

05 August 2024

India | Equity Research | Q1FY25 results review

GlaxoSmithKline Pharmaceuticals

Pharma

On road to recovery

GlaxoSmithKline Pharmaceuticals' (GSK) Q1FY25 result was ahead of our expectations driven by mixed improvement and curb in overhead cost. Pharma portfolio (79% of sales) grew 10% YoY led by volume uptick in Ceftum (+45%), Augmentin and Calpol. Vaccine portfolio (21% of sales) grew 8% YoY driven by Havrix and Boostrix. Nearly 450 MRs of GSK had opted for VRS in Dec'23, benefit of which is now visible in curbing its overhead cost (down 10% YoY). GSK is in final stages of charting a roadmap to launch NCE oncology brands like Zejula and Jemperli in FY25. Management aims to maintain growth momentum and EBITDA margin of 28-29% in FY25. We raise our FY25/26E EPS by 8%/11% to factor in better margin performance. Maintain **HOLD** with higher TP of INR 2,640 (INR 2,385 earlier) on 45x FY26E EPS.

Pharma growth steady; curbs in overheads drive margins

Q1FY25 revenue grew 7% YoY (-12.4% QoQ) to INR 8.1bn (I-Sec: INR 8.2bn). Pharma segment revenue grew at 10% YoY and vaccine segment revenue grew 8% YoY. Gross margin expanded 260bps YoY (+320bps QoQ) to 63.8% led by improvement in product mix. Better pricing, softer RM prices and cost efficiencies fuelled an expansion of 940bps YoY (60bps QoQ) in EBITDA margin to 28.3% (I-Sec: 24.7%). EBITDA grew strong 60.2% YoY to INR 2.3bn (I-Sec: INR 2bn). Adj. PAT grew 58.6% YoY to INR 1.8bn (I-Sec: INR 1.6bn).

Pharma growth driven by large brands and new launches

General medicine segment may have grown in double digits driven by better volumes for Augmentin, Calpol and T-Bact. Specialty segment, which includes brands like Nucala and Trelegy, grew 57% YoY in Q1FY25. Further improvement in volumes of key brands and launch of line extensions can aid ~9.4% growth over FY24-26E in general medicines.

Traction in vaccines is gearing up

Vaccine segment growth slowed down to 8% YoY in Q1FY25. Sales of key brands like Havrix and Boostrix grew in high double digit while its largest brand Infanrix Hexa grew in single digit. Vaccine sales in private paediatric segment grew at 15% YoY. Shingrix vaccine grew 17% QoQ and is now administered to 7,000 patients per month. We anticipate 15% growth in vaccine business over FY24-26E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	32,517	34,537	38,461	42,090
EBITDA	8,043	9,087	10,993	12,330
EBITDA Margin (%)	24.7	26.3	28.6	29.3
Net Profit	6,086	7,336	8,676	9,873
EPS (INR)	35.9	43.3	51.2	58.3
EPS % Chg YoY	6.6	20.5	18.3	13.8
P/E (x)	76.9	63.8	54.0	47.4
EV/EBITDA (x)	56.1	49.4	40.5	35.7
RoCE (%)	29.3	42.8	49.1	46.9
RoE (%)	27.6	41.7	45.3	43.9

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Market Data

Market Cap (INR)	468bn
Market Cap (USD)	5,573mn
Bloomberg Code	GLXO IN
Reuters Code	GLAX.BO
52-week Range (INR)	2,860 /1,385
Free Float (%)	24.0
ADTV-3M (mn) (USD)	6.0

Price Performance (%)	3m	6m	12m
Absolute	31.9	12.9	97.2
Relative to Sensex	25.3	3.1	77.4

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	7.1	8.5
EPS	7.5	10.7

Previous Reports

19-05-2024: [Q4FY24 results review](#)
16-02-2024: [Q3FY24 results review](#)

Array of new launches lined up

The recently launched patented brands like Nucala, Trelegy and Shingrix are doing well for GSK. Nucala and Trelegy are growing at 57% while Shingrix is being administered to 7,000 patients monthly. Zejula and Jemperli are the key oncology brands which will be commercialised in FY25. Besides, it has conducted a clinical trial for Gepo in India and the management is currently evaluating commercial feasibility of this product.

Valuation and risks

GSK's standalone India sales grew ~10% YoY in a seasonally weak quarter and management expects the momentum to pick up in Q2FY25, which is generally strong for the company. Improvement in sales mix and cost curbs helped the company post EBITDA margin of 28.3% in Q1FY25, which the management aims to sustain for full year FY25. Coupled with recovery in base, GSK's new launches are doing well. It is already selling 7,000 doses per month of Shingrix vaccine. New clinical trials data has shown potential prevention of dementia in population that has administered the Shingrix vaccine. The brand has a target population of 12mn people in India and the company has set an ambitious target of administering 0.35mn doses of this vaccine in the next couple of years. While the growth opportunity is quite high, we believe the uptick in patented brands will be gradual. Besides, pharma MNCs in India usually import their patented brands which limit their margins on such brands and the company will also have to spend on brand promotion. The acute heavy portfolio of general medicines has limited room for further price increases as nearly 42% is under price control. We expect GSK to witness an earnings CAGR of 16.0% over FY24-26E driven by revenue CAGR of 10.4%. Asset-light and cash rich balance sheet may help in improving RoE and RoCE, which we expect to touch 43.9% and 46.9%, respectively, in FY26.

We raise our EPS estimates by ~8% for FY25E and ~11% for FY26E on better margin outlook. The stock currently trades at premium valuations of 53.9x FY25E and 47.4x FY26E earnings and EV/EBITDA multiple of 40.5x FY25E and 35.7x FY26E. We maintain our **HOLD** rating on the stock with a revised target price of INR 2,640 (earlier INR 2,385) based on 45x FY26E earnings (unchanged). **Key upside risks:** Faster scale up in new patented brands and price hikes. **Key downside risks:** More products under price control, delay in launching new products.

Q1FY25 concall highlights

Pharma (79% of sales)

- General medicine grew 10% YoY ahead of market growth of ~9% YoY and acute segment growth of 6% YoY.
- Ceftum volumes have increased by 45% YoY (had taken 57% mandated price cut) and it now has volume market share of 8.5%.
- Specialty segment, which includes brands like Nucala and Trelegy, grew 57% YoY in Q1FY25.
- Pharma segment growth was boosted by 7% YoY increase in volume and 4.5% YoY increase via price hikes and 0.5% YoY by new launches.

Vaccine segment (21% of sales)

- Vaccine portfolio grew 8% YoY in Q1FY25.
- Havrix and Boostrix vaccine sales grew in high double digits while Infanrix Hexa growth was in single digit.

Pharma new launches

- Jimperli has received market authorisation and formulation of its go-to-market strategy is in final stages.
- Zejula and Jimperli will be commercialised in FY25.
- In India 30,000 patients are diagnosed with advanced endometrial cancer every year.
- The company has conducted clinical trial for Gepo in India. Management is currently evaluating the commercial feasibility of this product.

Shingrix vaccine

- Singrix has grown 17% QoQ.
- Two doses of Shingrix will provide immunity for 11-12 years.
- The vaccine is now administered to 7,000 patients every month.

Q1FY25 financials

- Consolidated growth was lower than standalone growth as it had exported some shipments to WHO (INR 500-600mn annually) last year.
- EBITDA margin improvement was fuelled by better pricing (4-5% hike on non-NLEM products), softer RM prices and cost efficiencies.
- PAT to cash conversion ratio in Q1FY25 was 100%.
- In Q1FY24, it booked a one-off cost of 200bps, adjusting for it, margin was 21-22%.
- It takes average price hike of 4-5% on non-NLEM portfolio, however, timing varies across quarters.

Guidance

- Management is confident of maintaining its revenue growth run-rate and EBITDA margin profile in quarters ahead.
- The company may not increase headcount in near term and employee cost as % of sales is likely to remain identical in FY25.
- Q1 is usually weak for the company and the momentum is likely to build up in quarters ahead.
- The company has evaluated M&A opportunities in the past but did not perceive them as the assets (of other companies) were not a direct complement to its current portfolio.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %	FY24	FY23	YoY %
Net Sales	8,147	7,617	7.0	9,298	(12.4)	34,537	32,517	6.2
Gross Profit	5,194	4,655	11.6	5,627	(7.7)	21,192	19,669	7.7
Gross margins(%)	63.8	61.1	260bps	60.5	320bps	61.4	60.5	90bps
Personnel / Staff cost	1,513	1,650	(8.3)	1,728	(12.5)	6,244	5,950	4.9
SG&A expenses	1,376	1,567	(12.2)	1,326	3.8	5,861	5,676	3.3
EBITDA	2,305	1,439	60.2	2,573	(10.4)	9,087	8,043	13.0
EBITDA margins (%)	28.3	18.9	940bps	27.7	60bps	26.3	24.7	160bps
Other income (net)	353	362	(2.5)	291	21.4	1,208	989	22.2
PBIDT	2,658	1,800	47.6	2,863	(7.2)	10,295	9,031	14.0
Depreciation	164	164	0.3	181	(9.3)	697	658	5.9
Extra ordinary income/ (exp.)	-	173	(100.0)	24	(100.0)	(1,436)	(10)	14,705.2
PBT	2,494	1,810	37.8	2,706	(7.8)	8,162	8,364	(2.4)
Tax	671	487	37.6	761	(11.9)	2,262	2,288	(1.1)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	1,823	1,323	37.9	1,945	(6.2)	5,900	6,076	(2.9)
Adjusted PAT	1,823	1,150	58.6	1,921	(5.1)	7,336	6,086	20.5

Source: Company data, I-Sec research

Exhibit 2: Key growth drivers of domestic business in Q1FY25

Brands	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT MAR'24	MAT MAR'23	YoY (%)
Augmentin	1,708	1,528	11.8	2,203	-22.5	8,045	7,961	1.1
Calpol	1,011	1,070	-5.5	1,006	0.5	4,662	4,750	-1.9
T-Bact	907	940	-3.5	854	6.2	3,647	3,725	-2.1
Betnovate-N	690	712	-3.2	731	-5.7	2,749	2,636	4.3
Eltroxin	692	680	1.7	617	12.1	2,572	2,509	2.5
Betnovate-C	635	563	12.7	662	-4.2	2,462	2,497	-1.4
Ceftum	592	668	-11.4	570	3.9	2,321	3,242	-28.4
Infanrix Hexa	483	514	-6.0	523	-7.6	2,017	1,673	20.5
Neosporin	509	444	14.6	411	23.8	1,865	1,567	19.0
Betnesol	364	375	-3.2	422	-13.8	1,681	1,676	0.3

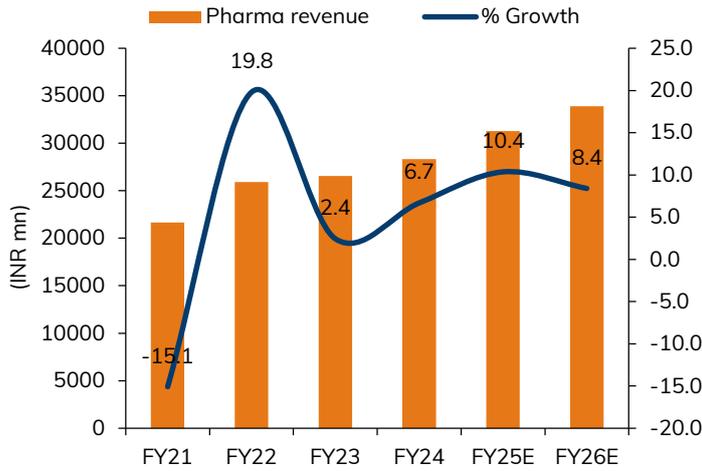
Source: IQVIA

Exhibit 3: Growth profile of key therapies in India

Therapies (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT MAR'24	MAT MAR'23	YoY (%)
Derma	3,723	3,613	3.1	3,608	3.2	14,689	14,245	3.1
Anti-Infectives	2,734	2,632	3.9	3,203	-14.6	12,196	13,140	-7.2
Vaccines	1,682	1,495	12.5	1,635	2.8	6,370	5,353	19.0
Pain / Analgesics	1,344	1,414	-4.9	1,348	-0.3	6,097	6,299	-3.2
Hormones	1,055	1,054	0.1	1,038	1.6	4,249	4,181	1.6
Vitamins/Minerals/Nutrients	856	769	11.2	740	15.7	3,101	2,953	5.0
Respiratory	441	467	-5.6	678	-35.0	2,501	2,669	-6.3
Anti-Parasitic	189	189	0.0	179	5.2	785	748	5.0
Stomatologicals	128	96	33.8	124	3.1	417	380	9.7
Antiviral	98	102	-3.7	93	6.0	364	318	14.6

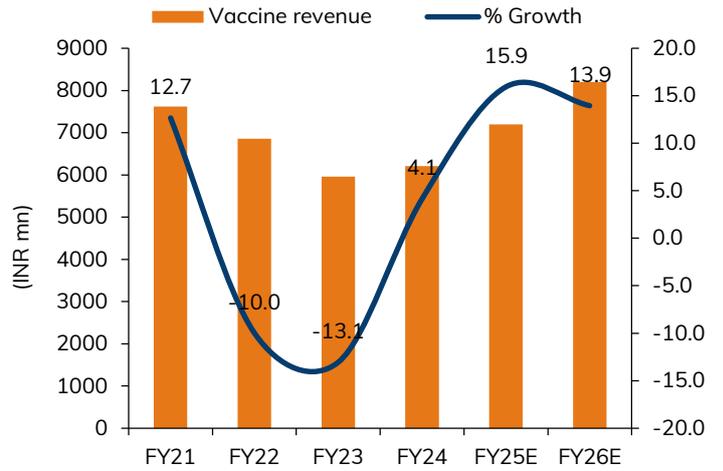
Source: IQVIA

Exhibit 4: Pharma division to register 9.4% CAGR over FY24-26E



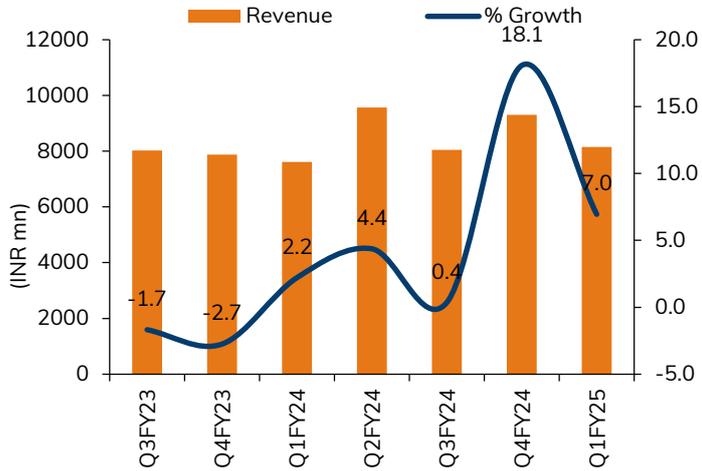
Source: Company data, I-Sec research

Exhibit 5: Vaccine sales to grow at 14.9% over FY24-26E on a lower base



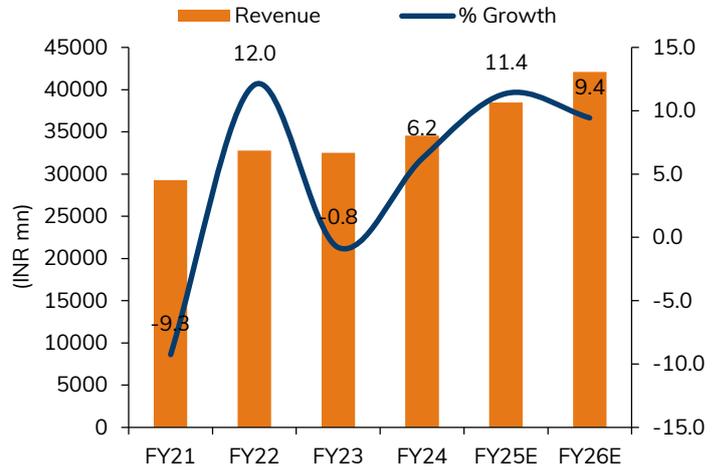
Source: Company data, I-Sec research

Exhibit 6: Traction in pharma is driving growth



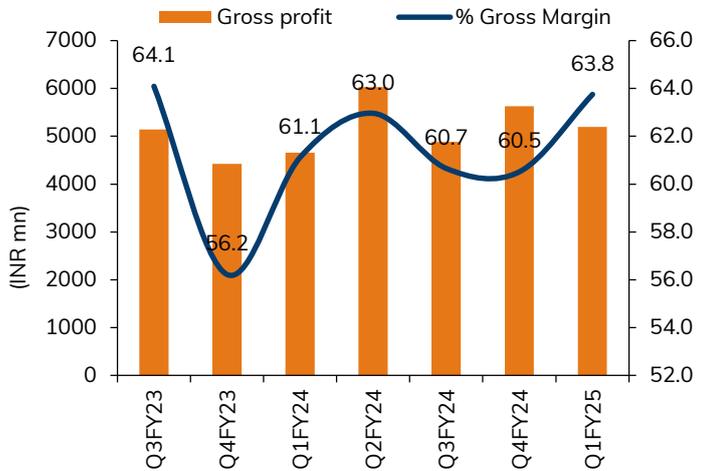
Source: Company data, I-Sec research

Exhibit 7: Revenue CAGR likely at 10.4% over FY24-26E



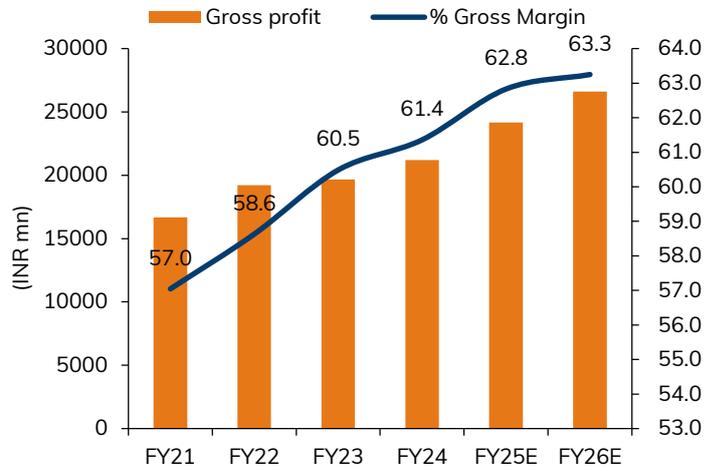
Source: Company data, I-Sec research

Exhibit 8: Gross margin improved on better product mix



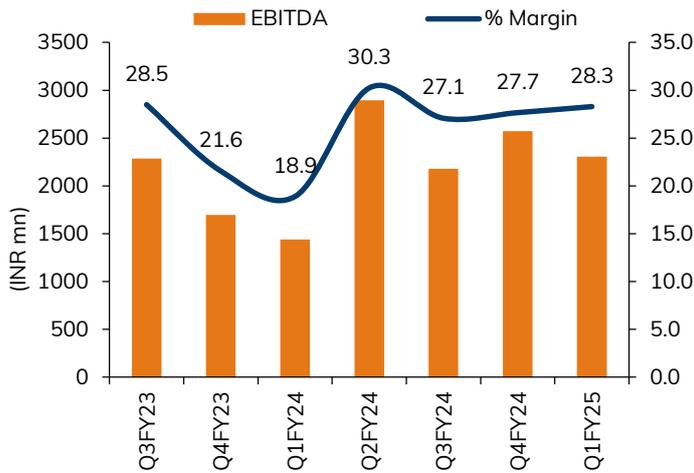
Source: Company data, I-Sec research

Exhibit 9: Gross margin to expand 190bps over FY24-26E



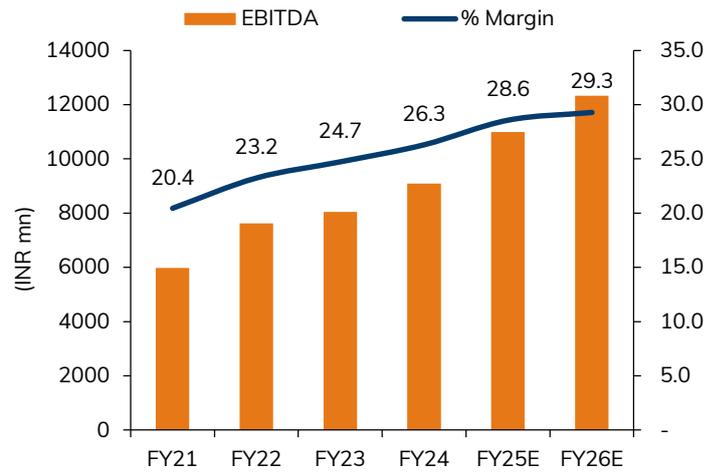
Source: Company data, I-Sec research

Exhibit 10: Cost curbs drove 940bps jump in EBITDA margin



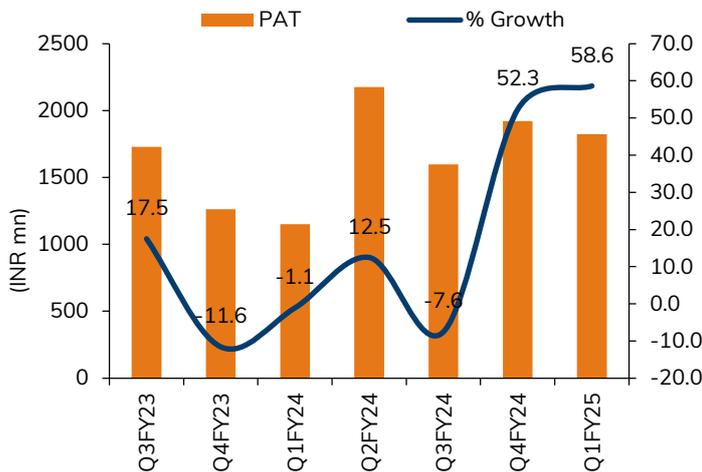
Source: Company data, I-Sec research

Exhibit 11: Expect EBITDA margin to scale up to 29% by FY26E



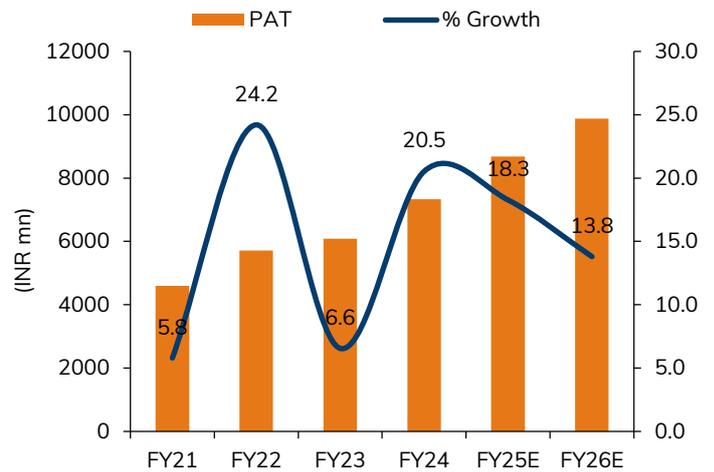
Source: Company data, I-Sec research

Exhibit 12: Adj. PAT grew 58.6% YoY



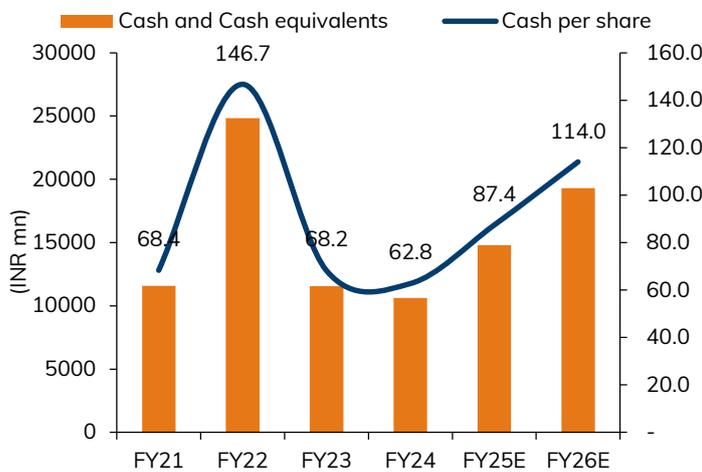
Source: Company data, I-Sec research

Exhibit 13: Net profit likely to grow 16% over FY24-26E



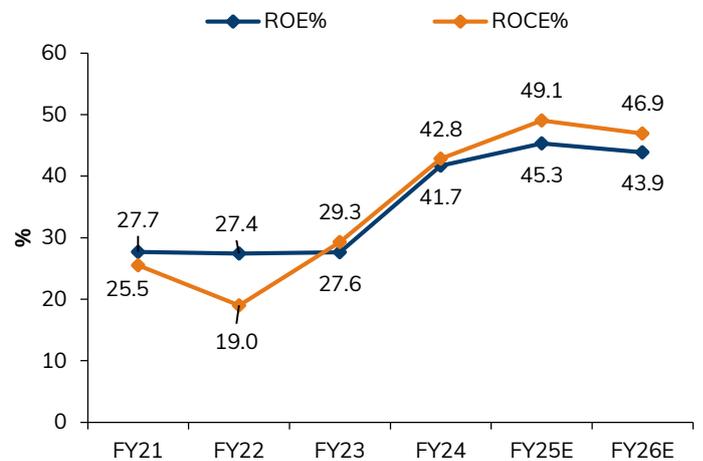
Source: Company data, I-Sec research

Exhibit 14: Healthy cash generation over the years



Source: Company data, I-Sec research

Exhibit 15: Return ratios to continue to soar ahead



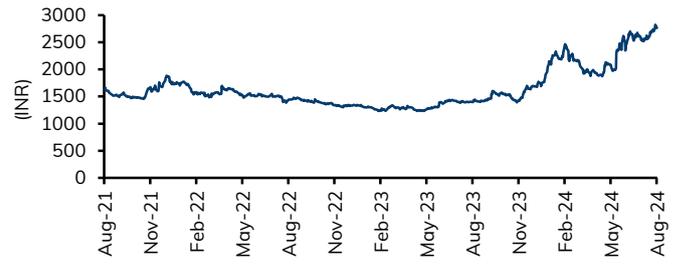
Source: Company data, I-Sec research

Exhibit 16: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	75.0	75.0	75.0
Institutional investors	12.5	11.4	11.5
MFs and others	4.5	4.5	4.7
FIs/Banks, Insurance	4.2	3.3	2.7
FIIIs	3.8	3.6	4.1
Others	12.5	13.6	13.5

Source: Bloomberg, I-Sec research

Exhibit 17: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	32,517	34,537	38,461	42,090
Operating Expenses	11,626	12,105	13,174	14,293
EBITDA	8,043	9,087	10,993	12,330
EBITDA Margin (%)	24.7	26.3	28.6	29.3
Depreciation & Amortization	658	697	754	819
EBIT	7,385	8,390	10,239	11,512
Interest expenditure	-	-	-	-
Other Non-operating Income	989	1,208	1,360	1,688
Recurring PBT	8,374	9,598	11,599	13,200
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,288	2,262	2,923	3,326
PAT	6,076	5,900	8,676	9,873
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	6,076	5,900	8,676	9,873
Net Income (Adjusted)	6,086	7,336	8,676	9,873

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	19,760	19,852	26,968	32,801
of which cash & cash eqv.	11,559	10,632	14,806	19,312
Total Current Liabilities & Provisions	13,264	15,249	19,449	21,149
Net Current Assets	6,496	4,603	7,519	11,652
Investments	5,194	8,141	8,141	8,141
Net Fixed Assets	2,948	2,968	3,613	3,593
ROU Assets	-	-	-	-
Capital Work-in-Progress	203	139	139	139
Total Intangible Assets	341	236	399	415
Other assets	2,664	2,665	2,665	2,665
Deferred Tax Assets	1,336	1,463	1,463	1,463
Total Assets	20,002	20,317	23,991	28,262
Liabilities				
Borrowings	0	0	0	0
Deferred Tax Liability	-	-	-	-
provisions	2,583	2,539	3,466	3,793
other Liabilities	7	1	1	1
Equity Share Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	15,719	16,082	18,829	22,773
Total Net Worth	17,413	17,776	20,523	24,467
Minority Interest	-	-	-	-
Total Liabilities	20,002	20,317	23,991	28,262

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,596	10,722	13,228	12,887
Working Capital Changes	2,447	(1,636)	(2,235)	(557)
Capital Commitments	550	548	1,562	814
Free Cashflow	5,046	10,175	11,666	12,073
Other investing cashflow	1,526	2,948	-	-
Cashflow from Investing Activities	(2,076)	(3,495)	(1,562)	(814)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	5,421	5,421	5,929	5,929
Others	(20,925)	(12,123)	(11,859)	(11,859)
Cash flow from Financing Activities	(15,504)	(6,702)	(5,929)	(5,929)
Chg. in Cash & Bank balance	(11,984)	525	5,736	6,144
Closing cash & balance	12,861	12,085	16,369	20,950

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	35.9	43.3	51.2	58.3
Adjusted EPS (Diluted)	35.9	43.3	51.2	58.3
Cash EPS	39.8	47.4	55.7	63.1
Dividend per share (DPS)	32.0	32.0	35.0	35.0
Book Value per share (BV)	102.8	104.9	104.9	121.1
Dividend Payout (%)	89.1	73.9	68.3	60.1
Growth (%)				
Net Sales	(0.8)	6.2	11.4	9.4
EBITDA	5.6	13.0	21.0	12.2
EPS (INR)	6.6	20.5	18.3	13.8
Valuation Ratios (x)				
P/E	76.9	63.8	54.0	47.4
P/CEPS	69.4	58.3	49.7	43.8
P/BV	26.9	26.3	26.3	22.8
EV / EBITDA	56.1	49.4	40.5	35.7
P / Sales	14.4	13.6	12.2	11.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	60.5	61.4	62.8	63.3
EBITDA Margins (%)	24.7	26.3	28.6	29.3
Effective Tax Rate (%)	27.4	27.7	25.2	25.2
Net Profit Margins (%)	18.7	21.2	22.6	23.5
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(1.0)	(1.1)	(1.1)	(1.1)
Net Debt / EBITDA (x)	(2.1)	(2.1)	(2.1)	(2.2)
Profitability Ratios				
RoCE (%)	29.3	42.8	49.1	46.9
RoE (%)	27.6	41.7	45.3	43.9
RoC (%)	99.1	88.7	88.7	99.3
Fixed Asset Turnover (x)	11.0	11.7	11.7	11.7
Inventory Turnover Days	51	57	49	48
Receivables Days	22	24	28	28
Payables Days	48	68	61	63

Source Company data, I-Sec research

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