

GSK Consumer

Performance Highlights

Quarterly Result

(₹ cr)	4QCY12	4QCY11	% yoy	3QCY12	% qoq
Revenue	709	602	17.8	828	(14.3)
EBITDA	51	62	(17.3)	140	(63.7)
OPM (%)	7.2	10.2	(305)bp	17.0	(979)bp
PAT	70	59	17.9	129	(45.8)

Source: Company, Angel Research

For 4QCY2012 GlaxoSmithkline Consumer Healthcare (GSK Consumer) posted a 17.9% yoy growth in net profit to ₹70cr, aided by a 161bp yoy improvement in gross margin and a 46.6% yoy increase in auxiliary income.

Key highlights of the quarter: For 4QCY2012 GSK Consumer posted a 17.8% yoy growth in net sales, aided by an 8% volume growth. The top-line growth was reasonably strong despite lower offtake by the canteen stores department (CSD). The company's sales volume has been impacted by low CSD offtake since the beginning of CY2012. Better pricing resulted in a 161bp yoy increase in gross margin, despite the increase in cost of raw materials such as wheat, sugar etc. However, OPM was down by 305bp yoy to 7.2%, due to the steep 37.1% yoy increase in other expenses to ₹206cr. On a positive note, the company posted a 46.6% yoy increase in auxiliary income to ₹25cr. The effective tax rate too was down by 658bp yoy resulting in a 17.9% yoy increase in net profit to ₹70cr.

Outlook and valuation: We expect the company's malted food drinks (MFD) division to continue to post double digit growth, aided by the company's efforts to strengthen its distribution network. The stock has run up steeply post the open offer announcement by the promoters. At the current market price, the stock is trading at 31.2x CY2013E EPS of ₹123. **We continue to remain Neutral on the stock.**

Key Financials

Y/E March (₹ cr)	CY2010	CY2011	CY2012E	CY2013E
Net Sales	2,306	2,686	3,079	3,617
% chg	20.0	16.5	14.7	17.5
Net Profit	300	362	437	517
% chg	30.1	20.8	20.7	18.4
EBITDA (%)	16.3	15.8	15.1	16.3
EPS (₹)	71.2	86.0	103.9	123.0
P/E (x)	53.8	44.5	36.9	31.2
P/BV (x)	16.8	14.1	11.8	9.7
RoE (%)	32.2	33.8	34.9	34.3
RoCE (%)	36.9	37.0	35.4	36.4
EV/Sales (x)	6.6	5.6	4.8	4.1
EV/EBITDA (x)	40.2	35.4	31.5	25.1

Source: Company, Angel Research

NEUTRAL

CMP	₹3,831
Target Price	-

Investment Period	-
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	16,107
Net Debt (₹ cr)	(1,515)
Beta	0.3
52 Week High / Low	3900/2179
Avg. Daily Volume	7,352
Face Value (₹)	10
BSE Sensex	19,643
Nifty	5,943
Reuters Code	GLSM.BO
Bloomberg Code	SKB@IN

Shareholding Pattern (%)	
Promoters	43.2
MF / Banks / Indian Fls	16.1
FII / NRIs / OCBs	15.7
Indian Public / Others	25.1

Abs. (%)	3m	1yr	3yr
Sensex	7.2	7.4	21.3
SKB	26.2	45.5	174.5

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Exhibit 1: Quarterly Performance

Y/E Dec (₹ cr)	4QCY12	4QCY11	% yoy	3QCY12	% qoq	CY2012	CY2011	% chg
Net Sales	709	602	17.8	828	(14.3)	3,079	2,686	14.7
Consumption of RM	241	214	12.4	310	(22.4)	1,152	1,020	12.9
(% of Sales)	34.0	35.6		37.5		37.4	38.0	
Staff Costs	78	62	27.1	78	1.2	301	258	16.5
(% of Sales)	11.1	10.2		9.4		9.8	9.6	
Advertising	133	114	16.2	139	(4.3)	496	437	13.5
(% of Sales)	18.7	19.0		16.7		16.1	16.3	
Other Expenses	206	150	37.1	161	28.5	665	545	22.0
(% of Sales)	29.1	25.0		19.4		21.6	20.3	
Total Expenditure	658	540	21.8	687	(4.2)	2,614	2,261	15.6
Operating Profit	51	62	(17.3)	140	(63.7)	465	425	9.5
OPM	7.2	10.2		17.0		15.1	15.8	
Interest	0.1	0.9	(84.1)	0.3	(48.1)	2.4	3.5	(30.3)
Depreciation & Ammortisation	8	12	(34.6)	8	2.7	36	46	(21.5)
Other Income	61	49	24.5	58	4.8	222	165	34.7
PBT (excl. Extraordinary Items)	103	97	6.3	190	(45.6)	649	540	20.1
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	103	97	6.3	190	(45.6)	649	540	20.1
(% of Sales)	14.6	16.2		23.0		21.1	20.1	
Provision for Taxation	34	38	(11.5)	62	(45.2)	212	185	14.5
(% of PBT)	32.7	39.3		32.4		32.7	34.3	
Reported PAT	70	59	17.9	129	(45.8)	437	355	23.0
PATM	9.8	9.8		15.5		14.2	13.2	
Equity shares (cr)	4.2	4.2		4.2		4.2	4.2	
EPS (₹)	16.6	14.1	17.9	30.6	(45.8)	104	84	23.0

Source: Company, Angel Research

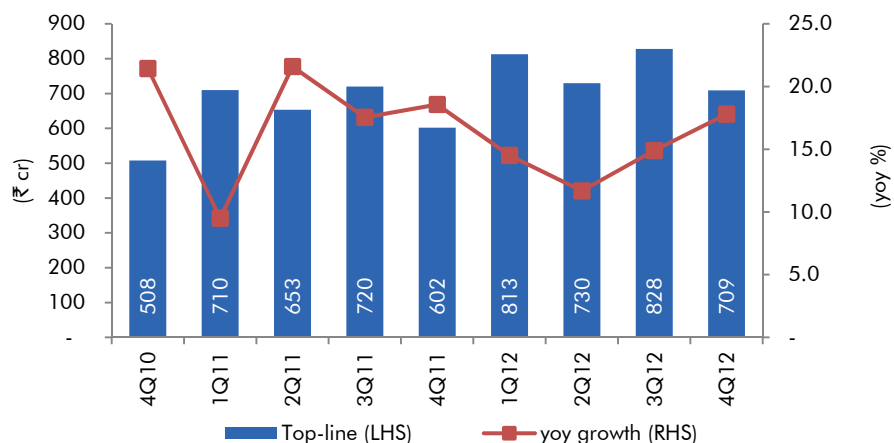
Exhibit 2: Actual vs Angel estimates

(₹ cr)	Actual	Angel Est	% chg
Revenue	709	714	(0.7)
EBITDA	51	76	(33.3)
OPM (%)	7.2	10.7	(351)
PAT	70	76	(9.0)

Source: Company, Angel Research

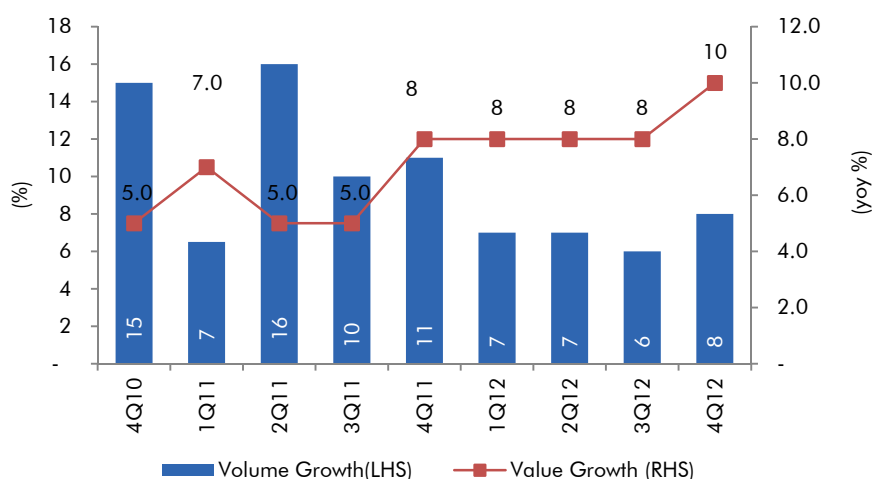
Healthy top-line growth despite de-growth in the CSD segment: GSK Consumer posted a healthy top-line growth of 17.8% yoy to ₹709cr (₹602cr in 4QCY2011), led by an ~8% volume growth. The healthy performance was despite a de-growth in sales to the CSD segment.

Exhibit 3: Top-line growth at 17.8% yoy



Source: Company, Angel Research

Exhibit 4: Operational performance

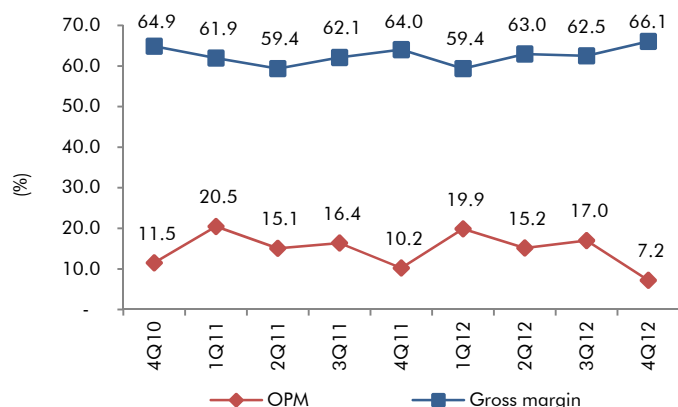


Source: Company, Angel Research

OPM down 305bp yoy to 7.2%: Better pricing resulted in a 161bp yoy improvement in gross margins, despite the increase in cost of raw materials such as wheat, sugar etc. However, the OPM was down by 305bp yoy to 7.2%, due to the steep 37.1% yoy increase in other expenses to ₹206cr.

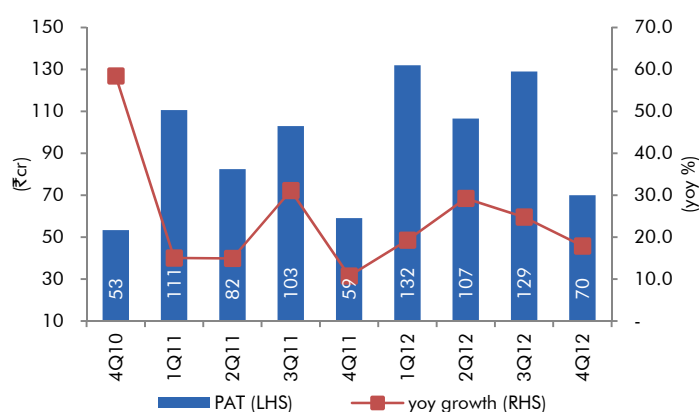
Earnings growth aided by higher other income: On a positive note, the company posted a 46.6% yoy increase in auxiliary income to ₹25cr. The effective tax rate too was down by 658bp yoy resulting in a 17.9% yoy increase in net profit to ₹70cr.

Exhibit 5: Gross margin and OPM



Source: Company, Angel Research

Exhibit 6: PAT grows by 17.9% yoy



Source: Company, Angel Research

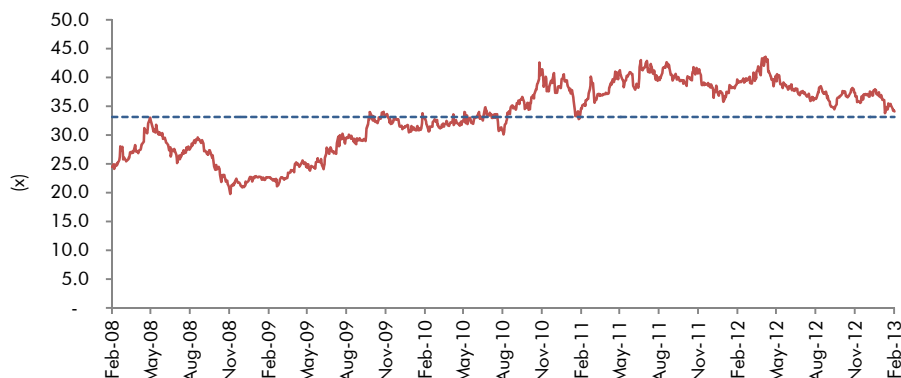
Investment rationale

- Anchor brands to perform well coupled with new launches:** We expect GSK Consumer to perform well with its anchor brands - *Horlicks* and *Boost*. Also, with the launch of innovative and premium products, the company is likely to maintain its margins and market share. In the MFD category, we expect *Horlicks* and *Boost* to maintain their double digit growth. Though the company has pricing power, innovative launches such as small pack sizes will help the company garner a market share in rural markets and penetrate new areas.

Outlook and valuation

We expect the company's MFD division to continue to post double digit growth, aided by the company's effort to strengthen its distribution network. The stock has run up steeply post the open offer announcement by the promoters. At the current market price, the stock is trading at 31.2x CY2013E EPS of ₹123. **We continue to remain Neutral on the stock.**

Exhibit 7: One-year forward P/E chart



Source: Company, Angel Research, Note: Blue line indicates 5-year average

Exhibit 8: Peer valuation

Company	Reco.	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
Asian Paints	Neutral	43,591	4,545	-	-	37.2	30.9	3.8	3.1	37.7	35.7	17.6	19.4
Britannia	Acc.	5,959	499	564	13	27.6	23.0	1.0	0.8	38.7	38.7	13.9	17.8
Colgate	Neutral	18,352	1,350	-	-	35.2	30.0	5.7	4.9	104.6	97.0	15.4	17.1
Dabur India	Neutral	22,973	132	-	-	29.3	24.1	3.8	3.2	44.5	41.4	16.6	21.6
Godrej Con	Neutral	25,443	748	-	-	35.9	27.6	4.2	3.5	23.2	25.1	26.3	29.9
GSK Con*	Neutral	16,110	3,831	-	-	36.9	31.2	4.7	4.1	34.9	34.3	16.1	20.7
HUL	Neutral	103,104	477	-	-	31.6	28.1	3.9	3.3	84.5	75.8	15.5	19.3
ITC	Neutral	235,881	302	-	-	32.2	27.2	7.8	6.7	35.1	35.1	17.4	18.7
Marico	Neutral	14,399	223	-	-	35.2	28.5	3.1	2.6	26.3	23.3	16.1	25.7
Nestle*	Neutral	44,286	4,593	-	-	40.7	32.2	5.1	4.3	71.2	60.3	16.0	16.1
TGBl	Neutral	9,050	146	-	-	21.2	17.9	1.2	1.0	8.9	9.8	10.2	18.8

Source: Company, Angel Research; Note: #Denotes CAGR for FY2012-14E; *December year ending

Company Background

GSK Consumer is one of the largest players in the health foods industry in India and a clear market leader in the hot malted beverages category. The company's flagship product - *Horlicks* is a highly popular brand with a rich heritage, ranking no. 1 in the malted beverages category with a ~50% market share. The company also sells other malted beverages brands, such as *Boost*, *Maltova* and *Viva*. The company is also present in the biscuits segment through its *Horlicks* biscuits range. In addition, the company promotes and distributes a number of OTC products from its global parent, which include prominent household names like *Eno*, *Crocin* and *Iodex*. GSK Consumer has a strong marketing and distribution network in India, comprising of over 1,800 wholesalers and 400,000 retail outlets.

Profit & Loss Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Gross sales	1,700	2,025	2,431	2,832	3,286	3,854
Less: Excise duty	159	104	125	147	202	237
Net Sales	1,542	1,922	2,306	2,686	3,084	3,617
Total operating income	1,542	1,922	2,306	2,686	3,084	3,617
% chg	20.6	24.6	20.0	16.5	14.8	17.3
Total Expenditure	1,304	1,611	1,818	2,261	2,614	3,027
Cost of Materials	586	714	865	1,023	1,152	1,356
Advertising Exp	194	302	371	437	493	579
Personnel	172	201	230	258	301	351
Others	352	394	352	542	668	742
EBITDA	238	311	489	425	470	590
% chg	5.7	30.8	57.3	(13.0)	51.3	25.6
(% of Net Sales)	15.4	16.2	21.2	15.8	15.2	16.3
Depreciation & Amortisation	42	42	40	46	36	56
EBIT	196	269	449	379	434	534
% chg	7.9	37.3	67.1	(15.6)	14.5	41.0
(% of Net Sales)	12.7	14.0	19.5	14.1	14.1	14.8
Interest & other Charges	5	4	3	3	2	4
Other Income	95	89	-	165	222	247
(% of PBT)	33.4	25.2	0.0	30.5	34.0	31.8
Share in profit of Associates	-	-	-	-	-	2.00
Recurring PBT	286	354	446	540	653	778
% chg	16.6	23.9	26.1	21.1	20.9	19.0
Prior Period & Extra. Exp./ (Inc.)	1.63	(2.61)	(0.29)	6.65	-	-
PBT (reported)	284	356	447	534	653	778
Tax	96	124	152	178	212	260
(% of PBT)	33.5	35.0	34.1	33.0	32.4	33.5
PAT (reported)	188	233	294	355	441	517
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	188	233	294	355	441	517
ADJ. PAT	190	230	294	362	441	517
% chg	16.8	21.2	27.7	23.1	22.0	42.9
(% of Net Sales)	12.3	12.0	12.7	13.5	14.3	14.3
Basic EPS (₹)	45.2	54.7	71.2	86.0	103.9	123.0
Fully Diluted EPS (₹)	45.2	54.7	71.2	86.0	103.9	123.0
% chg	16.8	21.2	30.2	20.8	20.7	18.4

Exhibit 9: Balance Sheet

Y/E Dec (Rs cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
SOURCES OF FUNDS						
Equity Share Capital	42	42	42	42	42	42
Reserves & Surplus	719	863	918	1,102	1,319	1,613
Shareholders Funds	761	905	960	1,144	1,361	1,655
Total Loans	-	-	-	-	-	-
Deferred Tax Liability	7	(11)	(27)	(40)	(62)	(40)
Long term Provisions				51	77	77
Other long term liabilities				10	11	11
Total Liabilities	767	894	933	1,165	1,388	1,703
APPLICATION OF FUNDS						
Gross Block	473	492	533	570	599	965
Less: Acc. Depreciation	329	364	397	436	472	528
Net Block	144	128	136	134	127	437
Capital Work-in-Progress	16	38	108	149	197	125
Goodwill	66	66	66	66	66	66
Investments	-	-	-	-	-	-
Long term loans and advances				50	45	45
Current Assets	853	1,173	1,423	1,642	2,057	1,977
Cash	471	820	976	1,080	1,464	1,313
Loans & Advances	62	56	84	93	111	93
Other	320	297	363	469	482	571
Current liabilities	312	511	800	878	1,105	947
Net Current Assets	541	662	623	765	952	1,030
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	767	894	933	1,165	1,388	1,703

Source: Company, Angel Research

Cash Flow Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Profit before tax	286	354	452	540	649	778
Depreciation	42	42	40	46	36	56
Change in Working Capital	(58)	211	169	(71)	264	(225)
Interest/ Dividend(Net)	(31)	(20)	(41)	(67)	(70)	(70)
Direct taxes paid	96	124	152	178	212	260
Others	(10)	(5)	4	6	(55)	15
Cash Flow from Operations	133	458	472	276	613	294
Inc./ (Dec.) in Fixed Assets	29	41	111	79	77	293
Inc./ (Dec.) in Investments	298	-	-	-	-	-
Cash Flow from Investing	269	(41)	(111)	(79)	(77)	(293)
Issue of Equity	-	-	(0.00)	-	-	-
Inc./ (Dec.) in loans	-	-	-	9.97	1.51	-
Dividend Paid (Incl. Tax)	31	89	245	171	222	221
Interest / Dividend (Net)	(7)	(20)	(41)	(67)	(70)	(70)
Cash Flow from Financing	(24)	(68)	(204)	(94)	(151)	(152)
Inc./ (Dec.) in Cash	377	349	156	104	385	(151)
Opening Cash balances	94	471	820	976	1,080	1,464
Closing Cash balances	471	820	976	1,080	1,464	1,313

Key Ratios

Y/E Dec	CY08	CY09	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)						
P/E (on FDEPS)	84.8	70.0	53.8	44.5	36.9	31.2
P/CEPS	69.5	58.6	47.4	40.2	34.1	28.1
P/BV	21.2	17.8	16.8	14.1	11.8	9.7
Dividend yield (%)	0.4	0.5	1.3	0.9	1.2	1.2
EV/Sales	10.1	8.0	6.6	5.6	4.8	4.1
EV/EBITDA	65.8	49.2	40.2	35.4	31.5	25.1
EV / Total Assets	20.4	17.1	16.2	13.5	11.2	9.1
Per Share Data (₹)						
EPS (Basic)	45.2	54.7	71.2	86.0	103.9	123.0
EPS (fully diluted)	45.2	54.7	71.2	86.0	103.9	123.0
Cash EPS	55.1	65.3	80.7	95.4	112.4	136.3
DPS	15.0	18.0	50.0	35.0	45.0	45.0
Book Value	180.9	215.2	228.3	272.1	323.6	393.5
Returns (%)						
RoCE	27.3	32.3	36.9	37.0	35.4	36.4
Angel RoIC (Pre-tax)	45.7	94.2	1,418.7	-	-	443.1
RoE	27.0	27.9	32.2	33.8	34.9	34.3
Turnover ratios (x)						
Asset Turnover	3.3	4.3	3.9	4.7	4.3	3.8
Inventory / Sales (days)	66	51	49	50	49	49
Receivables (days)	10	6	8	13	10	9
Payables (days)	59	71	74	89	98	71
Net working capital (days)	17	(30)	(56)	(43)	(65)	(32)

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Disclosure of Interest Statement

GSK Consumer

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)