Parsoli Corporation Limited

In Touch with Your Investment Needs

India Equities
Food and Dairy Products

Initiating Coverage

GlaxoSmithkline Consumer Healthcare Ltd

BUY

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CMP	**Rs 1,174**
Target Price	**Rs 1,427**
Investment horizon	12 months
Sensex	17,231
Nifty	5,118

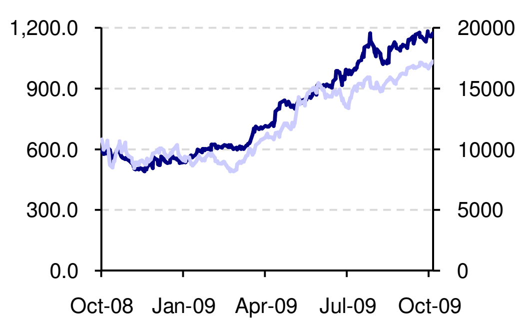
Stock Details

BSE Code	500676
NSE Code	GSKCONS
Reuters Code	GLSM.BO
Bloomberg Code	SKB IN
Market Cap (Rs cr)	4,935.8
Beta	0.23
52 W High / Low (Rs)	1,246.0 / 480.0
Avg Daily Volume	9,857
Face Value (Rs)	10.00

Shareholding Pattern (%)

Promoters	43.16
MF/Banks/Indian FIs	24.78
FII / NRIs / OCBs	14.67
Indian Public	17.39

Price Chart



Investment Rationale

Aggressive product launches to support revenue growth: GlaxoSmithKline Consumer Healthcare Limited (GSK Consumer) is the market leader in the malted food drinks segment in India. The company targets to double its CY2007 turnover of Rs 1,278.5cr by CY2011. In line with this objective, the company is targeting to strengthen its hold on the Indian market by entering new consumption categories like health snacks, cold beverages, biscuits, etc. Alongside, the company has also been introducing new product variants like new flavors in the existing health drinks category. GSK Consumer's objective is to cater to the needs of each and every health category, with the aim to offer 'something to everyone'. During the current year, the company has already launched products like Horlicks Nutribar, ActiGrow, Chill Dood and Junior Horlicks toddler biscuits. It is also test marketing products from the parent company's portfolio.

Leveraging Horlicks brand to extend presence across health categories: GSK Consumer's flagship brand, namely Horlicks, is an established name in the Indian market. Being a more than 100-year old brand, Horlicks not only enjoys a controlling market share in the malted beverages segment, but also enjoys tremendous customer faith and brand loyalty. GSK Consumer, on its part, realizes the assertive potential of Horlicks and is trying to build new product categories on the same. The company has launched products like nutritional drinks for women, chilled milk, biscuits, etc. which have been introduced in the market as Horlicks brand extensions. Going forward, we believe, such a strategy will not only help GSK Consumer in increasing its revenues but will also diversify its product portfolio, which is largely dominated by health beverages.

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 13.2xCY2010E earnings and P/E of 18.1xCY2010E EPS. With the pace at which the company is launching new products and entering new segments, we believe there is a considerable growth potential to expand further in the Indian market. W**e recommend a Buy on the stock with a Target Price of Rs 1,427**.

Exhibit 1: Financial Summary

Particulars	**CY2007**	**CY2008**	**CY2009E**	**CY2010E**	**CY2011E**
Net Sales (Rs cr)	1278.47	1542.78	1843.84	2163.58	2571.95
Total Income (Rs cr)	1346.97	1638.26	1962.32	2297.72	2739.13
PAT (Rs cr)	162.68	188.33	229.67	272.28	331.65
PAT Margin (%)	*12.7*	*12.2*	*12.5*	*12.6*	*12.9*
EBIDTA Margin (%)	*17.6*	*15.4*	*15.3*	*15.4*	*15.6*
EPS (Rs)	38.7	44.8	54.6	64.7	78.9
P/E (x)	19.0	12.8	21.5	18.1	14.9
P/BV (x)	4.7	3.1	5.4	4.6	3.9
RoE (%)	*25.2*	*24.8*	*25.4*	*25.4*	*26.0*
RoCE (%)	*27.4*	*37.9*	*39.0*	*39.0*	*39.9*
EV/EBIDTA (x)	13.4	8.2	15.4	13.2	10.4
EV/Sales (x)	2.3	1.3	2.4	2.0	1.6

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

GSK Consumer

BUY

Investment drivers

GSK Consumer, in order to double CY2007 turnover by CY2011, is launching a number of new products and entering new categories

Aggressive expansion with launch of new products

GSK Consumer targets to double its CY2007 turnover of Rs 1,278.5cr by CY2011. In line with this objective, the company has been aggressively launching health products across new categories in order to create a balanced product portfolio which caters to people across all the age groups. During the current year, the company has already launched 4 new products and entered into new categories like health snacks, flavoured milk, etc.

Exhibit 2: New launches in CY2009

	Product	Utility
January	Glaxo Nutrition ActiGrow	High-protein baby food
February	Horlicks Nutribar	Cereal snack bar
April	Chill Dood	Flavoured milk drink
June	Junior Horlicks	Toddler biscuits

Source: Company data, Parsoli Research

The company is also looking for opportunity to launch products from its parent company's portfolio. These new launches would guide GSK Consumer's entry into new segments like premium energy drink, fruit juice, oral care, etc. The company is currently test marketing Breathe Right which is an anti-snoring product in select cities of North and South India. In addition, there is line-up of other products including Lucozade (energy drink); Sensodyne (oral care); Aquafresh (oral care); Ribena (nutritional fruit juice).

The new launches would help the company in diversifying its revenue base as well as expand its market presence

We believe that these new launches will not only help GSK Consumer in expanding its market presence by venturing into new categories but also diversify its portfolio in order to reduce its over-dependence on the Horlicks brand. While the over-dependence on Horlicks brand may not come down in the short term, but in the long term, the company is likely to reap the benefits of expansion. Also, health drinks do not come into the category of "must have", rather they feature in the category of "may have" product being highly subjected to affordability. These products are subject to downtrading in case of price hikes. Going forward, the management believes that the health drinks segment can see price hikes only to the extent of 5%, putting a cap on margin expansion. With this scenario, the diversification by GSK Consumer into new categories is expected to help the company in protecting and expanding its margins.

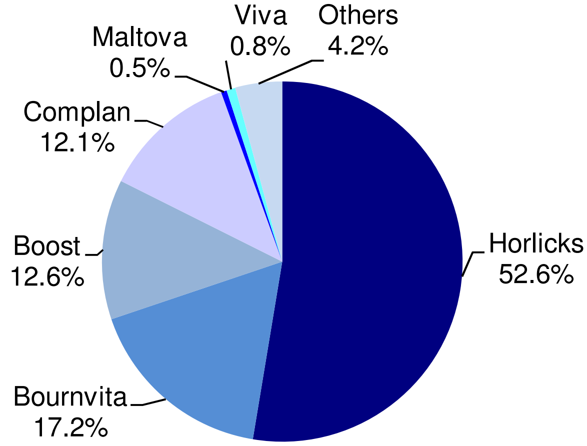
The MFD market stands at Rs 2,200cr in which GSK Consumer stands as the market leader

Undisputed market leadership

According to AC Nielsen, a marketing research firm, the market size for Malted food drinks (MFD) is around Rs 2,200cr, out of which 66.5% of the total market is dominated by GSK Consumer though its brands, namely, Horlicks, Boost, Maltova and Viva. Horlicks is the market leader with 52.6% share of the total market followed by Cadbury Bournvita with 17.2% share. Boost, another brand from GSK Consumer portfolio in the brown beverage category holds 12.6% market share and is closely followed by Heinz's Complan which holds 12.1% of the market share. Other brands like Viva and Maltova each hold less than a percent of the market share.

Horlicks, Boost, Maltova and Viva together make up for 66.5% of the total MFD market

Exhibit 3: Malted Food Drinks - Market Share %



Source: AC Nielsen (July 2008-May 2009), Parsoli Research

GSK Consumer being a more than 100 years old brand in India has sustained its market leadership over the years. Going forward, with the company's objective to cater all the consumption categories in the malted food drinks segment, we expect GSK Consumer to maintain its market leadership. Even with the entry of new players like Amul and Dabur, the company's market dominance has remained unaffected.

Leveraging Horlicks brand to enter new segments

GSK Consumer is leveraging Horlicks brand equity in order to introduce new products under categories like snack bar, cold beverages, toddler biscuits, etc.

Horlicks, the flagship brand of GSK Consumer, has long been an established name in the Indian market and enjoys tremendous consumer loyalty, brand recognition and market presence. GSK Consumer is now leveraging the brand equity of Horlicks in order to venture into new categories with the introduction of products like Horlicks Nutribar (cereal snack bar), Chilled Dood (ready-to-drink milk), Junior Horlicks Biscuits (toddler biscuits), Horlicks Lite (drink for health conscious adults), Junior Horlicks (drink for kids of 2-5 years), etc. These innovative launches, over the years, have reinforced the company's presence in the market and, going forward, will further help in establishing it as a 'family brand'. We believe that the move to leverage Horlicks brand in the market would not only diversify the company's portfolio but would also help in improving margins. This is because the new categories like cereal snack bar and toddler biscuits do not have many large players in the market catering to these needs. GSK Consumer, on its part, by entering such segments is trying to fulfill an existing need and price these products at a premium.

Target to cover all the health-based consumption categories

The company has shifted its focus from simply offering health drinks to children to offering a range of products catering to the needs of the entire family

GSK Consumer is being led by the objective of becoming a 'brand for everyone' across all the consumer categories as against keeping focus on a single category. While its competitors have maintained their focus on targeting mainly the nutritional needs of children, GSK Consumer has diversified its portfolio to cater to new consumption categories. The company, which was traditionally associated only with kids, now offers products like Horlicks Lite, Mother's Horlicks, Women Horlicks, Horlicks Nutribar; each one intended to fulfill the needs of a different category. The company has followed the two-pronged strategy of targeting specific needs of niche segments like working women, young adults, health conscious people, which are altogether a new category, as well as launching new flavors for children. With products for women, the company gained first-mover advantage in a category which was never considered a target consumer in the malted beverage segment. Going forward, the company aims to cater to each and every health-based category.

Company Overview

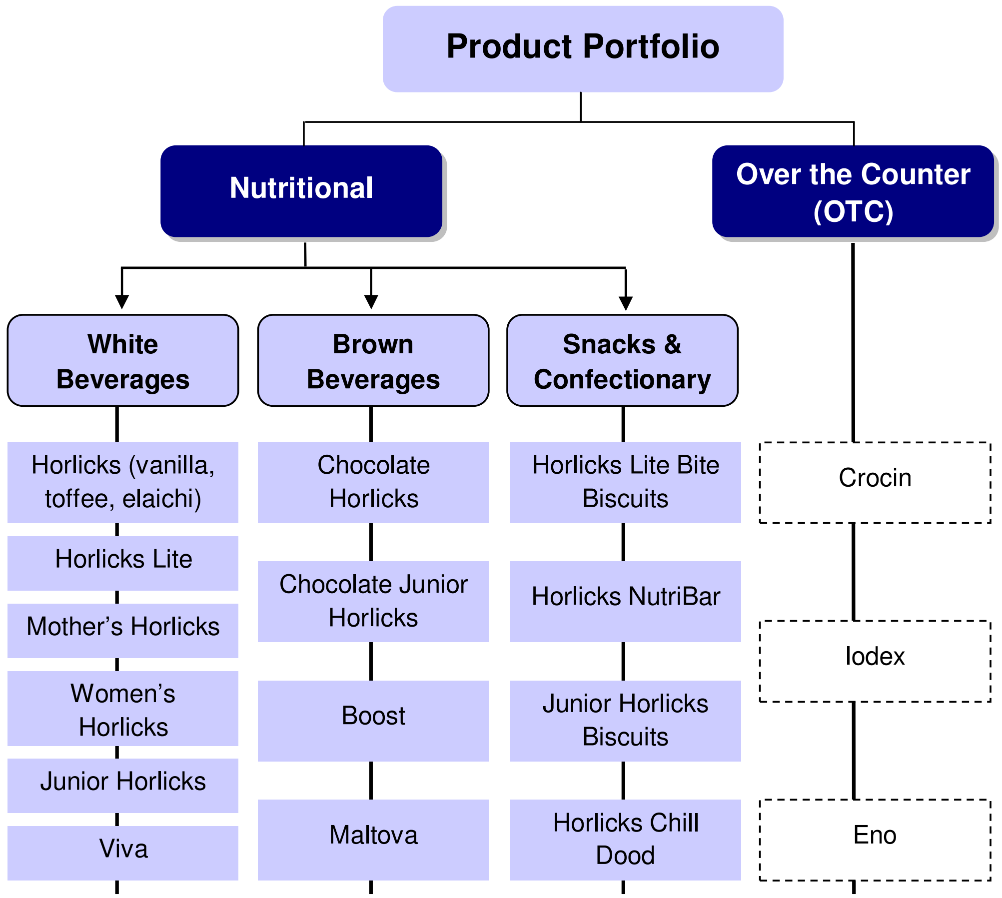
GSK Consumer, a more than 100 year old brand in India, has a distribution network of over 1,000 wholesalers and 3,50,000 retail outlets across India

GSK Consumer, the Indian associate of GlaxoSmithKline plc U.K, is a nutritional healthcare company. GSK Consumer is a market leader in the Indian health food drinks segment and has manufacturing plants in Nabha, Rajahmudry and Sonepat with a total workforce of around 2,700 people. It has a strong marketing and distribution network with over 1,000 wholesalers and direct coverage of over 3,50,000 retail outlets across India. The company's flagship brand, Horlicks, is a highly respected brand having been present in India for over 100 years. Apart from Horlicks, the company offers a number of other brown beverages and has recently made foray into the health snack and confectionery segment. GSK Consumer's business can be broadly divided into two segments, namely, nutritional and over the counter (OTC) products.

Business Structure

The company's business structure can be sub-divided into two segments, namely, nutritional products and OTC products

Exhibit 4: Business Structure



Source: Company data, Parsoli Research

Nutritional Products

The nutritional products range includes health drinks, consisting of white and brown beverages, and snacks & confectionary

The nutritional portfolio of GSK Consumer offers health food drinks, health snacks and confectionery. The company with its aim to be a 'family nourisher' offers a number of health drinks in the white and brown beverages segment.

White Beverages

The white beverages consist of a wide range of variants of the company's flagship brand, Horlicks, and the company is leveraging the Horlicks' brand equity to get into new categories. The brand commands a major portion of the white beverages segment with market share exceeding 50.0% and the company has segmented its customer base by targeting individual segments. The company has expanded its product portfolio in order to offer something to everyone whether it's working women, growing children, mothers or elderly people with diabetes.

Horlicks, the flagship brand of GSK Consumer, is a white beverage and is offered in a number of flavors like vanilla, toffee and elaichi

Horlicks, a highly trusted and respected brand in the Indian market since 1930s, is the leader in the white beverages segment. The company offers a number of variants under the Horlicks brand including vanilla, toffee and elaichi flavors. The products caters to the nutritional needs and acts as a supplement for enhancing growth, attention and concentration in growing children.

Horlicks Lite is a nutritional drink which fulfils the dietary needs of health conscious adults and is also suitable for people with diabetes. It has been specifically designed with nutrients which enhance the strength and stamina of a person. This is because the drink contains zero added sugar, zero cholesterol, is high on fibre, low on fat with has essential antioxidants. The drink commands a pricing premium owing to the fact that it is the only drink in the market catering to this particular customer segment.

Over the years, the company has introduced a number of nutritional drinks for women each targeting a separate age group and varying health needs

Mother's Horlicks is a nutritional drink supplement which focuses on the nutrition needs of pregnant and lactating mothers. Traditionally, women's health has remained largely ignored in India with not many products being available for this niche category. The product, again being one of its kind, reinforces the company's strategy to target each of its consumer segments separately.

Women's Horlicks aims to fulfill the daily nutrition requirements of women in the age group of 19-50 years. The health drink conforms to the World Health Organization (WHO) recommendations, contains no added sugar and is low in fat. The product is available in chocolate and caramel flavors.

Junior Horlicks is a product exclusively for children in the age group of 2-5 years in order to fulfill their nutritional requirements. The product is well-placed for a young country like India and finds good demand in the Indian market.

Viva is a health drink containing milk, wheat and malted barley and a combination of essential vitamins, iron, calcium and phosphorus.

The brown beverages segment offers Horlicks variant in chocolate flavor and other beverages like Boost and Maltova

Brown Beverages

GSK Consumer has a strong presence even in the brown beverages segment which has a number of players like Cadbury, Heinz, Amul and Dabur. The company's offerings in this segment include:

Chocolate Horlicks and Chocolate Junior Horlicks are chocolate flavor variants of the Horlicks health drink brands which are present in the white beverages segment.

Boost is one of the leading brands in the brown beverage segment. It is a malt-based health food drink in a chocolate flavor containing key vitamins and minerals that help boost energy. It has a market share of around 13.0% in the brown beverages segment and in South India; the drink commands a market share of 24.0%.

Maltova is another chocolate malt drink with vitamins, mineral and carbohydrates beneficial for growing children. Though the drink contributes a very small share in the total health food drinks market, it is a popular drink in the brown beverages segment.

Snacks & Confectionary

GSK Consumer, under the snacks & confectionary segment, offers biscuits for kids as well as adults; cereal snack bar for young adults and ready-to-drink milk for kids

This segment of the company's product portfolio offers health snacks, ready-to-drink flavored milk, biscuits and confectionery. The company is expanding its product offerings by venturing into new product categories, leveraging the Horlicks brand and seeing the potential of health foods and functional foods in the Indian market.

Horlicks Lite Bite is a biscuit containing no added sucrose while also containing fibre to help glucose control. It has added benefits of antioxidants, vitamins and calcium and is a healthier alternative to other leading biscuits. The biscuits are ideal nutritional products for all adults and are also suitable for people with diabetes.

Horlicks NutriBar is a cereal bar snack which targets the 'young working adult' segment. The product has been launched in February 2009 and comes in three flavors, namely, Cereal 'n Milk, Choco Crispy and Nuts n Raisins. The product markets itself as an alternative to the junk food and is aimed at health-conscious urban generation who is constantly on the move.

Junior Horlicks Biscuits is an extension of the Horlicks brand which targets the toddler (kids in the age bracket of 2-5 years) food segment. The biscuit is available in two flavors - chocolate and butter. It is fortified with vitamins and does not contain any added flavors or artificial preservatives.

Horlicks Chill Dood is another brand extension from Horlicks with which the company has forayed into the dairy segment. It is a ready-to-drink flavored milk targeted at kids and comes in chocolate flavor.

Over the Counter (OTC) Products

The OTC segment consists of products like Crocin, Iodex and Eno

The OTC segment of the company markets products including Crocin, Iodex and Eno and holds a significant market share in each of the brand segments. **Crocin**, a drug to relieve fever and pain, is a well-known brand in the Indian market. According to AC Nielsen, the brand commands the majority market share of 18.4% in the market for fever, pain and cold relievers. **Eno** is a leading antacid in the Indian market with a majority market share of 29.2%. **Iodex**, in the rubs and balms segment, is one of the leading brands in the segment holding a market share of 16.5%.

Industry Overview

FMCG includes food as well as non-food items that cater to the basic needs of consumers and find frequently usage among consumers

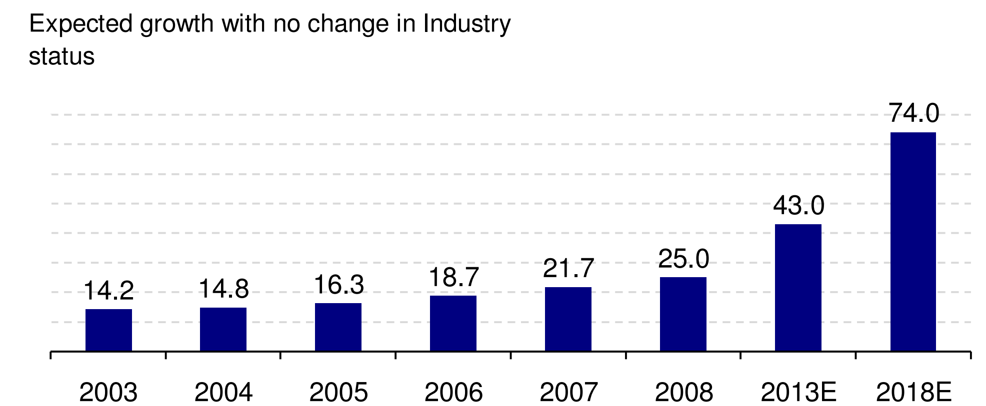
Fast Moving Consumer Goods (FMCG) include food and non-food items that find frequent usage among consumers. They have a relatively shorter shelf life as they have higher turnover like in case of biscuits, chips or face deterioration in quality with time like in case of fresh fruits and vegetables. FMCG includes food and beverages like tea, coffee, juices, health drinks, carbonated drinks, biscuits, chocolates, milk and dairy products; personal care products like soap, shampoo, toiletries, cosmetics; household care products like cleaning and sanitation products, etc. FMCG products are considered recession proof as their demand is not so much dependent on the economic scenario in the country. They might see certain amount of downtrading (opting for a smaller pack or a cheaper value product to cut down on costs) during the economic downturn, but consumers cannot avoid their use altogether as these products majorly cater to the basic needs of consumers.

FMCG Sector in India

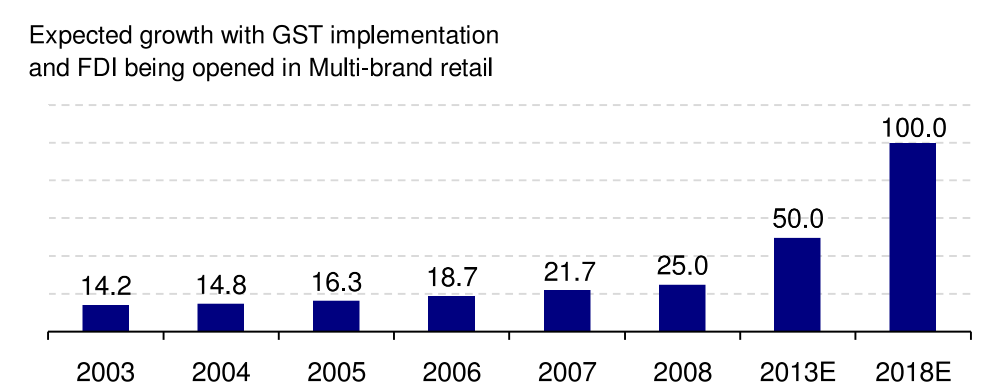
The FMCG sector is expected to touch a market size of US$ 74.0bn by 2018, growing at a CAGR of 11.5% during 2008-18

The Indian FMCG sector has been consistently growing during the last 3-4 years and despite the ongoing economic downturn, the sector has not been impacted and is expected to continue to perform well. According to a Federation of Indian Chambers of Commerce and Industry (FICCI)-Technopak report on the sector, the FMCG sector has been grown at a CAGR of around 12.0% during 2003-2008 with the market size touching US$ 25.0bn in 2008. Going forward, the market size is expected to increase to US$ 43.0bn in 2013 and US$ 74.0bn in 2018, at a growth CAGR of 11.5% during 2008-2018.

Exhibit 5: FMCG Sector - Market Size **Rs cr**



The implementation of GST and allowing of FDI in multi-brand retail is expected to give a further push to the FMCG sector



Source: FICCI-Technopak report, Parsoli Research
**Conversion rate, US$ 1.0 = Rs 48.0*

However, according to the report, growth in the FMCG sector could shoot up more if and when Goods & Service Tax (GST) is implemented and FDI is allowed in multi-brand retail which as of now is allowed only in single brand retail. This is because the implementation of GST is expected to result in 10-12% reduction in prices of FMCG products and hence give a push to the volumes and value growth. In addition, allowing FDI in multi-brand retail is expected to bring in major retailers from other countries giving a boost to penetration of modern retail outlets which would drive the growth for the sector. With the implementation of GST and allowing of FDI in multi-brand retail, the FMCG sector is expected to register growth at a CAGR of around 14.9% during 2008-18 touching a market size of US$ 50.0bn by 2013 and US$ 100.0bn by 2018.

Malted Food Drinks

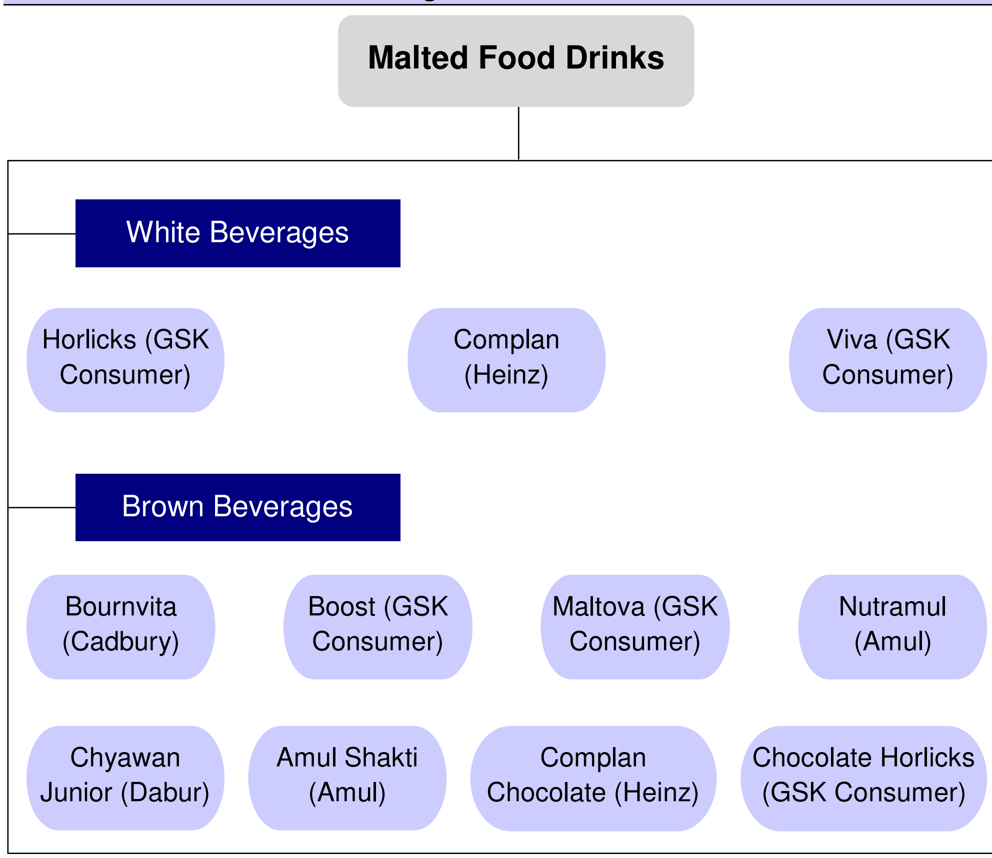
GSK Consumer dominates the Rs 2,200cr MFD market with 66.5% market share

According to AC Nielsen, the MFD market stands at Rs 2,200cr and GSK Consumer dominates the market with 66.5% market share. The penetration of MFD across India stands at around 35%. The management of GSK Consumer expects this market to grow at around 10-12%. The market growth is expected to come by with the volume growth to the extent of 6-7% and price growth of only up to 5%. The price growth is not expected to be a major contributor to the market growth because MFD as a product come in the discretionary category rather than being treated as a necessity, making most of the consumers price sensitive towards their purchase.

The white beverages market includes major players including Horlicks, Complan and Viva

The brown beverages segment consists of a number of players including experienced ones like GSK Consumer, Cadbury and Heinz and new players like Dabur and Amul

Exhibit 6: Malted Food Drinks Segment



Source: Company data, Parsoli Research

The health food drink (HFD) segment consists of malted foods and this segment is strongly associated with milk. The HFD segment is divided into white and brown health drinks, with white beverages taking a major share of the total market. The white drinks focus on nourishment and are associated with health. These include health drinks like Horlicks, Complan, with Horlicks being the market leader in this segment. The brown drinks are mainly associated with taste and act as energy boosters including drinks like Boost, Milo, Maltova, Bournvita etc.

The market for malted food drinks in India has a number of players like GSK Consumer, Cadbury's, Heinz with Amul and Dabur being the latest entrants. While the market for white beverages is mainly dominated by three major brands, namely, Horlicks, Complan, Viva; the brown beverages segment consists of a larger number of brands from all the companies. GSK Consumer and Cadbury and Heinz being strong players in the malted food drinks market have presence in both the white and brown beverage segments. However, small players like Amul and Dabur have targeted only the brown beverage segment. The white beverages find greater demand in south and east India as both the regions have been milk-deficient and white beverages can be prepared with just the hot water. On the other hand, brown beverages are preferred in north and west India as these regions do not face milk deficiency and there is a preference for sweetness in taste which comes from the brown (chocolate) drinks.

Growth Drivers

Goods and Service Tax (GST) Implementation

The implementation of GST in 2010 is expected to bring down costs of products across the sectors by replacing multiple tax regime with a single tax system

The implementation of GST announced in the Union Budget 2009 will come into effect from 1st April 2010 and is expected to spur growth in the FMCG sector. GST would replace the multiple indirect taxes currently being levied on FMCG products enabling uniform taxation across all the Indian states. In addition, it will also enable simplification in tax calculation with the implementation of a uniform tax rate which would be paid to a single authority enabling single-point taxation. The frequency with which goods reach the market will also get enhanced with lesser inventory being held in transit with the multiple taxation authorities, enabling operational efficiencies. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the apex body of chambers of commerce in India, the present tax rate which works out to be as high as 30.0% can be brought down to 17.0% with the implementation of GST, thus reducing the prices of goods and services at the customer end and improving corporate profitability.

Rural demand

The implementation of rural development schemes like NREGS and farm loan waiver have increased the disposable income in the hands of rural consumers

The demand from the rural India is giving impetus to the growth in the FMCG sector. Despite the ongoing slowdown, the FMCG companies have not seen any drop in the demand for their products as they are less prone to demand contractions being low in the average ticket size. A major push in this demand is directly coming from the rural areas on account of rise in rural income and increasing penetration of FMCG products in these areas. The increased liquidity in the rural market has come from the strong growth in agriculture due to four consecutive years of positive growth in rural GDP has boosted the rural spending power. In addition, government efforts such as the loan waiver of Rs 65,000cr granted to the farmers and the National Rural Employment Guarantee Scheme (NREGS), which guarantees 100 days of employment to one member of every rural household, have put money directly into the pockets of rural households. Also, the increase in procurement prices with the government setting the minimum support price (MSP) for many farm products has contributed to a rise in rural demand.

The company plans to target rural income by expanding its distributor network to achieve greater penetration in rural India

In order to expand its rural reach and increase its revenues from the rural markets, GSK Consumer has launched a new marketing initiative called 'Go to Market' under which the company has created a second layer of distributors in the smaller towns to supplement the existing chain of around 500 big distributors. Most of these 4,000 sub-distributors were appointed in the eastern and southern parts of the country.

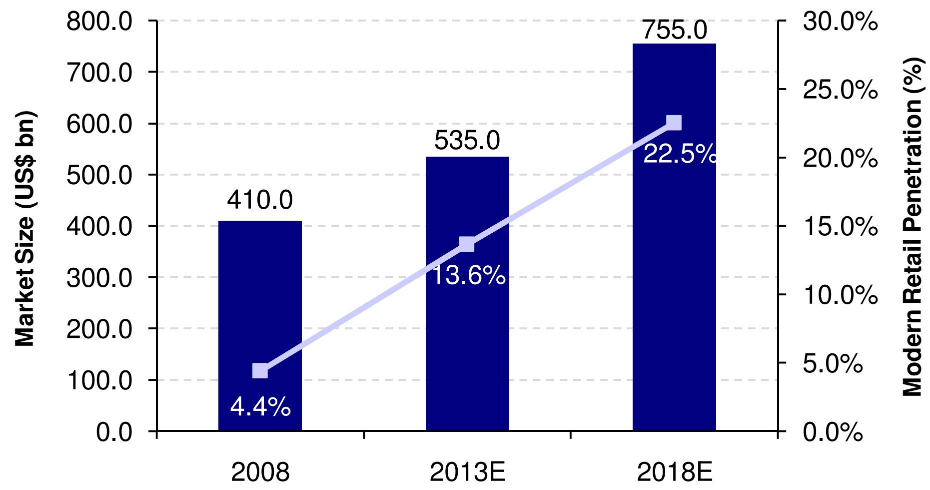
Currently the company reaches out to around 25% of the rural market and, going forward, it is planning to expand this reach to 40% of the hinterland. The company has about 5,00,000 outlets which it is planning to increase to 5,50,000 outlets by the end of the current year.

Indian retail market is expected to touch a size of US$ 755.0bn by 2018 with modern retail penetration at 22.5%

Growth in modern retail

The Indian retail industry which stood at US$ 410.0bn in 2008 is expected to grow at a CAGR of 6.3% during 2008-2018 to reach a market size of US$ 755.0bn by 2018. Of the total retail industry size, the market size of modern retail stood at US$ 18.0bn in 2008, contributing 4.4% of total market. However, going forward, the modern retail is expected to grow at a CAGR of 25.2% during 2008-2018 to touch a market size of US$ 170.0bn by 2018. The contribution of modern retail is, thus, expected to reach 22.5% of the total retail industry size.

Exhibit 7: FMCG Share in Modern Retail Growth



Source: FICCI-Technopak report, Parsoli Research

Growth in modern retail is expected to become a major growth driver for FMCG products in India

The modern retail serves as a one-stop self service store wherein customers can choose and compare different products in any particular category. It offers better quality at affordable prices along with the comfort to shop at a convenient location with good ambience. Modern retail has also given FMCG products greater shelf space and wider visibility. Going forward, we believe, that modern retail will be one of the major growth driver for the sector. Also, as modern retail expands its presence in Tier- III, IV and V cities and rural areas, it will increase FMCG penetration in a market which remains largely untapped.

The ever increasing focus of urban consumers towards health food and drinks is expected to increase the demand for health-based categories

Focus on Health and Wellness

The increasing focus of the urban Indian on the health and wellness category is giving a big push to the market for health foods in India. The market for health foods including health drinks, probiotic yogurt, buttermilk, dietary supplements etc. is growing on the back of positive growth in the food processing industry, increasing health awareness among consumers and willingness to go for health foods backed by higher disposable incomes. In addition, the affluent and unhealthy lifestyles are causing health problems prompting people to take a re-look at their food habits and shift to health foods. This increased customer focus towards the health factor is the reason why many FMCG companies are introducing health-related products like health snacks, beverages, cereals, confectionary etc.

Key Challenges

Lack of innovation in terms of new products and high advertisement expenditures in order to get customer attention have become major challenges for the FMCG sector in India

Lack of innovation
The current situation in the FMCG market is that of lack of innovation combined with lack of differentiation in various product categories. With the aim to corner the highest market share, FMCG companies have used lower price points to grow volumes, ignoring research & development (R&D) and focus on innovation. During the current slowdown, many companies are experiencing customer downtrading owing to the fact that customers are now not willing to simply pay a premium on the brand name with no extra benefits if they are able to get the same product/benefit from some other brand for a lesser price. With the customer focus shifting to value for money, increased awareness and high competition, companies need to come up with better, different and cost-effective products.

High advertising costs
In order to have greater visibility, customer attention and recall, FMCG companies have resorted to aggressive advertising of their products. Most of the companies have raised their advertising expenses in order to educate customers and with the increasing number of communication channels being adopted, it is becoming increasingly difficult to educate customers about a product. The various advertising and promotion mediums like print, television, radio, internet etc. are being flooded by the FMCG companies which have reduced the attention span of customers as they are being constantly exposed to new advertisements through different mediums. The aggressive advertising and promotion strategies have also raised the advertising costs for the industry as each company tries to outdo the other through higher advertisement spend and expensive brand ambassadors.

Peer Comparison

The MFD market, which was earlier dominated by players like GSK Consumer, Cadbury and Heinz has seen the entry of new players in the brown beverages segment

The MFD market in India has traditionally been dominated by three major players, namely, GSK Consumer, Cadbury and Heinz. However, recently a number of companies have made a foray into this segment. These include Dabur which has come up with Dabur Chyawan Junior and Amul with Amul Shakti. Apart from the malted food drinks segment, GSK Consumer is also present in the snacks and confectionary segment with products including biscuits, cereal bar snacks and flavored milk.

Cost and Profit Margins

Exhibit 8: Cost Analysis %

As % of Net Sales	GSK Consumer	Nestle	Dabur	Britannia
Raw Material Cost	30.5	40.1	23.7	56.8
Employee Cost	11.1	7.3	7.0	3.1
Advertising Cost	12.6	4.5	11.9	6.8
Operating Expenditure	73.5	72.8	75.2	88.5

Source: Company data, Parsoli Research

Among its peer group, GSK Consumer has the highest advertisement expenditure at 12.6%

With its high focus on advertising and sales promotion, GSK Consumer has the highest advertising cost in the industry at 12.6%. The company, though having a strong brand presence in the market, functions in a highly competitive sector and undertakes aggressive advertising and marketing initiatives in order to support its topline. Going forward, with the company planning to launch a number of new products, the advertising spend is expected to remain high. In terms of operating

GSK Consumer's PAT margins are lower as the company does not get any tax benefits

We expect the company's net sales to increase to Rs 2,571.9cr, growing at a CAGR of 18.6% during CY2008-11

The management expects that the company would be able to neutralize the hike in raw material prices and sustain the margins

expenditure, the company remains competitive in the industry with its efforts in reducing its employee and manufacturing expenses.

Exhibit 9: Profit Margins %

	GSK Consumer	Nestle	Dabur	Britannia
EBIDTA Margin	15.4	20.0	17.6	8.4
EBIT Margin	18.9	18.6	18.3	8.6
PAT Margin	12.7	12.4	15.6	5.8

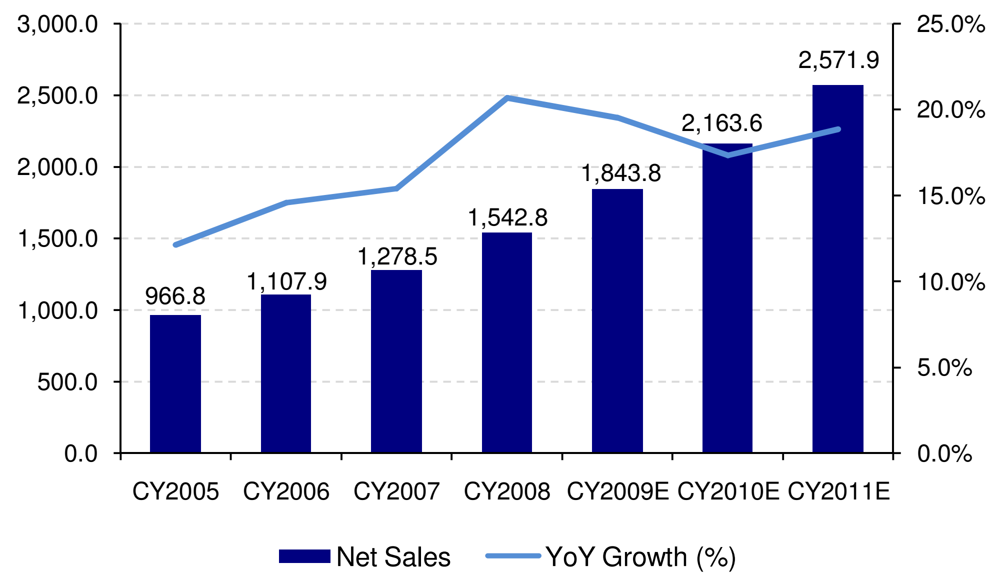
Source: Company data, Parsoli Research

Among the peers, GSK Consumer enjoys an EBIDTA margin of 15.4% and PAT margin of 12.7%. The company, being a zero debt company, enjoys a high EBIT margin, at par with its peers. The company, even without any tax benefits, has a comparable PAT margin at 12.7%.

Financial Performance

Margins to sustain despite rise in raw material prices
We expect GSK Consumer's net sales to expand from Rs 1,542.8cr in CY2008 to Rs 2,571.9cr in CY2011, increasing at a CAGR of 18.6% during the period. The growth in net sales is expected on the back of new product launches planned by the company during the current year. This expansion would be in line with the company's target to double its CY2007 turnover of Rs 1,278.5cr by CY2011. We expect the EBIDTA margin to improve by around 20bps to reach 15.6% in CY2011 from 15.4% in CY2008. There is expected to be some pressure on the margins due to the soaring prices of milk, sugar, wheat, etc. The management expects that though the company would be in a position to neutralize the hike in raw material prices during CY2009, there would not be any significant improvement in the EBIDTA margin. In terms of PAT margins, we expect them to increase marginally by 10bps to 12.3% in CY2009.

Exhibit 10: Net Sales Growth, CY2005-2011E



Source: Company data, Parsoli Research

GSK Consumer

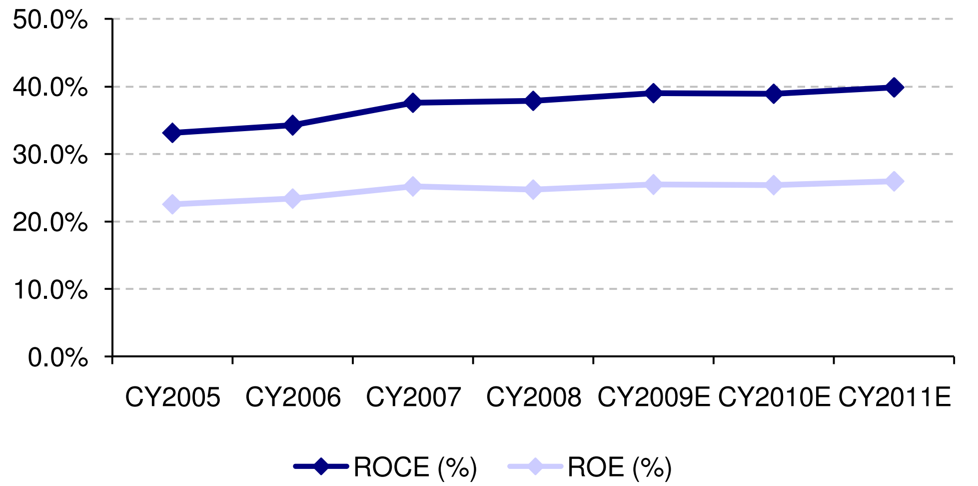
BUY

By CY2011, the company's ROCE and ROE are expected to improve to 39.9% and 26.0%, respectively

Growth in ROCE and ROE expected to continue

In CY2008, the company's ROCE and ROE stood at 37.9% and 24.8%, respectively. Going forward, we expect the ROCE to improve to 39.9% by CY2011 on account of an expected 20bps improvement in EBIDTA margin from 15.4% in CY2008 to 16.5% in CY2011. Alongside, the ROE is expected to move up to 26.0% in CY2011.

Exhibit 11: ROCE and ROE, CY2005-2011E



Source: Company data, Parsoli Research

Recent Quarter Update

During Q2CY2009, the company's sales grew at 24.5% yoy to touch Rs 468.7cr

Exhibit 12: Quarterly Analysis — **Rs cr**

Particulars	**Q2CY2009**	**Q2CY2008**	**Q1CY2009**	***YoY (%)***	***QoQ (%)***
Revenue	468.7	376.6	539.4	*24.5*	*(13.1)*
Other Income	22.8	26.2	25.6	*(12.7)*	*(10.9)*
Total Income	491.6	402.8	565.0	*22.0*	*(13.0)*
Total Expenditure	394.1	322.0	420.7	*22.4*	*(6.3)*
EBIDTA	74.6	54.6	118.7	*36.6*	*(37.1)*
EBIDTA Margin (%)	*15.9*	*14.5*	*22.0*	*9.7*	*(27.7)*
Depreciation	10.5	10.2	10.6	*2.8*	*(0.8)*
EBIT	86.9	70.5	133.7	*23.2*	*(35.0)*
Interest	1.1	1.3	1.3	*(18.6)*	*(20.5)*
Profit before Tax	85.9	69.2	132.4	*24.0*	*(35.1)*
Tax	30.7	23.1	48.5	*32.8*	*(36.8)*
Net Profit	**55.2**	**46.2**	**83.9**	***19.6***	***(34.2)***
PAT Margin (%)	*11.8*	*12.3*	*15.6*	*(3.9)*	*(24.3)*
EPS	13.1	11.0	19.9	*(19.6)*	*(34.2)*

Source: Company data, Parsoli Research

During Q2CY2009, Horlicks and Boost showed a volume growth of 12.0% and 10.0%, respectively

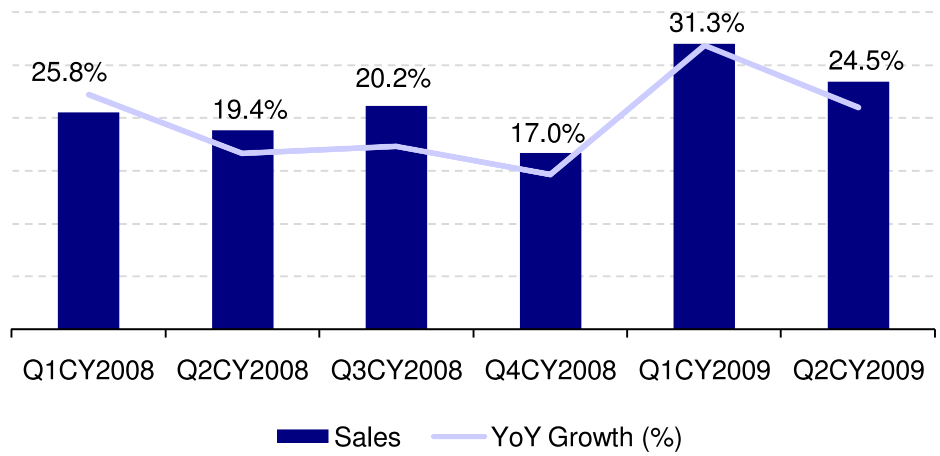
Company's topline continues to grow at a robust rate

GSK Consumer's Q2CY2009 sales rose to Rs 468.7cr from Rs 376.6cr in Q2CY2008, showing a robust yoy growth of 24.5%. The company's core brands, Horlicks and Boost performed well and registered a volume growth of 12.0% and

10.0%, respectively. Exports, which contribute 8.0-9.0% of sales, grew by 30.0% yoy during the quarter. The company launched two new products in this quarter, namely, Horlicks Chill Dood which is a ready-to-drink cold beverage and Junior Horlicks toddler biscuits.

The company launched new products like Horlicks Chill Dood and Junior Horlicks toddler biscuits during Q2CY2009

Exhibit 13: Net Sales - Quarterly Growth



Source: Company data, Parsoli Research

During the quarter, the EBIDTA showed a robust growth of 36.6% yoy and the PAT of 19.6% yoy

Operating margins improve with lower cost and price hike

The EBIDTA grew by 36.6% yoy to Rs 74.6cr and the PAT rose by 19.6% to Rs 55.2cr. The EBIDTA margin expanded by 141bps yoy due to 155bps decline in raw material costs and 78bps reduction in employee expenses. Along with the fall in costs, the margins were supported by the price hike of around 7.0% and reduction in excise duty by around 4.0-5.0%. The high operating margins were reinvested in the brand building exercise in the form of advertisements whose expenditure stood at 16.0% of net sales, a 252bps rise yoy.

In Q2CY2009, the company's advertisement expenditure went up by 252bps in order to promote new products

Exhibit 14: Cost Review, Q2CY2009 %

As % of Net Sales	Q2CY2009	Q2CY2008	bps change yoy
Raw Material	25.8	27.4	(155)
Employee Expenses	11.2	12.0	(78)
Advertisement Expenses	16.0	13.5	252
Other Expenditure	45.1	44.5	60
Total Expenditure	84.1	85.5	141

Source: Company data, Parsoli Research

Valuation

We have used Relative valuation based on EV/EBIDTA and P/E methods

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

Using the EV/EBITDA method, we arrive at a target price of Rs 1,558.6 per share

GSK Consumer currently trades at an EV/EBIDTA multiple of 15.4x for CY2009E and 13.2x CY2010E. When considering the current EV/EBIDTA multiple, the stock trades at a discount of 22.4% to the industry average of 23.0x. We believe that GSK Consumer will be able to increase its operating profit at a CAGR of 19.1% during CY2008-11E to touch Rs 401.2cr by CY2011. The company is expected to sustain its margins at 15.4% in CY2010. We have discounted the peer group average by 27.8% and assigned a multiple of 18.0 to value the stock. Using this target multiple on our CY2010 EBIDTA estimates of Rs 333.9cr, we arrive at a target price of Rs 1,558.6 per share.

With the P/E method, we get a target price of Rs 1,294.8 per share

When considering the P/E multiple, the stock currently trades at 21.5x CY2009E and 18.1x CY2010E earnings. The industry average multiple for peer group stands at 28.6. We expect the company's EPS to grow at a CAGR of 20.8% during CY2008-11E. This growth is expected to come by on the back of the aggressive new product launches planned by the company to expand its revenues by entering new categories. Overall, the company's revenue growth is being driven by its target to double its CY2007 turnover of Rs 1,278.5cr by CY2011. We are assigning a multiple of 20.0 to value the stock. Employing this target multiple on our CY2010 EPS estimates of Rs 64.7, we arrive at a target price of Rs 1,294.8.

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

By taking the weighted average of the price estimated through EV/EBIDTA and P/E methodologies, which is Rs 1,558.6 and Rs 1,294.8, respectively, we arrive at a target price of Rs 1,427 representing an upside of 21.6%.

Exhibit 15: Valuation

Pricing Methodologies	Weight Assigned	Target Price
Target price using EV/EBIDTA approach	50.0%	1,558.6
Target price using P/E approach	50.0%	1,294.8
Weighted average target price (Rs)		1,426.7
Current Market Price (CMP)		1,173.6
Upside from current levels (%)		21.6

Source: Company data, Parsoli Research

Future Outlook and Conclusion

With the company targeting new health categories and going in for aggressive product launches, we expect it to reach a turnover of Rs 2,571.9cr by CY2011

With the company's target to double its CY2007 turnover by CY2011, we expect the revenues to increase at a CAGR of 18.6% during CY2008 and CY2011 to reach a turnover of Rs 2,571.9cr by CY2011. This growth would be supported by the company's efforts to enter new product categories like ready-to-drink cold beverages, cereal snack bar, biscuits, etc. The company is trying to leverage the Horlicks brand equity in the Indian market in order to enter these new categories. This strategy of introducing new categories with Horlicks name would help the new products get a share of the customer wallet due to the consumer faith on Horlicks brand. This strategy would also help the company in diversifying its revenues. The company also plans to launch new products like Lucozade, Sensodyne, Aquafresh, Ribena, etc. from its parent company's portfolio. These launches will further strengthen the company's hold in segments like oral care, fruit juice, energy drinks, etc.

We expect the stock to perform well over 12 months horizon and recommend a buy on the stock with a target price of Rs 1,427

The MFD market has been growing at healthy rate, even in the wake of slowdown, to reach Rs 2,200cr. Going forward, the market is expected to keep growing at a rate of 10.0-12.0% for the next 5 years. This growth is expected on the back of growing demand from rural India, increasing focus on health foods, growth in modern retail, etc. GSK Consumer is the market leader in the MFD segment with a dominant market share of 66.5%. Even the entry of new players like Dabur and Amul has not been able to dent the market share. The company's target is to cover each and every health category in the Indian market. With the market dominance, brand equity and customer faith enjoyed by GSK Consumer, we expect the stock to perform well over 12 months horizon. **We recommend a BUY on the stock with a Target Price of Rs 1,427.**

Financial Statements

Exhibit 16: Profit & Loss Statement — Rs cr

	CY2007	CY2008	CY2009E	CY2010E	CY2011E
Net Sales	1,278.5	1,542.8	1,843.8	2,163.6	2,571.9
% chg	*15.4*	*20.7*	*19.5*	*17.3*	*18.9*
Total Expenditure	1,053.7	1,305.3	1,561.7	1,829.7	2,170.8
% chg	*14.1*	*23.9*	*19.6*	*17.2*	*18.6*
EBIDTA	224.7	237.5	282.2	333.9	401.2
Margin (%)	*17.6*	*15.4*	*15.3*	*15.4*	*15.6*
Other Income	68.5	95.5	118.5	134.1	167.2
Depreciation & Amortisation	43.5	41.9	46.2	48.9	57.6
Interest	4.6	7.0	8.0	8.5	10.5
PBT	245.1	284.1	346.4	410.7	500.2
Margin (%)	*19.2*	*18.4*	*18.8*	*19.0*	*19.4*
Total Tax	82.4	95.8	116.7	138.4	168.6
(% of PBT)	*33.6*	*33.7*	*33.7*	*33.7*	*33.7*
PAT	162.7	188.3	229.7	272.3	331.7
% chg	*28.2*	*15.8*	*21.9*	*18.6*	*21.8*
Margin (%)	*12.7*	*12.2*	*12.5*	*12.6*	*12.9*

Source: Company data, Parsoli Research

Exhibit 17: Balance Sheet — Rs cr

	CY2007	CY2008	CY2009E	CY2010E	CY2011E
SOURCES OF FUNDS					
Equity Share Capital	42.1	42.1	42.1	42.1	42.1
Reserves & Surplus	604.3	718.8	861.0	1030.2	1234.6
Net Worth	646.3	760.9	903.1	1072.3	1276.7
Total Loans	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	17.3	6.6	4.9	3.7	2.8
Capital Employed	663.6	767.5	908.0	1076.0	1279.4
APPLICATION OF FUNDS					
Gross Block	523.7	539.5	600.7	673.5	753.0
Less: Acc. Depreciation	297.7	329.2	375.4	424.3	481.9
Net Block	226.0	210.2	225.3	249.2	271.1
Capital Work-in-Progress	17.3	16.3	25.1	222.3	192.8
Investments	297.8	0.0	0.0	0.0	0.0
Current Assets	371.1	853.4	1045.1	1080.7	1373.4
Current Liabilities	248.7	312.5	387.5	476.2	557.8
Net Current Assets	122.5	540.9	657.7	604.5	815.6
Capital Deployed	663.6	767.5	908.0	1076.0	1279.4

Source: Company data, Parsoli Research

Exhibit 18: Key Ratios					
Per Share Data (Rs)	**CY2007**	**CY2008**	**CY2009E**	**CY2010E**	**CY2011E**
EPS	38.7	44.8	54.6	64.7	78.9
DPS	12.0	15.0	17.8	20.9	25.9
Book Value	663.6	767.5	908.0	1,076.0	1,279.4
Returns (%)					
ROE	25.2	24.8	25.4	25.4	26.0
ROCE	27.4	37.9	39.0	39.0	39.9
Dividend Payout	31.0	33.5	32.6	32.4	32.8
Valuation Ratios (x)					
P/E	19.0	12.8	21.5	18.1	14.9
P/Cash EPS	15.0	10.5	17.9	15.4	12.7
P/BV	4.7	3.1	5.4	4.6	3.9
EV/EBIDTA (x)	13.4	8.2	15.4	13.2	10.4
EV/Sales (x)	2.3	1.3	2.4	2.0	1.6

Source: Company data, Parsoli Research

Exhibit 19: Cash Flow Statement					Rs cr
Particulars	**CY2007**	**CY2008**	**CY2009E**	**CY2010E**	**CY2011E**
PBT	245.1	284.1	346.4	410.7	500.2
Depreciation & Amortisation	43.5	41.9	46.2	48.9	57.6
Interest	4.6	7.0	8.0	8.5	10.5
Change in Working Capital	12.5	(41.1)	6.9	3.3	1.3
Direct taxes paid	(89.2)	(106.5)	(118.4)	(139.6)	(169.5)
Cash Flow from Operations	216.5	185.4	289.2	331.7	400.1
(Inc.)/Dec. in Fixed Assets	(2.0)	(15.8)	(61.2)	(72.8)	(79.5)
(Inc.)/Dec. in Cap WIP	(10.8)	1.0	(8.8)	(197.2)	29.5
Free Cash Flow	203.7	170.6	219.2	61.7	350.1
Inc./(Dec.) in Investments	(78.2)	297.8	0.0	0.0	0.0
Inc./(Dec.) in Capital	(0.0)	0.0	0.0	0.0	0.0
Inc./(Dec.) in Loans	0.0	0.0	0.0	0.0	0.0
Dividend paid (incl. tax)	(59.0)	(73.8)	(87.5)	(103.1)	(127.3)
Interest paid (Net)	(4.6)	(7.0)	(8.0)	(8.5)	(10.5)
Miscellaneous	(16.2)	(10.4)	0.0	0.0	0.0
Cash Flow from Financing	(158.0)	206.7	(95.5)	(111.5)	(137.8)
Inc./(Dec.) in Cash	45.8	377.3	123.7	(49.9)	212.3
Opening Cash balances	47.9	93.7	471.0	594.7	544.8
Closing Cash balances	93.7	471.0	594.7	544.8	757.2

Source: Company data, Parsoli Research

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