

GlaxoSmithKline Consumer

BSE Sensex 19,468	S&P CNX 5,887
Bloomberg	SKB IN
Equity Shares (m)	42.1
M.Cap. (INR b)/(USD b)	157.8/2.9
52-Week Range (INR)	3,895/2,179
1,6,12 Rel. Perf. (%)	0/23/35

Financials & Valuation (INR b)

Y/E Dec	2012	2013E	2014E
Sales	30.8	36.9	43.0
EBITDA	4.6	6.2	7.5
Adj. PAT	4.4	5.1	6.0
Adj. EPS (INR)	103.9	122.1	142.3
EPS Gr. (%)	23.0	17.5	16.6
BV/Sh.(INR)	322.1	384.2	456.6
RoE (%)	32.2	31.8	31.2
RoCE (%)	48.1	47.7	46.8
Payout (%)	49.1	49.1	49.1
Valuations			
P/E (x)	36.0	30.9	26.5
P/BV (x)	11.7	9.8	8.2
EV/EBITDA (x)	24.2	23.4	18.8
Div. Yield (%)	1.2	1.4	1.6

CMP: INR3,751 TP: INR4,000 Downgrade to Neutral

- GSK Consumer's 4QCY12 performance was mixed, with sales 6% ahead of estimates but EBITDA and PAT were 38% and 13% below expectations due to sharp 400bp increase in other expenses. Sales grew 17.8% to INR7.09b (est INR6.7b), led by estimated 8-9% volume growth in MFD.
- Gross margin expanded 160bp YoY to 66% due to price hikes, correction in SMP prices and mix improvement.
- EBITDA margin however declined 300bp YoY to 7.2% (est 12.2%) due to sharp increase in other expenses (up 37% YoY, impacting by 410bp) and employee costs (up 80bp). EBITDA declined by 17% YoY to INR510m (est INR819m).
- Higher other income (up 24%) and lower depreciation costs (down 35%) resulted in 6% PBT growth to INR1.03b (est INR1.22b). Decline in depreciation expenses is due to fully depreciated Sonapat plant. We expect these costs to revert to normal trends beginning 1QCY13 as new plant commences operations in CY13. PAT growth of 18%, ahead of PBT growth, was on account of 660bp YoY contraction in tax rate to 32.3%.
- CY12 highlights - Sales, EBITDA and PAT growth stood at 15%, 10% and 23% respectively YoY. GSK announced a dividend of INR45/share for CY12.
- Despite the EBITDA miss, we remain positive on core MFD portfolio given the favorable long term drivers of low penetration and per capita consumption, company's strong brand equity, leadership position and distribution reach. GSK's focused efforts to diversify geographical revenue mix coupled with distribution expansion can aid volume growth in the medium term.
- However, GSK outperformed the FMCG index by 21% in the last three months, post announcement of the open offer. At 30.9x and 26.5x CY13E and CY14E EPS respectively, we believe valuations are expensive and discount the positives adequately. We see limited near term triggers for the stock. Downgrade to **Neutral** with a TP of INR4,000 (28x CY14E P/E), an upside of 7%.

Quarterly Performance

Y/E December	CY11				CY12				CY12	CY13E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			MOSL	Var.
											4QE	(%)
MFD Volume Growth (%)	5.5	14.0	8.0	12.0	7.0	7.4	6.0	6.0	7.0	10.5	6.0	
Net Sales	7,100	6,534	7,201	6,021	8,130	7,297	8,275	7,091	29,717	35,642	6,684	6.1%
YoY Change (%)	9.5	21.6	17.5	18.6	14.5	11.7	14.9	17.8	14.5	19.9	11.0	
Total Exp	5,647	5,548	6,021	5,404	6,514	6,191	6,871	6,581	26,156	30,655	5,865	12.2%
EBITDA	1,453	985	1,180	616	1,617	1,107	1,405	510	3,561	4,987	819	-37.7%
Margins (%)	20.5	15.1	16.4	10.2	20.3	15.2	17.0	7.2	12.0	14.0	12.2	-0.4
YoY Change (%)	9.2	10.2	24.1	5.5	11.3	12.3	19.1	-17.3	6.9	16.8	32.8	
Depreciation	109	113	117	121	119	86	77	79	361	647	66	20.0%
Interest	7	9	10	9	12	8	3	1	24	45	17	-91.9%
Other Income	340	360	476	487	479	572	578	606	3,311	3,369	560	8.1%
PBT	1,677	1,223	1,530	973	1,964	1,585	1,903	1,035	6,487	7,664	1,221	-15.3%
Tax	571	398	499	382	645	519	617	338	2,119	2,530	422	
Rate (%)	34.0	32.6	32.6	39.3	33.0	32.8	32.4	32.7	32.7	33.0	33.3	0.0
Adj PAT	1,106	825	1,030	591	1,320	1,066	1,286	697	4,368	5,133	799	-12.8%
YoY Change (%)	15.0	14.9	31.1	10.7	19.3	29.3	24.8	17.9	64.9	17.5	23.7	

E: MOSL Estimates

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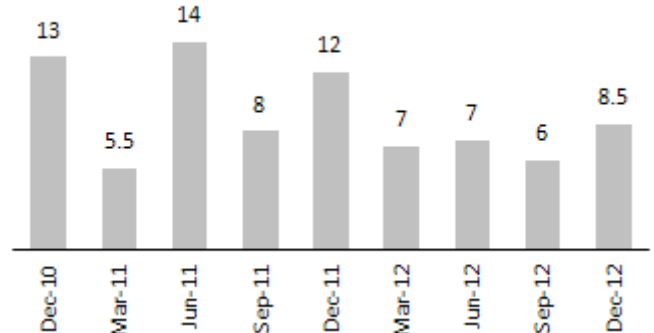
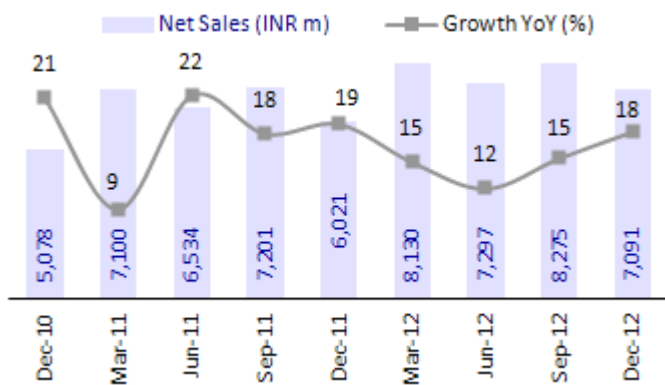
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Sales 6% ahead of estimates; MFD volumes grow ~5.5%

- Sales grew 17.8% QoQ to INR7.09b (our est INR6.7b), led by estimated ~8-9% volume growth in MFD.
- Other non-MFD products currently consist of primarily oats and foodles. Oats has been well-received in South India due to strong brand equity of *Horlicks* and is ranked at No.3. *Horlicks Oats* has 11% plus market share in South India.

Net sales growth healthy at 17.8%

MFD volume growth estimated at ~8-9%



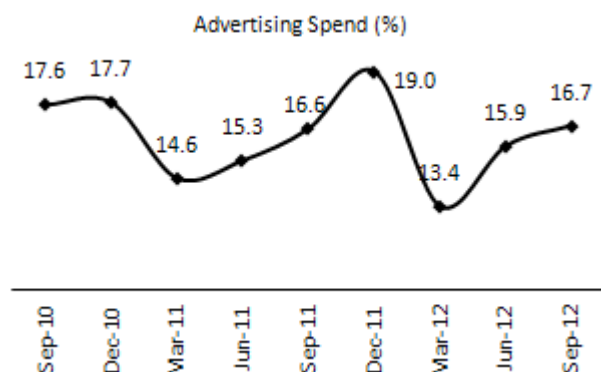
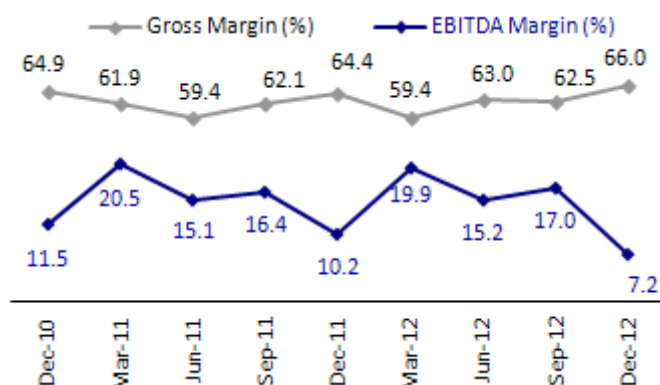
Source: Company, MOSL

Gross margin expands 160bp; Sharp increase in other expenses (up 410bp) leads to 300bp YoY operating margin contraction

- Gross margin expanded 160bp YoY to 66% due to price hikes, correction in SMP prices and mix improvement. For CY12, sales grew 15% YoY.
- EBITDA margin however declined 300bp YoY to 7.2% (our est 12.2%) due to sharp increase in other expenses (up 37% YoY, impacting by 410bp) and employee costs (up 80bp); EBITDA declined by 17% YoY to INR510m (our est INR819m).
- Other income grew 24% due to robust 47% increase in business auxiliary income (INR254.4m) from distribution of *Eno*, *Crocina*, *Iodex* and *Sensodyne*.
- Depreciation costs declined 35% due to fully depreciated nature of Sonapat plant. We expect it to revert to normal trend beginning CY13, post commencement of new plant.
- PAT growth of 18%, ahead of 6% PBT growth, was on account of 660bp YoY contraction in tax rate to 32.3%.
- CY12 sales, EBITDA and PAT growth stood at 15%, 10% and 23% respectively YoY.

EBITDA margin down 300bp...

...due to 37% higher other expenses



Source: Company, MOSL

Valuation and view: Marginally revise estimates; downgrade to Neutral on expensive valuation

- We revise our estimates to incorporate the EBITDA miss and higher other operating income. Net change at the PAT level is negligible due to revised higher other operating income, as GSK continues to see strong growth in OTC portfolio.
- Despite the EBITDA miss, we remain positive on the company's long term story as core MFD portfolio has favorable long term drivers of low penetration and per capita consumption, its strong brand equity, leadership position and distribution reach. GSK's focused efforts to diversify the geographical revenue mix coupled with distribution expansion can aid volume growth in the medium term. Sustained market leadership in a category which is finding broader consumer acceptance augurs well for long term growth.
- However, GSK outperformed the FMCG index by 21% in the last three months, post announcement of the open offer by parent, which in turn resulted in an increase in promoter stake from 43% to 72%. At 30.9x and 26.5x CY13E and CY14E EPS respectively, we believe valuations are expensive and discount the positives adequately. We see limited near term triggers for the stock. Downgrade to **Neutral** with a target price of INR4,000 (28x CY14E P/E), an upside of 7%.

GlaxoSmithKline Consumer: an investment profile

Company description

GSK Consumer is the largest player in the INR8b Indian health drink market, with a 70% market share. The category has entered a new orbit, with growth rates sustaining above 10%. Also, management aims to increase the share of non-MFD segment from current 5% to 15% over the next 3 years. Value-added variants of Horlicks account for ~18% of brand sales.

Key investment arguments

- Volume growth in core MFD category continues to remain robust. We model 10% volume growth over CY11-13E.
- GSK enjoys strong pricing power in MFD segment as key players like Nestle, HUL and Dabur have either exited or are dormant in the segment.

Key investment risks

- Milk and milk products form more than 50% of the total raw material costs for the company and any steep increase in milk prices should impact company's margins directly.
- GSK has more than 70% market share in the health food segment and entry of any major company in this segment is likely to result in erosion of market share.

Recent developments

- GSK Plc (promoter) announced open offer and increased its stake in GSK Consumer India from 43.16% to 72.46%.

Valuation and view

- At 30.9x and 26.5x CY13E and CY14E EPS respectively, we believe valuations are expensive and discount the positives adequately. We see limited near term triggers for the stock.
- Downgrade to **Neutral** with a TP of INR4,000 (28x CY14E P/E), an upside of 7%.

Sector view

- We are cautious on the volume growth in the sector given the competitive intensity and inflationary pressure.
- Companies with low competitive pressures (like ITC, GSK) will be better off.
- Longer term prospects bright, given rising incomes and low penetration.

Comparative valuations

		GSK Consumer	Godrej Consumer	Marico
P/E (x)	CY12E	36.1	28.7	29.6
	CY13E	30.9	23.6	23.6
P/BV (x)	CY12E	11.7	6.7	6.2
	CY13E	9.8	5.8	5.1
EV/Sales (x)	CY12E	4.6	3.7	2.7
	CY13E	3.9	3.0	2.2
EV/EBITDA (x)	CY12E	24.2	20.7	20.0
	CY13E	23.4	16.9	15.9

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	43.2	43.2	43.2
Domestic Inst	16.1	17.4	16.8
Foreign	15.7	14.7	15.4
Others	25.1	24.7	24.7

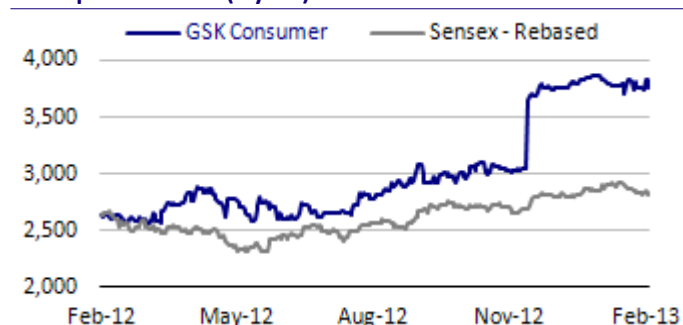
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY13	122.1	122.6	-0.4
CY14	142.3	145.1	-1.9

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
3,751	4,000	6.6	Neutral

Stock performance (1 year)



Financials and Valuations

Income Statement		(INR Million)			
Y/E December	2011	2012	2013E	2014E	
Net Sales	26,855	30,794	36,858	43,015	
Change (%)	12.8	14.7	19.7	16.7	
Total Expenditure	-22,621	-26,156	-30,655	-35,515	
EBITDA	4,234	4,638	6,203	7,500	
Change (%)	-6.0	9.5	33.7	20.9	
Margin (%)	15.8	15.1	16.8	17.4	
Depreciation	-460	-361	-647	-842	
Int. and Fin. Charges	-35	-24	-45	-50	
Other Income - Recurrir	1,663	2,234	2,153	2,325	
Profit before Taxes	5,402	6,487	7,664	8,933	
Change (%)	19.6	20.1	18.1	16.6	
Margin (%)	20.1	21.1	20.8	20.8	
Tax	-1,851	-2,119	-2,721	-3,171	
Deferred Tax	0	0	190	222	
Tax Rate (%)	-34.3	-32.7	-33.0	-33.0	
Profit after Taxes	3,552	4,368	5,133	5,983	
Change (%)	18.4	23.0	17.5	16.6	
Margin (%)	13.2	14.2	13.9	13.9	
Reported PAT	3,552	4,368	5,133	5,983	

Balance Sheet		(INR Million)			
Y/E December	2011	2012	2013E	2014E	
Share Capital	421	421	421	421	
Reserves	11,021	13,127	15,738	18,781	
Net Worth	11,442	13,548	16,159	19,202	
Loans	0	0	0	0	
Capital Employed	11,442	13,548	16,159	19,202	
Gross Block	6,367	8,867	12,367	13,367	
Less: Accum. Deprn.	-4,360	-4,888	-5,535	-6,377	
Net Fixed Assets	2,007	3,979	6,832	6,990	
Capital WIP	1,711	814	183	158	
Investments	10,555	12,000	13,000	16,250	
Deferred Assets	399	616	616	616	
Curr. Assets, L&A	6,146	6,523	7,849	9,583	
Inventory	3,700	3,694	4,999	5,892	
Account Receivables	992	1,126	1,106	1,290	
Cash and Bank Balance	242	477	320	770	
Others	1,213	1,226	1,424	1,630	
Curr. Liab. and Prov.	9,376	10,384	12,093	13,940	
Account Payables	5,523	5,832	6,905	8,025	
Other Liabilities	2,117	2,359	2,631	2,934	
Provisions	1,736	2,193	2,558	2,981	
Net Current Assets	-3,230	-3,861	-4,245	-4,358	
Deferred Tax Liability	0	0	-190	-412	
Application of Funds	11,442	13,548	16,196	19,244	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E December	2011	2012	2013E	2014E	
Basic (INR)					
EPS	84.5	103.9	122.1	142.3	
Cash EPS	95.4	117.2	137.4	162.3	
BV/Share	272.1	322.1	384.2	456.6	
DPS	35.0	43.9	51.3	59.8	
Payout %	48.2	49.1	49.1	49.1	
Valuation (x)					
P/E	44.6	36.0	30.9	26.5	
Cash P/E	39.5	32.1	27.4	23.2	
EV/Sales	5.3	4.6	3.9	3.3	
EV/EBITDA	28.4	24.2	23.4	18.8	
P/BV	13.8	11.7	9.8	8.2	
Dividend Yield (%)	0.9	1.2	1.4	1.6	
Return Ratios (%)					
RoE	31.0	32.2	31.8	31.2	
RoCE	47.5	48.1	47.7	46.8	
Working Capital Ratios					
Debtor (Days)	13	13	11	11	
Asset Turnover (x)	2.3	2.3	2.3	2.2	
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)			
Y/E December	2011	2012	2013E	2014E	
OP/(loss) before Tax	4,234	4,638	6,203	7,500	
Int./Div. Received	1,663	2,234	2,153	2,325	
Interest Paid	-35	-24	-45	-50	
Direct Taxes Paid	-1,851	-2,119	-2,721	-3,171	
(Incr)/Decr in WC	-62	867	227	563	
CF from Operations	3,949	5,595	5,817	7,166	
Extraordinary Items	0	0	0	0	
(Incr)/Decr in FA	-1,004	-1,603	-2,870	-974	
(Pur)/Sale of Invt.	-965	-1,445	-1,000	-3,250	
CF from Invest.	-1,969	-3,048	-3,870	-4,224	
Issue of Shares	0	0	0	1	
(Incr)/Decr in Debt	0	0	0	0	
Dividend Paid	-1,472	-1,848	-2,156	-2,513	
Deffered Tax Liability	-437	-463	15	16	
CF from Fin. Activity	-1,909	-2,311	-2,141	-2,496	
Incr/Decr of Cash	71	236	-194	446	
Add: Opening Balance	171	242	477	320	
Closing Balance	242	477	283	766	

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