



India Equities  
Food and Dairy Products

Quarterly Update

## GlaxoSmithkline Consumer Healthcare Ltd

**BUY**

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**CMP** **Rs 1,235**  
**Target Price** **Rs 1,427**

Investment horizon 12 months  
Sensex 16,741  
Nifty 4,971

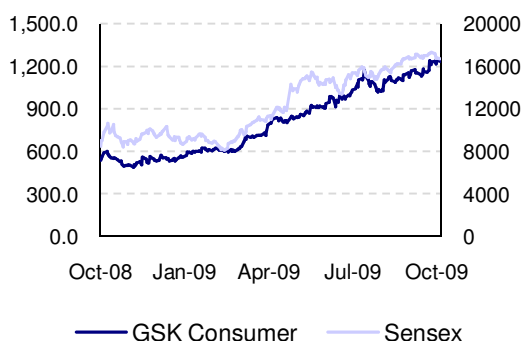
### Stock Details

BSE Code 500676  
NSE Code GSKCONS  
Reuters Code GLSM.BO  
Bloomberg Code SKB IN  
Market Cap (Rs cr) 5,193.9  
Beta 0.23  
52 W High / Low (Rs) 1,278.0 / 480.0  
Avg Daily Volume 10,450  
Face Value (Rs) 10.00

### Shareholding Pattern (%)

Promoters 43.16  
MF/Banks/Indian FIs 23.75  
FII / NRIs / OCBs 16.53  
Indian Public 16.56

### Price Chart



### Performance Highlights

**Sales growth led by higher value realizations:** GlaxoSmithKline Consumer Healthcare Limited (GSK Consumer) posted sales growth of 17.1% yoy to Rs 495.1cr for Q3CY2009. The sales growth was supported by 6.0% volume growth and 11.0% value growth. The volume growth was impacted due to a decline in exports by approximately 50.0%. The company's key brands, namely, Horlicks and Boost showed volume growth of 6.0% and 7.0%, respectively.

**Expanding the distribution network:** The company continues to work towards expanding its market reach by reaching out to larger number of outlets in order to expand its rural presence. This year, the company has increased its coverage from 500,000 outlets to 575,000 outlets, with presence in 4,500 towns.

**Advertisement and promotion (A&P) expenditure continues to increase:** The A&P expenditure continues to rise due to company's entry into new product categories and health segments. During Q3CY2009, the A&P expenditure was up on account of new advertisements for Horlicks and promotion of the biscuits portfolio under which SKUs (stock keeping units) at various price points have been introduced.

**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 13.1xCY2010E earnings and P/E of 18.2xCY2010E EPS. The sales growth on account of new launches is expected to continue and we believe that GSK Consumer will continue to deliver better results in future. **We maintain our recommendation of Buy on the stock with a Target Price of Rs 1,427.**

Exhibit 1: Quarterly Financials					Rs cr	
Particulars	Q3CY2009	Q3CY2008	YoY (%)	Q2CY2009	QoQ (%)	
Revenue	495.1	422.7	17.1	468.7	5.6	
Other Income	21.3	26.6	-19.9	22.8	(6.9)	
Total Income	516.3	449.3	14.9	491.6	5.0	
Total Expenditure	416.5	359.7	15.8	394.1	5.7	
<b>EBIDTA</b>	78.6	63.0	24.7	74.6	5.3	
<i>EBIDTA Margin (%)</i>	15.9	14.9		15.9		
Depreciation	10.5	10.4	0.6	10.5	(0.3)	
<b>EBIT</b>	89.3	79.2	12.9	86.9	2.8	
Interest	1.0	1.4	(29.3)	1.1	(5.7)	
Profit before Tax	88.4	77.8	13.6	85.9	2.9	
Tax	28.3	24.7	14.6	30.7	(7.6)	
Net Profit	60.0	53.0	13.2	55.2	8.8	
<i>PAT Margin (%)</i>	12.1	12.5		11.8		
EPS	14.3	12.6	13.2	13.1	8.8	

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



***GSK Consumer's sales for Q3CY2009 rose to Rs 495.1cr showing a growth of 17.1% yoy***

***The company plans to expand its distribution network by directly covering 600,000 outlets by end of CY2009 and 700,000 outlets by CY2010***

***The A&P expenditure continues to remain high on account of promotional expenses for new launches***

## **Key Updates**

### **Sales growth continues to look upbeat**

During Q3CY2009, GSK Consumer's sales grew to Rs 495.1cr, showing yoy growth of 17.1% and qoq growth of 5.6%. This growth was supported by an overall volume growth of 6.0% and value growth of 11.0%. The company's flagship brand Horlicks showed a volume growth of 6.0% and Boost had a volume growth of 7.0% during the quarter. The volume growth, which had been on an uptrend over the last few quarters, showed a less than expected growth on account of decline in exports during the quarter. The company's exports were down by about 50.0% due to a customs duty levied by the Sri Lankan government on imports. During the quarter, the duty was raised by more than 10 times by the government in order to discourage imports and protect the domestic industry. Since Sri Lanka is a major export market for GSK Consumer, contributing around 75.0% of its exports, this hike in customs duty had a major impact on the volumes. However, during the quarter itself, the duty was revised downwards to sustainable levels and the benefit of the same is expected to be seen in the next quarter.

The other income dipped during Q3CY2009 as exchange gains on account of currency fluctuations earned in Q3CY2008 were not there for the current quarter. In addition, there was a decline in interest income during the quarter due to company's focus on debt-based investment instruments and low interest rates in the market. For 9mCY2009, the net sales grew to Rs 1,503.4cr as compared to Rs 1,210.2cr for 9mCY2008, showing a growth of 24.2%. The other income for 9mCY2009 has showed a dip of 5.2% yoy.

### **Expanding the distribution network to maximize rural coverage**

The company has expanded its direct coverage to 575,000 outlets reaching out to 4,500 towns. Going forward, the company plans to increase its coverage to 600,000 outlets by end of CY2009 and 700,000 outlets by CY2010. This expansion would be in line with the company's target to increase its focus on rural India by having greater presence in smaller towns and cities. During the quarter, the company introduced the 90gms sachet of its malted beverage Boost. Also, in order to increase the usage under its biscuits category, the company has introduced five SKUs under the price range of Rs 5, Rs 10, Rs 15, Rs 20 and Rs 25. This is expected to make GSK Consumer products more affordable for rural consumers as this market is highly price sensitive and the competition remains far more intense in this market with some biscuit manufacturers like Parle even working at a price point of Rs 2.

### **A&P expenditure continues to remain high**

During CY2009, the company has launched a number of new products like Horlicks Nutribar, Chill Dood, Junior Horlicks biscuits, etc. entering new categories like cereal snack bar and ready to drink beverages. This aggressive pace of new launches has pushed up the A&P expenditure of GSK Consumer, which stood at 16.3% of net sales for Q3CY2009. The high A&P expenditure was also on account of new advertisements for Horlicks and to promote launch of biscuits in five SKUs with various price points. Going forward, the company expects the A&P expenditure to remain at around 14-15%.

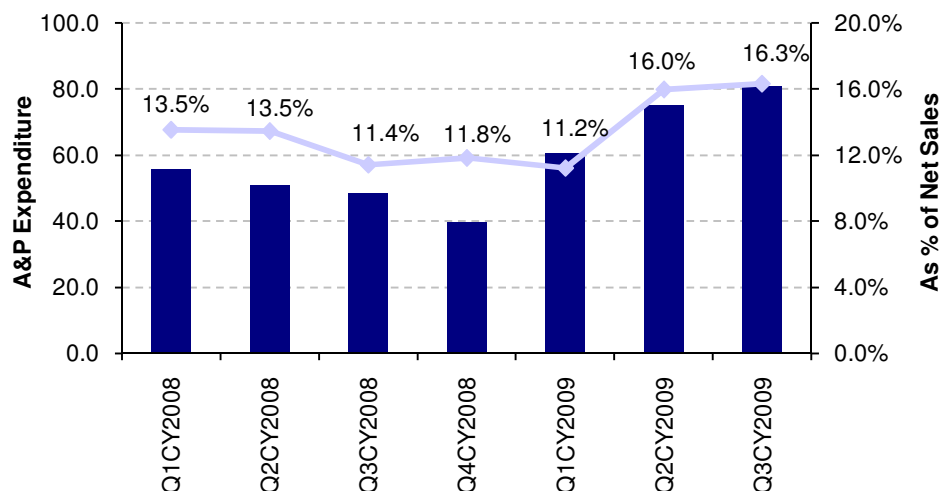


## GSK Consumer

**BUY**

During Q3CY2009, the company's A&P expenditure was 16.3% as percentage of net sales

**Exhibit 2: A&P expenditure**



Source: Company data, Parsoli Research

The new launches in categories like biscuits, health snacks and cold beverages are expected to drive the company's revenue in future

### New launches expected to push sales in future

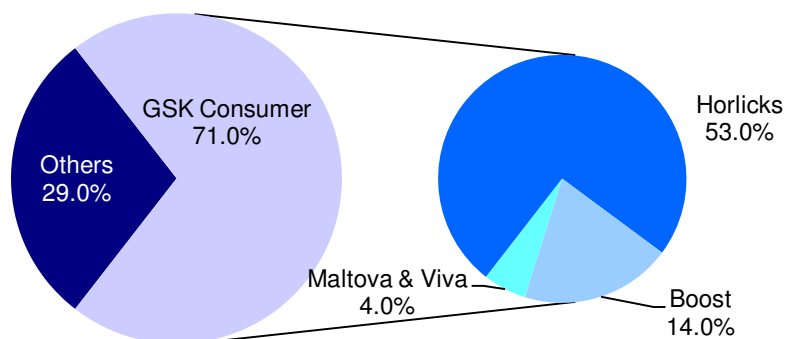
According to the management, the new launches in CY2008 and CY2009 have received a good response from the market. ActiBase, a protein supplement, launched in 2008 has been performing well and has now become a Rs 2cr brand growing at around 50.0%. Horlicks Nutribar, a cereal snack bar which targets the young working adults, is also performing well and has infact marginally exceeded the company's expectations. GSK Consumer targets to make it a Rs 100cr brand in the next three years. The company is quite positive about its growth in the biscuits category where products are being launched under the Horlicks brand name in order to leverage the brand equity enjoyed by Horlicks across India. According to the management, market for biscuits is more than US\$ 1bn growing at around 18-19%. Going forward, with its product positioning under the health category and the immense brand presence of Horlicks, the management expects that the company's biscuit category would be able to cover a reasonable market share.

Entry of new players in the MFD segment has not impacted the market share of GSK Consumer's brands and the company enjoys 71.0% of the total market

### Market share remains unaffected by entry of new players

The market share of GSK Consumer has not been impacted by entry of new players like Dabur (Chyawan Junior), Amul (Amul Shakti) and HUL (Amaze). The company currently enjoys a sizeable market share of around 71.0% in the malted food drinks (MFD) segment.

**Exhibit 3: Profit Margins**



Source: Company data, Parsoli Research



*The EV/EBITDA method gives us a target price of Rs 1,566.3 per share*

*Using the P/E method, we arrive at a target price of Rs 1,287.4 per share*

*The weighted average of prices arrived by using EV/EBITDA and P/E methodologies gives a target price of Rs 1,427 per share*

## Valuation

For valuing the company, we have used Relative Valuation based on EV/EBIDTA and Price/Earnings (P/E) multiple methodologies considering CY2010 estimates. A comparative valuation using EV/EBIDTA methodology helps us in comparing the company's performance with its peers irrespective of their depreciation and finance expenditures. The P/E multiple methodology helps in comparing peer group performance with the company with respect to earnings potential. We have considered an investment horizon of 12 months.

### Relative Valuation

GSK Consumer currently trades at an EV/EBIDTA multiple of 15.1x for CY2009E and 13.1x CY2010E. When considering the current EV/EBIDTA multiple, the stock trades at a discount of 19.5% to the industry average of 23.8x. We believe that GSK Consumer will be able to increase its operating profit at a CAGR of around 20.0% during CY2008-11E to touch Rs 410.4cr by CY2011. The company is expected to expand its operating margin to 16.4% by CY2010. We have discounted the peer group average by 39.7% and assigned a multiple of 17.0 to value the stock. Using this target multiple on our CY2010 EBIDTA estimates of Rs 354.9cr, we arrive at a target price of Rs 1,566.3 per share.

When considering the P/E multiple, the stock currently trades at 22.7x CY2009E and 18.2x CY2010E earnings. The industry average multiple for peer group stands at 29.4. We continue to expect the company's EPS to grow at a CAGR of around 21.0% during CY2008-11E to touch Rs 79.4. We expect that the company will be able to achieve its target of doubling its CY2007 turnover of Rs 1,278.5cr by CY2011. We are assigning a multiple of 19.0 to value the stock. Employing this target multiple on our CY2010 EPS estimates of Rs 67.9, we arrive at a target price of Rs 1,287.4.

**We maintain our price target of Rs 1,427 for the stock representing an upside of 15.5%.**

### Exhibit 4: Valuation Summary

Pricing Methodologies	Weight Assigned	Target Price
Target price using EV/EBIDTA approach	50.0%	1,566.3
Target price using P/E approach	50.0%	1,287.4
Weighted average target price (Rs)		1,426.8
Current Market Price (CMP)		1,235.0
Upside from current levels (%)		15.5

*Source: Company data, Parsoli Research*



## Financial Statements

Exhibit 5: Profit & Loss Statement					Rs cr
	CY2007	CY2008	CY2009E	CY2010E	CY2011E
<b>Net Sales</b>	1,278.5	1,542.8	1,859.9	2,161.6	2,482.7
<i>% chg</i>	15.4	20.7	20.6	16.2	14.9
Total Expenditure	1,053.7	1,305.3	1,555.3	1,806.7	2,072.3
<i>% chg</i>	14.1	23.9	19.2	16.2	14.7
<b>EBIDTA</b>	224.7	237.5	304.6	354.9	410.4
<i>Margin (%)</i>	17.6	15.4	16.4	16.4	16.5
Other Income	68.5	95.5	91.7	134.0	161.4
Depreciation & Amortisation	43.5	41.9	42.0	45.1	52.0
Interest	4.6	7.0	8.1	8.5	10.2
<b>PBT</b>	245.1	284.1	346.3	435.3	509.6
<i>Margin (%)</i>	19.2	18.4	18.6	20.1	20.5
Total Tax	82.4	95.8	117.7	149.7	175.8
<i>(% of PBT)</i>	33.6	33.7	34.0	34.4	34.5
<b>PAT</b>	162.7	188.3	228.5	285.6	333.8
<i>% chg</i>	28.2	15.8	21.3	24.9	16.9
<i>Margin (%)</i>	12.7	12.2	12.3	13.2	13.4

Source: Company data, Parsoli Research

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