

GSK Consumer

Performance Highlights

Quarterly Result

(₹ cr)	3QCY12	3QCY11	% yoy	2QCY12	% qoq
Revenue	828	720	14.9	730	13.4
EBITDA	140	118	19.1	111	26.9
OPM (%)	17.0	16.4	59	15.2	181
PAT	129	103	24.8	107	20.6

Source: Company, Angel Research

For 3QCY2012 Glaxosmithkline Consumer Healthcare Ltd (GSK Consumer) posted an 13.4% yoy growth in its net sales, aided by a ~6% volume growth and 10% price growth in the domestic business. During the quarter, the overall sales growth was affected by 8% yoy decline in the sales to canteen stores division (CSD).

Key highlights of the quarter: The company's major brands in the malted food drink (MFD) division - *Horlicks* and *Boost* posted a volume growth of 4.5% and 8.5% respectively. In value terms *Horlicks* and *Boost* grew by 16% yoy and 22% yoy respectively, while biscuits too posted a strong 29% yoy growth. Despite the increase in prices of raw materials such as wheat flour (up 13% yoy), malted barley (up 6% yoy), SMP (up 7% yoy) and sugar (up 20% yoy) gross margin rose by 39bp yoy, due to the higher prices charged by the company during the quarter. The OPM rose by 59bp yoy to 17% aided by higher gross margin and lower other expenses. The bottom-line rose by 24.8% yoy due to superior operating performance and higher business auxiliary income of ₹28cr (up 27% yoy) and higher interest income of ₹26cr (up 36.8% yoy).

Outlook and valuation: We expect the company's MFD division to continue to post double digit growth, aided by the company's effort to strengthen its distribution network. At the current market price, the stock is trading at 23.2x CY2013E EPS of ₹131.7. **We continue to remain Neutral on the stock.**

Key Financials

Y/E March (₹ cr)	CY2010	CY2011	CY2012E	CY2013E
Net Sales	2,306	2,686	3,124	3,663
% chg	20.0	16.5	16.3	17.3
Net Profit	300	362	469	554
% chg	30.1	20.8	29.5	18.2
EBITDA (%)	16.3	15.8	17.1	17.6
EPS (₹)	71.2	86.0	111.4	131.7
P/E (x)	42.9	35.5	27.4	23.2
P/BV (x)	13.4	11.2	8.9	7.1
RoE (%)	32.2	33.8	36.3	34.0
RoCE (%)	36.9	37.2	39.3	36.9
EV/Sales (x)	5.2	4.4	3.8	3.1
EV/EBITDA (x)	31.5	27.7	21.9	17.8

Source: Company, Angel Research

NEUTRAL

CMP ₹3,056
 Target Price -

Investment Period -

Stock Info	
Sector	FMCG
Market Cap (₹ cr)	12,852
Net Debt (₹ cr)	(1,080)
Beta	0.2
52 Week High / Low	3200/2179
Avg. Daily Volume	6,252
Face Value (₹)	10
BSE Sensex	18,763
Nifty	5,704
Reuters Code	GLSM.BO
Bloomberg Code	SKB@IN

Shareholding Pattern (%)	
Promoters	43.2
MF / Banks / Indian FIs	17.4
FII / NRIs / OCBs	14.7
Indian Public / Others	24.7

Abs. (%)	3m	1yr	3yr
Sensex	9.1	6.8	16.8
SKB	12.0	22.3	129.8

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Exhibit 1: Quarterly Performance

Y/E Dec (₹ cr)	3QCY12	3QCY11	% yoy	2QCY12	% qoq	9MCY2012	9MCY2011	% chg
Net Sales	828	720	14.9	730	13.4	2,370	2,083	13.8
Consumption of RM	310	273	13.8	270	14.9	911	809	12.7
(% of Sales)	37.5	37.9		37.0		38.4	38.8	
Staff Costs	78	66	17.0	79	(2.0)	223	197	13.2
(% of Sales)	9.4	9.2		10.8		9.4	9.4	
Advertising	139	120	15.9	116	19.4	364	323	12.6
(% of Sales)	16.7	16.6		15.9		15.3	15.5	
Other Expenses	161	143	12.0	154	4.5	458	392	17.0
(% of Sales)	19.4	19.9		21.0		19.3	18.8	
Total Expenditure	687	602	14.1	619	11.0	1,956	1,720	13.7
Operating Profit	140	118	19.1	111	26.9	414	363	14.1
OPM	17.0	16.4		15.2		17.5	17.4	
Interest	0.3	1.0	(73.8)	0.8	(67.5)	2.3	2.6	(12.0)
Depreciation & Ammortisation	8	12	(33.9)	9	(9.9)	28	34	(16.9)
Other Income	58	48	21.3	57	1.0	161	116	39.0
PBT (excl. Extraordinary Items)	190	153	24.4	159	20.0	545	443	23.1
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	190	153	24.4	159	20.0	545	443	23.1
(% of Sales)	23.0	21.2		21.7		23.0	21.3	
Provision for Taxation	62	50	23.6	52	18.9	178	147	21.3
(% of PBT)	32.4	32.6		32.8		32.7	33.2	
Reported PAT	129	103	24.8	107	20.6	367	296	24.0
PATM	15.5	14.3		14.6		15.5	14.2	
Equity shares (cr)	4.2	4.2		4.2		4.2	4.2	
EPS (₹)	30.6	24.5	24.8	25.3	20.7	87	70	24.0

Source: Company, Angel Research

Exhibit 2: Actual vs Angel estimates

(₹ cr)	Actual	Angel Est	% chg
Revenue	828	797	3.9
EBITDA	140	132	6.2
OPM (%)	17.0	16.6	38
PAT	129	116	10.7

Source: Company, Angel Research

Healthy top-line growth despite de-growth in the CSD segment: GSK Consumer posted a healthy top-line growth of 14.9% yoy to ₹828cr (₹720cr in 3QCY2011), led by ~6% volume growth and ~10% value growth in the domestic business. The healthy performance was despite an 8% de-growth in the sales to the CSD segment due to budget rationalization. The management indicated that the overall growth would have been higher by 150bp if CSD had grown at its normal growth rate.

During 3QCY2012, the major brands in the MFD category - *Horlicks* and *Boost* posted a volume growth of 4.5% and 8.5% respectively. In value terms *Horlicks* and *Boost* grew by 16% yoy and 22% yoy respectively, while biscuits too posted a strong 29% yoy growth.

Exhibit 3: Top-line growth at 14.9% yoy



Source: Company, Angel Research

Exhibit 4: Operational performance

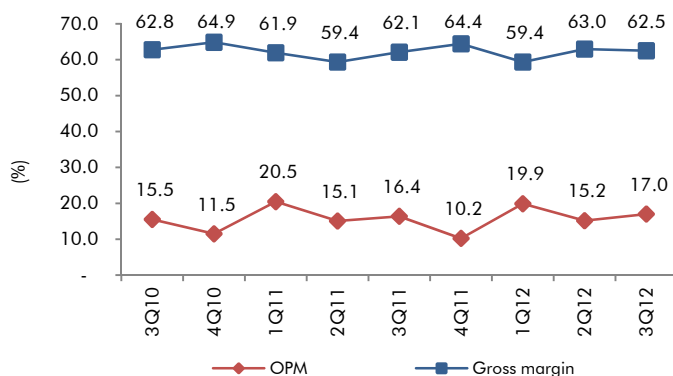


Source: Company, Angel Research

OPM expands by 59bp yoy aided by higher realization: Despite the increase in prices of raw materials such as wheat flour (up 13% yoy), malted barley (up 6% yoy), SMP (up 7% yoy) and sugar (up 20% yoy), gross margin rose by 39bp yoy, due to the higher prices charged by the company during the quarter. OPM rose by 59bp yoy to 17% aided by higher gross margin and lower other expenses.

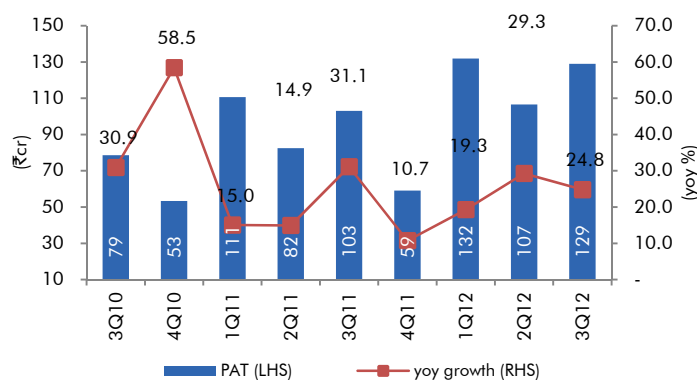
Earnings growth aided by higher other income: The bottom-line for the quarter rose by 24.8% yoy due to superior operating performance and higher business auxiliary income of ₹28cr (up 27% yoy) and higher interest income of ₹26cr (up 36.8% yoy).

Exhibit 5: Gross margin and OPM



Source: Company, Angel Research

Exhibit 6: PAT grows by 24.8% yoy



Source: Company, Angel Research

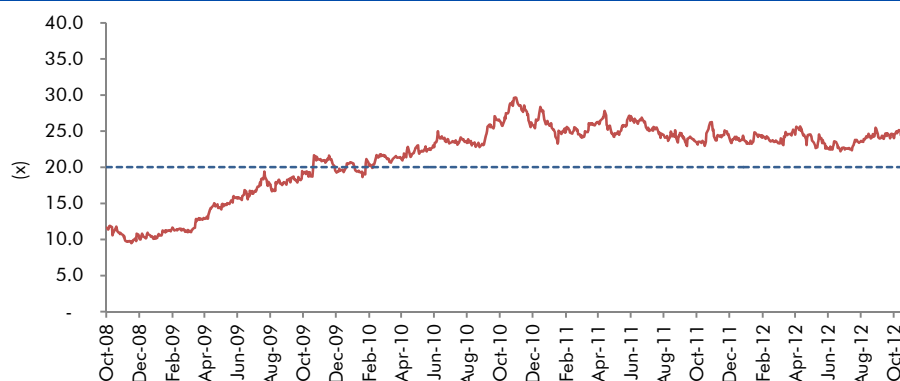
Investment rationale

- Anchor brands to perform well coupled with new launches:** We expect GSK Consumer to perform well with its anchor brands - *Horlicks* and *Boost*. Also, with the launch of innovative and premium products, the company tends to maintain its margins and market share. In the MFD category, we expect *Horlicks* and *Boost* to maintain their double digit growth. Though the company has pricing power, innovative launches such as small pack sizes will help the company garner a market share in rural markets and penetrate new areas.
- Margins to improve going ahead:** GSK Consumer's margins declined in CY2011 due to an increase in input costs. However, we expect margins to expand by 180bps over CY2011-13E.

Outlook and valuation

We expect the company's MFD division to continue to post a double digit growth, aided by the company's effort to strengthen its distribution network. At the current market price, the stock is trading at 23.2x CY2013E EPS of ₹131.7. We continue to remain Neutral on the stock.

Exhibit 7: One-year forward P/E chart



Source: Company, Angel Research, Note: Blue line indicates 5-year average

Exhibit 8: Peer valuation

Company	Reco.	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
Asian Paints	Neutral	37,924	3,954	-	-	32.0	27.0	3.3	2.7	37.4	35.3	17.0	19.2
Britannia	Buy	5,670	475	584	23	22.9	18.7	0.9	0.7	43.1	41.9	17.4	27.4
Colgate	Neutral	17,697	1,301	-	-	35.8	30.6	5.4	4.8	101.9	98.5	15.2	13.8
Dabur India	Neutral	22,129	127	-	-	28.4	24.3	3.6	3.1	43.2	41.4	15.9	18.9
Godrej Con	Neutral	23,423	688	-	-	31.5	26.0	4.0	3.3	25.5	25.4	22.1	28.3
GSK Con*	Neutral	12,852	3,056	-	-	27.4	23.2	3.7	3.1	36.3	34.0	16.8	24.9
HUL	Neutral	115,327	534	-	-	36.2	31.3	4.3	3.8	70.9	59.8	15.5	19.7
ITC	Neutral	225,404	288	-	-	30.9	26.4	7.3	6.2	35.8	35.3	17.2	17.7
Marico	Neutral	12,959	211	-	-	31.1	24.9	2.7	2.2	31.4	29.7	18.6	27.6
Nestle*	Neutral	46,560	4,829	-	-	42.1	34.5	5.3	4.5	71.2	60.3	16.5	15.0
TGBL	Neutral	9,802	159	-	-	24.0	20.3	1.3	1.1	8.2	9.5	9.7	16.6

Source: Company, Angel Research; Note: #Denotes CAGR for FY2012-14E; *December year ending

Company Background

GSK Consumer is one of the largest players in the health foods industry in India and a clear market leader in the hot malted beverages category. The company's flagship product - *Horlicks* is a highly popular brand with a rich heritage, ranking no. 1 in the malted beverages category with a ~50% market share. The company also sells other malted beverages brands, such as *Boost*, *Maltova* and *Viva*. The company is also present in the biscuits segment through its *Horlicks* biscuits range. In addition, the company promotes and distributes a number of OTC products from its global parent, which include prominent household names like *Eno*, *Crocin* and *Iodex*. GSK Consumer has a strong marketing and distribution network in India, comprising of over 1,800 wholesalers and 400,000 retail outlets.

Profit & Loss Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Gross sales	1,700	2,025	2,431	2,832	3,328	3,903
Less: Excise duty	159	104	125	147	204	240
Net Sales	1,542	1,922	2,306	2,686	3,124	3,663
Total operating income	1,542	1,922	2,306	2,686	3,124	3,663
% chg	20.6	24.6	20.0	16.5	16.3	36.4
Total Expenditure	1,304	1,611	1,818	2,261	2,589	3,019
Cost of Materials	586	714	865	1,023	1,199	1,400
Advertising Exp	194	302	371	437	447	513
Personnel	172	201	230	258	303	355
Others	352	394	352	542	640	751
EBITDA	238	311	489	425	535	644
% chg	5.7	30.8	57.3	(13.0)	72.1	51.6
(% of Net Sales)	15.4	16.2	21.2	15.8	17.1	17.6
Depreciation & Amortisation	42	42	40	46	42	57
EBIT	196	269	449	379	492	588
% chg	7.9	37.3	67.1	(15.6)	29.9	55.0
(% of Net Sales)	12.7	14.0	19.5	14.1	15.8	16.0
Interest & other Charges	5	4	3	3	4	4
Other Income	95	89	-	165	216	249
(% of PBT)	33.4	25.2	0.0	30.5	30.7	29.9
Share in profit of Associates	-	-	-	-	-	2.00
Recurring PBT	286	354	446	540	705	833
% chg	16.6	23.9	26.1	21.1	30.4	54.2
Prior Period & Extra. Exp./ (Inc.)	1.63	(2.61)	(0.29)	6.65	-	-
PBT (reported)	284	356	447	534	705	833
Tax	96	124	152	178	236	279
(% of PBT)	33.5	35.0	34.1	33.0	33.5	33.5
PAT (reported)	188	233	294	355	469	554
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	188	233	294	355	469	554
ADJ. PAT	190	230	294	362	469	554
% chg	16.8	21.2	27.7	23.1	29.5	53.1
(% of Net Sales)	12.3	12.0	12.7	13.5	15.0	15.1
Basic EPS (₹)	45.2	54.7	71.2	86.0	111.4	131.7
Fully Diluted EPS (₹)	45.2	54.7	71.2	86.0	111.4	131.7
% chg	16.8	21.2	30.2	20.8	29.5	53.1

Balance Sheet

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
SOURCES OF FUNDS						
Equity Share Capital	42	42	42	42	42	42
Reserves & Surplus	719	863	918	1,102	1,399	1,780
Shareholders' Funds	761	905	960	1,144	1,441	1,822
Total Loans	-	-	-	-	-	-
Deferred Tax Liability	7	(11)	(27)	(40)	(40)	(40)
Total Liabilities	767	894	933	1,104	1,401	1,782
APPLICATION OF FUNDS						
Gross Block	473	492	533	570	726	977
Less: Acc. Depreciation	329	364	397	436	478	535
Net Block	144	128	136	134	248	442
Capital Work-in-Progress	16	38	108	171	218	127
Goodwill	66	66	66	66	66	66
Investments	-	-	-	-	-	-
Current Assets	853	1,173	1,423	1,670	1,759	2,120
Cash	471	820	976	1,080	1,136	1,402
Loans & Advances	62	56	84	121	119	139
Other	320	297	363	469	505	579
Current liabilities	312	511	800	938	891	973
Net Current Assets	541	662	623	733	868	1,147
Misc Exp	-	-	-	-	-	-
Total Assets	767	894	933	1,104	1,401	1,782

Cash Flow Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Profit before tax	286	354	452	540	705	833
Depreciation	42	42	40	46	42	57
Change in Working Capital	(58)	211	169	(39)	(42)	(9)
Interest/ Dividend(Net)	(31)	(20)	(41)	(67)	(62)	(70)
Direct taxes paid	96	124	152	178	236	279
Others	(10)	(5)	4	6	(37)	(4)
Cash Flow from Operations	133	458	472	308	369	528
Inc./ (Dec.) in Fixed Assets	29	41	111	100	203	160
Inc./ (Dec.) in Investments	298	-	-	-	-	-
Cash Flow from Investing	269	(41)	(111)	(100)	(203)	(160)
Issue of Equity	-	-	(0.00)	-	-	-
Inc./ (Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	31	89	245	171	172	172
Interest / Dividend (Net)	(7)	(20)	(41)	(67)	(62)	(70)
Cash Flow from Financing	(24)	(68)	(204)	(104)	(110)	(103)
Inc./ (Dec.) in Cash	377	349	156	104	56	266
Opening Cash balances	94	471	820	976	1,080	1,136
Closing Cash balances	471	820	976	1,080	1,136	1,402

Key Ratios

Y/E Dec	CY08	CY09	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)						
P/E (on FDEPS)	67.7	55.8	42.9	35.5	27.4	23.2
P/CEPS	55.4	46.8	37.8	32.0	25.2	21.0
P/BV	16.9	14.2	13.4	11.2	8.9	7.1
Dividend yield (%)	0.5	0.6	1.6	1.1	1.1	1.1
EV/Sales	8.0	6.3	5.2	4.4	3.8	3.1
EV/EBITDA	52.1	38.7	31.5	27.7	21.9	17.8
EV / Total Assets	16.1	13.5	12.7	10.7	8.4	6.4
Per Share Data (₹)						
EPS (Basic)	45.2	54.7	71.2	86.0	111.4	131.7
EPS (fully diluted)	45.2	54.7	71.2	86.0	111.4	131.7
Cash EPS	55.1	65.3	80.7	95.4	121.5	145.2
DPS	15.0	18.0	50.0	35.0	35.0	35.0
Book Value	180.9	215.2	228.3	272.1	342.5	433.3
Returns (%)						
RoCE	27.3	32.3	36.9	37.2	39.3	36.9
Angel RoIC (Pre-tax)	45.7	94.2	1,418.7	-	226.1	121.0
RoE	27.0	27.9	32.2	33.8	36.3	34.0
Turnover ratios (x)						
Asset Turnover	3.3	4.3	3.9	4.7	4.3	3.8
Inventory / Sales (days)	66	51	49	50	49	49
Receivables (days)	10	6	8	13	10	9
Payables (days)	59	71	74	91	73	70
Net working capital (days)	17	(30)	(56)	(47)	(31)	(25)

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Disclosure of Interest Statement

GSK Consumer

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)