tetanus Toxoid, Reduced Diphtheria Toxoid and Acellular Pertussis Vaccine, Adsorbed
Cervarix	Human Papillomavirus Vaccine (Types 16 and 18)
Havrix	Inactivated Hepatitis A virus Vaccine
Infanrix hexa	Diphtheria, tetanus, pertussis (acellular component), hepatitis B (rDNA), poliomyelitis (inactivated) and Haemophilus type b conjugate vaccine (adsorbed)
Priorix	Measles, mumps, rubella vaccine
Rotarix	Human Rotavirus Vaccine, Live Attenuated
Synflorix	Pneumococcal Polysaccharide and Non-Typeable Haemophilus influenzae (NTHi) Protein D Conjugate Vaccine, Adsorbed
Varilrix	Varicella Vaccine, live attenuated
Menveo	Meningococcal Group A, C, W135 and Y Conjugate Vaccine
Fluarix Tetra	Inactivated Influenza Vaccine (Split Virion)

Source: Company

#Fluarix Tetra - The World's first Quadrivalent Influenza Vaccine (QIV)
Fluarix Tetra was launched in India in September 2020.

Influenza is a viral infection of the respiratory system which leads up to 50 lakh cases of severe illness, and up to 7 lakh deaths every year globally. QIVs are found to offer broader protection compared to Trivalent Influenza Vaccines (TIV) in protecting against influenza.

a) Global pioneer for single dose 0.5 ml formulation
b) 100 quality tests undertaken for each batch
c) Only QIV backed by strong clinical data across 5 influenza seasons
d) Only QIV with India efficacy data
e) More than 24,000 subjects tested globally, including India
f) 25 crore doses sold worldwide and counting
g) Manufactured at the state-of-the-art facility in Germany

New product launches

Therapeutic area	Product	Year of launch
Respiratory	#Nucala (Biologic for Severe Eosinophilic Asthma)	2019
Vaccines		
MMR	Priorix Tetra	2017
6-valent vaccine	Infanrix Hexa	2018
Meningitis	Menveo	2019
Influenza	Fluarix Tetra	2020

Source: Company

#Nucala - Innovative biologic for Severe Eosinophilic Asthma

1) Launched in 2019, Nucala provides strong and lasting protection against exacerbations and oral steroid dependency in Severe Eosinophilic Asthma (SEA). It reduces exacerbations in SEA patients by 53 percent to 73 percent.

2) In FY 2020, GSK launched the “Nucala Home Administration Programme” for eligible patients to enable them continuity in treatment, considering the restrictions and challenges faced by patients owing to the pandemic

3) A Severe Asthma Clinic programme was launched to support HCPs in early diagnosis and phenotyping of severe asthma patients.

Good performance in Q1FY22 result

Commenting on the results, Sridhar Venkatesh, Managing Director, GlaxoSmithKline Pharmaceuticals Limited, said, "We continue to show remarkable resilience and deliver growth despite the headwinds caused by the COVID-19 pandemic. Our pharmaceutical manufacturing team worked round the clock to fulfill significantly increased demand for our key brands, especially for Ca/pol (paracetamol). This effort ensured that patients continued to have access to this important medication during the pandemic. While our vaccines business was impacted due to low vaccination rates, many of our key brands witnessed strong growth fuelled by disciplined execution, enhanced digital capabilities and agility in the market resulting in market share gains." Commenting on the transfer of brand rights, Mr. Venkatesh added, "As part of our parent GSK pie's new ambition to create two world class companies in Pharmaceuticals and Consumer Healthcare, we have decided to transfer our rights in relation to the lodex and Ostocalcium brands to GlaxoSmithKline Asia Private Limited. The transaction is expected to be completed before the end of the year, subject to shareholder approval and the customary closing conditions, including relevant regulatory approvals.

5 year performance summary

Particulars	March 2017	March 2018	March 2019	March 2020	March 2021	CAGR (FY17-21)
Vaccines	514	478	556	675	762	10%
Cx	213	188	226	243	274	6%
Pharma	1,633	1,776	1,939	2,138	2,096	6%
Total Pharma	2,192	2,154	2,234	2,265	2,118	-1%
Total	2,920	2,820	3,089	3,187	3,160	2%
EBITDA	420	510	631	658	695	13%
EBITDA margin (%)	14%	18%	20%	21%	22%	

Source: Company

Key developments

GSK Asset Sale

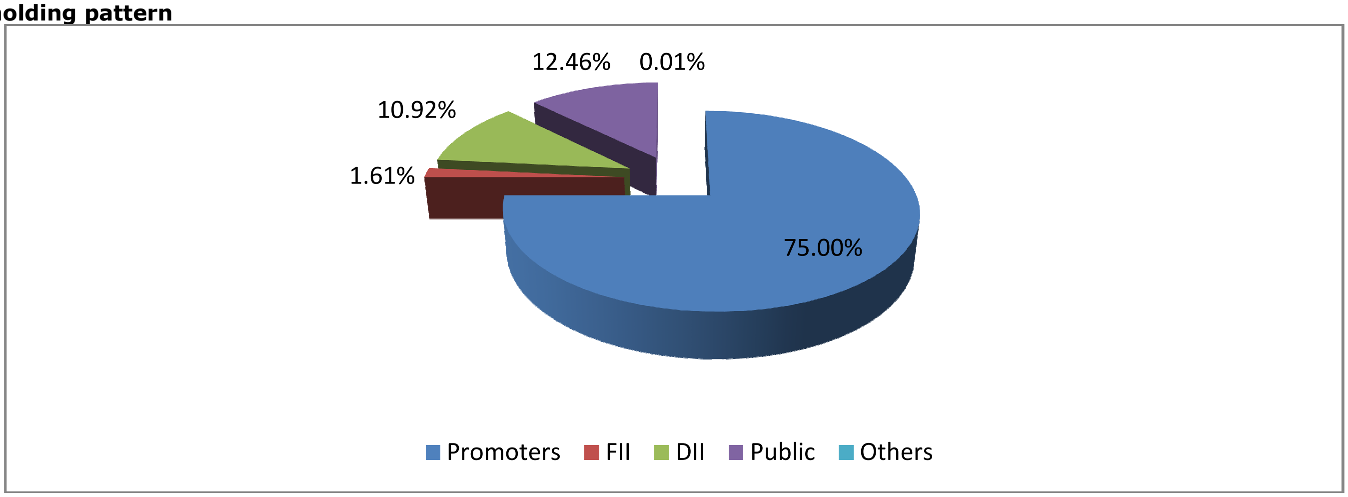
Iodex & Ostocalcium - Valuation: Rs. 1,649 Crore (~16x EBITDA, ~6x Sales)

a) Sale to GSK Asia Pvt.Ltd.(consumer entity)
b) Subject to shareholders' and regulatory approvals

Vemgal Asset

a) Sale to Hetero Pharma
b) Regulatory approvals underway

Shareholding pattern



One year price movement chart

Source:Tradingview

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Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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