



India Equities
Food and Dairy Products

Quarterly Update

GlaxoSmithkline Consumer Healthcare Ltd

BUY

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CMP	Rs 1,314
Target Price	Rs 1,525
Investment horizon	12 months
Sensex	16,780
Nifty	5,008

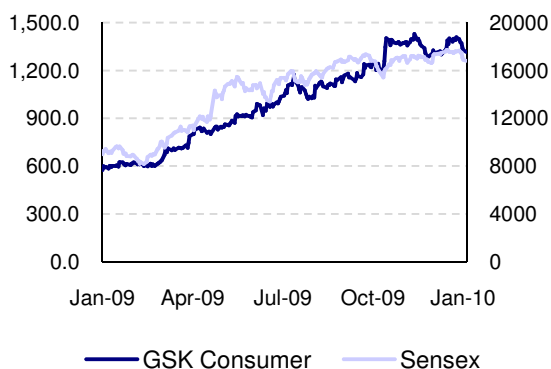
Stock Details

BSE Code	500676
NSE Code	GSKCONS
Reuters Code	GLSM.BO
Bloomberg Code	SKB IN
Market Cap (Rs cr)	5,528.0
Beta	0.33
52 W High / Low (Rs)	1,465.0 / 561.0
Avg Daily Volume	8,793
Face Value (Rs)	10.00

Shareholding Pattern (%)

Promoters	43.16
MF/Banks/Indian FIs	23.95
FII / NRIs / OCBs	16.80
Indian Public	16.09

Price Chart



Performance Highlights

Increase in net sales led by volume growth: GlaxoSmithKline Consumer Healthcare Limited (GSK Consumer) showed a 26.1% yoy jump in net sales to Rs 418.1cr during Q4CY2009. The increase is primarily due to a 16.0% growth in volumes with price-led growth contributing only around 5.0%. The company's key brands, namely, Horlicks and Boost showed strong volume growth of 16.0% and 15.0%, respectively. The management expects future growth to continue to be volume driven as the food inflation is taking up a higher share of the consumer wallet, making it difficult to increase prices for fear of hurting demand.

High advertisement and promotion (A&P) expenditure impacts margins:

The A&P expenditure rose considerably during the quarter from 11.9% of sales in Q4CY2008 to 20.5% in Q4CY2009. This has been on account of launch of two new products during the quarter along with the cumulative effect of advertisement expenses and promotional expenditure on products launched during CY2009. The overall EBIDTA margin, thus, declined by 296bps due to this hike in expenditure. Going forward, the management expects A&P expenses to come down to 14-15% of total sales.

Valuation: We have used Relative Valuation based on average of EV/EBIDTA and Price/Earnings (P/E) ratios. The stock is currently trading at EV/EBIDTA of 11.9xCY2010E and P/E of 17.8xCY2010E earnings. The sales growth to come on account of new product launches and expanding rural reach is expected to drive growth at a CAGR of 20.0% (CY2008-11E). **We maintain Buy on the stock with a Target Price of Rs 1,525.**

Exhibit 1: Quarterly Financials

Particulars	Q4CY2009	Q4CY2008	Q3CY2009	YoY(%)	QoQ(%)
Revenue	418.1	331.6	495.1	26.1	(15.5)
Other Income	21.8	24.2	21.3	(9.8)	2.6
Total Income	439.9	355.7	516.3	23.7	(14.8)
Total Expenditure	381.4	292.6	416.5	30.3	(8.4)
EBIDTA	36.8	39.0	78.6	(5.6)	(53.2)
EBIDTA Margin (%)	8.8	11.8	15.9	-	-
Depreciation	10.4	10.7	10.5	(2.6)	(1.1)
EBIT	48.2	52.5	89.3	(8.2)	(46.0)
Interest	0.9	1.4	1.0	(35.0)	(8.1)
Profit before Tax	47.3	51.1	88.4	(7.4)	(46.5)
Tax	13.6	18.5	28.3	(26.4)	(52.0)
Net Profit	33.7	32.6	60.0	3.4	(43.9)
PAT Margin (%)	8.1	9.8	12.1	-	-
EPS	8.0	7.7	14.3	3.4	(43.9)

Source: Company data, Parsoli Research; *CY - Financial year ending December



GSK Consumer's sales grew strongly during Q4CY2009 by 26.1% yoy to Rs 418.1cr

The total cost expenditure was up on account of a near doubling of A&P expenditure as percentage of sales to 20.5%

The hike in A&P expenses has been on account of aggressive product launches undertaken during CY2009

Key Updates

Sales continue to grow but margins negatively impacted

During Q4CY2009, GSK Consumer's sales grew by 26.1% yoy to Rs 418.1cr. The sales during the quarter were primarily driven by volume growth of 16.0% with price hikes contributing only around 5.0%. The company's flagship brand Horlicks showed a volume growth of 16.0% and Boost had a volume growth of 15.0% during the quarter. In the biscuits category, the company is growing at a volume growth of 30.0%, with its share at around Rs 70-80cr in the Rs 8,000-9,000cr biscuits market in India. The volume growth which was impacted during the last quarter due to a decline in exports to Sri Lanka (with the customs duty being raised by more than 10 times) has revived and, going forward, the management expects the exports to grow at around 10-15% yoy during CY2010. As for the total revenue contribution break-up, the Health food drinks (HFD) segment continues to grow and contribute around 90.0% of total revenues. The rest is contributed by the new product launches in the HFD segment and from completely new categories (like NutriBar, Chill Dood, etc.).

Overall, the total cost increased to 91.2% of sales during the quarter as compared to 88.2% during Q4CY2008. This was primarily on account of a near doubling of A&P expenditure as percentage of sales from 11.9% in Q4CY2008 to 20.5% in Q4CY2009. The hike was due to the aggressive product launch plan of GSK Consumer which raised the cost expenditure on advertisements and sales promotion during the year. Consequently, the EBIDTA margin declined and stood at 8.8% for Q4CY2009 as compared to 11.8% in Q4CY2008. The PAT for the quarter grew marginally by 3.4% yoy to Rs 33.7cr, with the PAT margin at 8.1%.

Exhibit 2: Cost Analysis			% of sales
	Q4CY2009	Q4CY2008	bps change yoy
Raw Material	30.1	39.4	(937)
Employee Expenses	11.3	12.9	(157)
Advertisement Expenses	20.5	11.9	862
Total Expenditure	91.2	88.2	296

Source: Company data, Parsoli Research

For the CY2009, the net sales grew to Rs 1,921.5cr as compared to Rs 1,541.8cr, showing a growth of 24.6%. The EBIDTA showed a very strong growth of 30.9% yoy during the year and grew to Rs 310.8cr from Rs 237.5cr in CY2008. The PAT increased to Rs 232.8cr during CY2009, showing a healthy growth of 23.6% yoy.

Higher A&P expenditure with the new launches

During Q4CY2009, with the two new launches - Foodles and Horlicks ProHeight and the overall promotion expenditure on other products including Horlicks NutriBar, Chill Dood, Junior Horlicks biscuits, Horlicks Asha etc., the company's A&P expenditure went up considerably. The cumulative effect of advertising and promotional expenses pushed up the A&P expenses during the quarter. Going forward, the management expects the A&P expenditure to settle down at around 14-15% of sales.



GSK Consumer

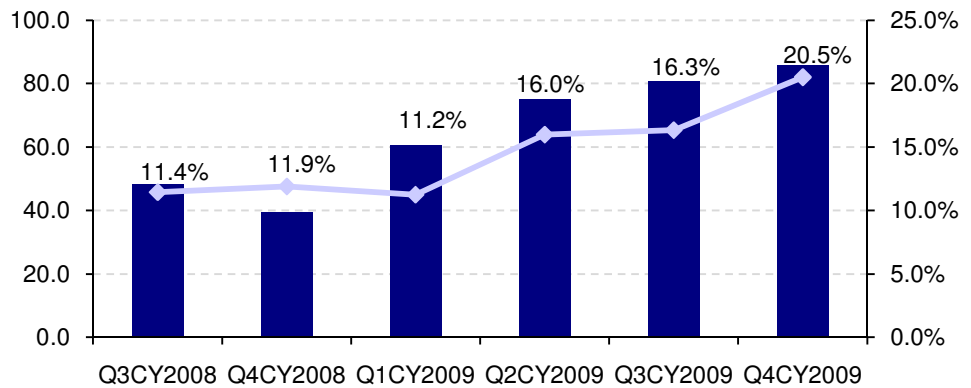
BUY

Going forward, the company expects the A&P expenditure to settle at 14-15% of total sales

During the quarter, the company launched two new products, namely, Foodles and Horlicks ProHeight

GSK Consumer is focusing on capturing the rural market by introducing low-priced products and offering smaller packs

Exhibit 3: A&P expenditure as % of sales



Source: Company data, Parsoli Research

Products launches continue to leverage Horlicks brand equity

During Q4CY2009, the company launched two new products under the Horlicks brand, namely, Foodles and Horlicks ProHeight. Each of these products have been launched in separate categories and, like GSK Consumer's other products, focus on the health segment. Through Foodles, the instant multi-grain noodles, the company has forayed into the noodles market in India. GSK Consumer continues to position itself as a health conscious brand and with this new launch in the instant noodles segment, the company will be competing with other brands like Maggi, Top Ramen, Ching's Instant Noodles, etc. Foodles is available in two variants and has been priced nearly the same as other brands, with the grain (atta) variant available at Rs 15 and a regular (maida) variant at Rs 10. Horlicks ProHeight is a specialized protein formulation that contains essential nourishment important for children's growth. It is a supplement to support growth for school age children by meeting their daily nutritional requirements. The product is available in Vanilla flavor and has been priced at Rs 200 for a 400gm pack. The company continues to introduce new products under its umbrella brand, Horlicks and the management believes that the new launches will help the company in exploring new product lines and categories.

Sales growth largely volume driven

The product offerings from the HFD segment are such that they feature under the "like to have" rather than a "must have" category. The market saw both price and volume led growth during H1CY2009 but, going forward, the management sees and expects that the growth will largely be volume driven and increase in sales will not be led by price hikes. This is because with the increase in inflation, a larger portion of the consumer wallet is being spent on food items. This is making it difficult for companies to even pass on the rise in raw material prices to consumers. Even during Q4CY2009, GSK Consumer's sales growth were largely volume driven with volume growth contributing 16.0% and price hikes and decline in excise duty contributing around 5.0% each.

Expanding rural reach with low-priced new products and smaller packs

The company is following a two-pronged strategy of launching lower priced products and introducing smaller unit packs with the aim to expand its rural reach. The revenue from the rural areas already contribute 30-35% of the total sales. During CY2009, GSK Consumer started test marketing Horlicks Asha in Andhra Pradesh, which has been priced around 40.0% cheaper than the company's mainstream



We expect the company's revenues to grow at a CAGR of 20.0% during CY2008-11 to touch a turnover of Rs 2,665.7cr by CY2011

We maintain Buy on the stock with a target price of Rs 1525

products. So, while regular Horlicks costs Rs 135, the cheaper variant Asha is priced at various price points like Rs 85 for 500gm and Rs 50 for 200gm. Through the launch of Horlicks Asha, the company is targeting to capture the bottom-of-the-pyramid that primarily comprises of price-sensitive customers. Alongside, the company has also introduced low unit packs like 90gm sachets of Boost, biscuits at Rs 5, etc., which are attractively priced to increase sales from rural areas.

Outlook & Valuation

Going forward, we expect the company's revenues to increase at a CAGR of 20.0% (CY2008-11E) to Rs 2,665.7cr by CY2011. The growth would be supported by company's foray into new segments and categories like snack bar, instant noodles, etc., which leverage the brand equity of Horlicks. With its focus on the health food and drinks segment, the new launches are expected to catapult the company's growth in urban areas. In addition to that, with GSK Consumer launching new products as well as introducing products at lower price points with the aim to specifically target the bottom-of-the-pyramid, we believe that the company will see higher contribution coming from rural areas.

Relative Valuation

GSK Consumer currently trades at an EV/EBIDTA multiple of 11.9x for CY2010E and 9.9x CY2011E. When considering the current EV/EBIDTA multiple, the stock trades at a discount of 13.2% to the industry average of 24.1x. We believe that the company will be able to expand its EBIDTA margin to 17.6% by CY2010. We have assigned a multiple of 16.0 to value the stock. Using this target multiple on our CY2010 EBIDTA estimates of Rs 412.8cr, we arrive at a target price of Rs 1,719.0 per share.

When considering the P/E multiple, the stock currently trades at 17.8x CY2010E and 15.2x CY2011E earnings. The industry average multiple for the peer group stands at 28.4. We expect the company's EPS to grow at a CAGR of 24.5% during CY2008-11E to touch Rs 86.4 by CY2011. We are assigning a multiple of 18.0 to value the stock. Employing this target multiple on our CY2010 EPS estimates of Rs 74.0, we arrive at a target price of Rs 1,331.4.

We give a price target of Rs 1,525 for the stock representing an upside of 16.0%.

Exhibit 4: Valuation Summary

Pricing Methodologies	Weight Assigned	Target Price
Target price using EV/EBIDTA approach	50.0%	1,719.0
Target price using P/E approach	50.0%	1,331.4
Weighted average target price (Rs)		1,525.2
Current Market Price (CMP)		1,314.5
Upside from current levels (%)		16.0

Source: Company data, Parsoli Research



Financial Statements

Exhibit 5: Profit & Loss Statement					Rs cr
	CY2007	CY2008	CY2009	CY2010E	CY2011E
Net Sales	1,278.5	1,542.8	1,921.5	2,341.5	2,665.7
<i>% chg</i>	15.4	20.7	24.5	21.9	13.8
Total Expenditure	1,053.7	1,305.3	1,610.7	1,928.8	2,193.0
<i>% chg</i>	14.1	23.9	23.4	19.7	13.7
EBIDTA	224.7	237.5	310.8	412.8	472.7
<i>Margin (%)</i>	17.6	15.4	16.2	17.6	17.7
Other Income	68.5	95.5	89.3	114.0	133.5
Depreciation & Amortisation	43.5	41.9	42.0	49.4	48.6
Interest	4.6	7.0	4.3	4.7	5.3
PBT	245.1	284.1	353.9	472.7	552.3
<i>Margin (%)</i>	19.2	18.4	18.4	20.2	20.7
Total Tax	82.4	95.8	121.1	161.7	188.9
<i>(% of PBT)</i>	33.6	33.7	34.2	34.2	34.2
PAT	162.7	188.3	232.8	311.1	363.4
<i>% chg</i>	28.2	15.8	23.6	33.6	16.8
<i>Margin (%)</i>	12.7	12.2	12.1	13.3	13.6

Source: Company data, Parsoli Research

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