



India Equities  
Food and Dairy Products

Quarterly Update

## GlaxoSmithkline Consumer Healthcare Ltd

**BUY**

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<b>CMP</b>	<b>Rs 1,600</b>
<b>Target Price</b>	<b>Rs 1,845</b>
Investment horizon	12 months
Sensex	17,386
Nifty	5,223

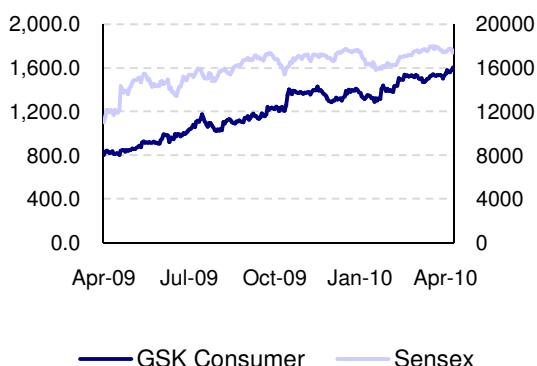
### Stock Details

BSE Code	500676
NSE Code	GSKCONS
Reuters Code	GLSM.BO
Bloomberg Code	SKB IN
Market Cap (Rs cr)	6,729.3
Beta	0.31
52 W High / Low (Rs)	1675.0 / 777.0
Avg Daily Volume	9,956
Face Value (Rs)	10.00

### Shareholding Pattern (%)

Promoters	43.16
MF/Banks/Indian FIs	21.73
FII / NRIs / OCBs	18.24
Indian Public	16.87

### Price Chart



### Performance Highlights

**Sales continue to increase backed by volume growth:** GlaxoSmithKline Consumer Healthcare Limited (GSK Consumer) showed a 20.3% yoy increase in net sales to Rs 648.4cr during Q1CY2010 supported by a volume growth of 13.0% and price hike of 5.0%. The company's key brands continue to grow with volume growth of 11.0% in Horlicks and 21.0% in Boost. In addition, new launches of CY2009 are also generating revenues and contributing 15.0% of sales. The management looks to expand the operating margin further and maintain EBIDTA margin between 16-18%.

### High advertisement and promotion (A&P) expenditure on new launches:

The A&P expenditure had peaked to 20.5% of sales during the previous quarter, Q4CY2009. During Q1CY2010, though it has come down to 15.2% of sales, the overall A&P expense as percentage of sales has still risen by 391bps yoy in current quarter. Hence, the profit margins were slightly subdued owing to expenditure in promoting the Horlicks brand as well as supporting the new launches through higher A&P outlays. Going forward, the company looks to maintain A&P expenses at around 15.0% of 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 16.3xCY2010E and P/E of 24.6xCY2010E earnings. The sales growth is expected to remain strong with the company looking to double its CY2007 turnover of 1,278.5cr by CY2011 supported by higher revenues from new product launches made in CY2009. **We maintain Buy on the stock with a Target Price of Rs 1,845.**

### Exhibit 1: Quarterly Financials

Particulars	Q1CY2010	Q1CY2009	YoY(%)	Q4CY2009	QoQ(%)
Revenue	648.4	539.0	20.3	418.1	55.1
Other Income	23.6	25.5	(7.7)	21.8	8.1
Total Income	672.0	564.5	19.0	439.9	52.8
Total Expenditure	515.4	420.3	22.6	381.4	35.1
<b>EBIDTA</b>	133.1	118.6	12.1	36.8	261.9
<i>EBIDTA Margin (%)</i>	20.5	22.0	-	8.8	-
Depreciation	9.6	10.6	(9.8)	10.4	(7.8)
<b>EBIT</b>	147.1	133.6	10.1	48.2	205.1
Interest	0.6	1.2	(52.5)	0.9	(37.4)
Profit before Tax	146.5	132.4	10.7	47.3	209.8
Tax	50.3	48.5	3.8	13.6	269.8
Net Profit	96.2	83.9	14.6	33.7	185.5
<i>PAT Margin (%)</i>	14.8	15.6	-	8.1	-
EPS	22.9	19.9	14.6	8.0	185.5

Source: Company data, Parsoli Research



**GSK Consumer's sales grew 20.3% yoy to Rs 648.4cr during Q1CY2009 backed by volume growth of 13.0%**

**The EBIDTA margins were slightly depressed on account of higher raw material costs and A&P expenses**

**Key Updates**

**Double digit revenue growth mainly driven by volumes**

During Q1CY2010, GSK Consumer's sales grew by 20.3% yoy to Rs 648.4cr as compared to Rs 539.0cr in Q1CY2009. This growth was on account of a volume growth of 13.0% and a price hike (in January) which contributed around 5.0% of the total sales growth. GSK Consumer's flagship brand Horlicks showed a volume growth of 11.0% and Boost had a volume growth of 21.0% during the quarter. The volume growth in Boost was mainly on account of the launch of a Rs 20 pack which has been doing well in the market. The company also saw a marginal increase of 80bps in the market share of Boost. The biscuits category which has a size of around Rs 80cr is growing at around 20.0%. The new launches made by the company during CY2009 including Glaxo Nutrition's ActiGrow, Horlicks Nutribar, Junior Horlicks Biscuits, Horlicks Asha, Horlicks Cornflake Crunchies Biscuits, Horlicks Foodles and Horlicks ProHeight are also contributing to the overall revenue growth. Going forward, the company plans to stabilize and establish each of these brands during CY2010. Going forward, the company continues to work towards doubling its CY2007 turnover of Rs 1,278.5cr by CY2011.

**EBIDTA margin slightly impacted due to rise in operating expenses**

During the quarter, the total expenditure as percentage of net sales has gone up by 149bps yoy to 79.5% on account of higher material costs, A&P and other overheads. The raw material costs have been impacted due to high inflation in sugar and milk products. The prices of milk powder and liquid milk have been increasing at around 7.0% yoy every quarter. Hence the material costs went up by 24.4% yoy during the quarter. In addition, there was a steep rise in A&P expenditure as percentage of sales which moved up by 391bps yoy to 15.2%. This has pushed up the total expenditure from 78.0% in Q1CY2009 to 79.5% of sales in Q1CY2010. Hence, the EBIDTA margins showed a marginal decline and stood at 20.5% in Q1CY2010 as against 22.0% in Q1CY2009.

<b>Exhibit 2: Cost Analysis</b>			<b>% of sales</b>
	<b>Q1CY2010</b>	<b>Q1CY2009</b>	<b>bps change yoy</b>
Material Expenses	32.7	31.7	108
Employee Expenses	8.0	9.2	(127)
A&P Expenses	15.2	11.2	391
Total Expenditure	79.5	78.0	149

*Source: Company data, Parsoli Research*

Going forward, the pressure on raw materials is expected to come down with a decline in inflation and the management expects to maintain EBIDTA margin between 16-18% during CY2010. The company's PAT margin, affected by lower EBIDTA margin, stood at 14.8% as compared to 15.6% in Q1CY2009.

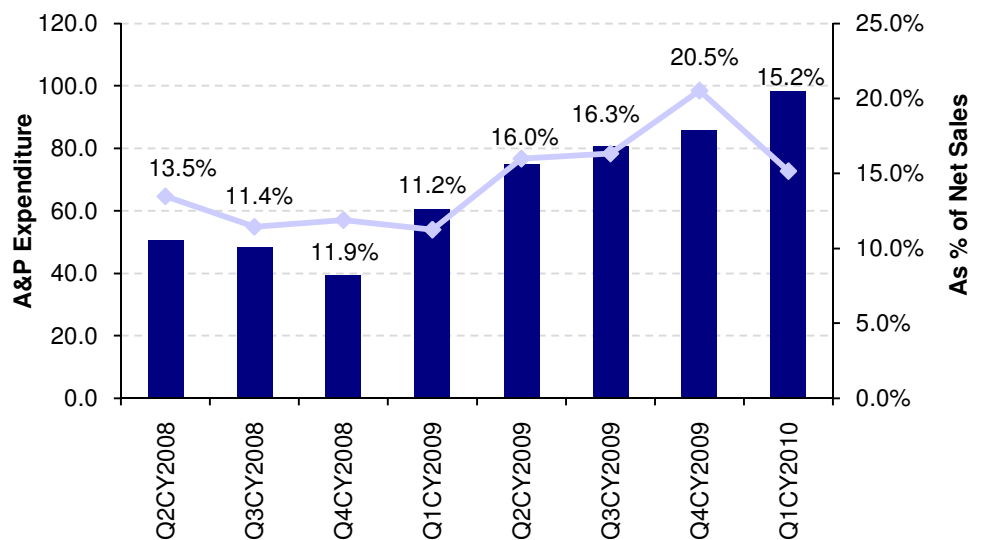


**GSK Consumer continues to hike its cash outlay for A&P expenses with a view to promote the flagship brand Horlicks and support newly launched products**

**Steep rise in A&P expenses**

During Q1CY2010, the A&P expenditure shot up by 391bps yoy because the company is spending significant amounts in promoting and marketing its flagship brand Horlicks and also the new launches which are now contributing nearly 15.0% of net sales.

**Exhibit 3: A&P expenditure**



Source: Company data, Parsoli Research

**Going forward, the company expects to maintain A&P expenditure at around 15% of net sales**

With a number of product launches made by GSK Consumer during CY2009, the A&P expenditure has consistently risen and had peaked in Q4CY2009 at 20.5% of net sales. Going forward, the company plans to maintain the growth momentum and the management expects the A&P expenses to stay at around 15.0% of net sales for the next 5-6 quarters.

**Rural expansion on track**

**GSK Consumer continues to focus on rural growth by introducing small-sized product packs, expanding distribution network and launching customized products for the rural market**

The company continues to customize and tailor its products in terms of quality, price, packaging, etc. in order to increase penetration and strengthen its rural presence. Since the company's products feature in the "may have" rather than the "must have" category, GSK Consumer has been continuously trying to use the growing Indian rural markets to its advantage and at the same time maintain its brand equity in terms of quality and value. In view of this, the company launched a Rs 20 pack of Boost and has increased the distribution network from 5lac to 6lac outlets. The company is also test marketing Horlicks Asha in Andhra Pradesh and Karnataka which is a low-cost (40% cheaper than Horlicks) health food drink (HFD) targeted at the emerging semi-urban and rural consumer segment. Going forward, GSK Consumer plans to expand its distribution network to cover 7lac outlets by CY2010 end.



***We expect the company's revenues to grow at a CAGR of 18.4% during CY2008-11 to reach a turnover of Rs 2,561.8cr by CY2011***

***We maintain Buy on the stock with a target price of Rs 1,845***

**Outlook & Valuation**

GSK Consumer continues to perform well in terms of revenue growth as well as margin expansion. Going forward, we expect the company's revenues to increase at a CAGR of 18.4% (CY2008-11E) to Rs 2,561.8cr by CY2011. The company continues to maintain its focus on promoting the flagship brand Horlicks as well as leveraging its brand equity to enter new segments. With the slew of launches made by the company during CY2009, the company has managed to enter new health categories like snack bar, biscuits, noodles, etc. The company, in order to promote the newly launched categories, is making large A&P expenditures which have slightly impacted the margins. However, with the innovative product launch pipeline and the intended diversification across health categories, we believe that the company will continue to expand revenues and be able to improve margins. In addition, the company's focus on the rural market, which currently contributes around 30.0% of the total sales, will also pay off as the rural market growth potential coupled with company's initiatives would further increase the revenues.

**Relative Valuation**

GSK Consumer currently trades at an EV/EBIDTA multiple of 16.3xCY2010E and 14.0xCY2011E. When considering the current EV/EBIDTA multiple, the stock trades at a discount of 26.5% to the industry average of 25.8x. We believe that the company will be able to expand its EBIDTA margin to 16.4% in CY2010. We have assigned a multiple of 19.0 to value the stock, which is at a 35.9% discount to the industry average. Using this target multiple on our CY2010 EBIDTA estimates of Rs 364.2cr, we arrive at a target price of Rs 1,837 per share.

When considering the P/E multiple, the stock currently trades at 24.6xCY2010E and 21.5xCY2011E earnings. The industry average multiple for the peer group stands at 29.9. We expect the company's EPS to grow at a CAGR of 18.4% during CY2008-11E to touch Rs 74.3 by CY2011. We are assigning a multiple of 28.5 to value the stock. Employing this target multiple on our CY2010 EPS estimates of Rs 65.0, we arrive at a target price of Rs 1,854.

**We give a price target of Rs 1,845 for the stock representing an upside of 15.3%.**

**Exhibit 4: Valuation Summary**

<b>Pricing Methodologies</b>	<b>Weight Assigned</b>	<b>Target Price</b>
Target price using EV/EBIDTA approach	50.0%	1,837.4
Target price using P/E approach	50.0%	1,853.5
Weighted average target price (Rs)		1,845.4
Current Market Price (CMP)		1,600.1
Upside from current levels (%)		15.3

*Source: Company data, Parsoli Research*



**Financial Statements**

<b>Exhibit 5: Profit &amp; Loss Statement</b>					<b>Rs cr</b>
	<b>CY2007</b>	<b>CY2008</b>	<b>CY2009</b>	<b>CY2010E</b>	<b>CY2011E</b>
<b>Net Sales</b>	1,278.5	1,541.8	1,921.5	2,227.6	2,561.8
<i>% chg</i>	15.4	20.6	24.6	15.9	15.0
Total Expenditure	1,053.7	1,309.6	1,614.9	1,863.3	2,149.3
<i>% chg</i>	14.1	24.3	23.3	15.4	15.3
<b>EBIDTA</b>	224.7	232.2	306.6	364.2	412.5
<i>Margin (%)</i>	17.6	15.1	16.0	16.4	16.1
Other Income	68.5	95.5	89.3	108.5	128.4
Depreciation & Amortisation	43.5	41.9	42.0	57.0	65.8
Interest	4.6	0.0	0.0	0.0	0.0
<b>PBT</b>	245.1	285.7	353.9	415.7	475.1
<i>Margin (%)</i>	19.2	18.5	18.4	18.7	18.5
Total Tax	82.4	97.4	121.1	142.2	162.5
<i>(% of PBT)</i>	33.6	34.1	34.2	34.2	34.2
<b>PAT</b>	162.7	188.3	232.8	273.5	312.6
<i>% chg</i>	28.2	15.8	23.6	17.5	14.3
<i>Margin (%)</i>	12.7	12.2	12.1	12.3	12.2

Source: Company data, Parsoli Research

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