

May 11, 2018

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Rating	<b>Accumulate</b>
Price	Rs5,919
Target Price	Rs6,800
Implied Upside	14.9%
Sensex	35,536
Nifty	10,807

(Prices as on May 11, 2018)

### Trading data

Market Cap. (Rs bn)	248.9
Shares o/s (m)	42.1
3M Avg. Daily value (Rs m)	142.4

### Major shareholders

Promoters	72.46%
Foreign	4.52%
Domestic Inst.	8.22%
Public & Other	14.80%

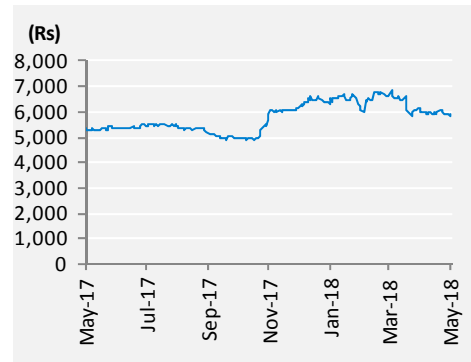
### Stock Performance

(%)	1M	6M	12M
Absolute	(1.4)	(2.1)	12.7
Relative	(6.1)	(8.8)	(4.7)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	166.5	164.2	1.4
2020	196.5	188.3	4.4

### Price Performance (RIC: GLSM.BO, BB: SKB IN)



Source: Bloomberg

**GSK has given optimistic outlook in demand led by 1) uptick in rural demand 2) success of Horlicks Protein Plus and new Women Horlicks in the premium segment and 3) launch of Boost RTD in Tamilnadu. Input costs are benign and GSK expects 2-3% input cost inflation in FY19. Mgt expects high double digit growth for Business Auxiliary income on a low base (4% in fy18). We estimate 5% volume CAGR over FY18-20 as against 6% decline in FY17 and ~5% growth in FY18. Glaxo PLC is likely to complete strategic review of Horlicks by Dec2018, which might or might not result in any deal, however we expect current uncertainty to prevail for some time. Double digit growth in OTC income and steady growth in financial other income will enable 10% PAT CAGR over FY18-20. GSK trades at 15-20% discount to coverage universe, which limits any downside in the stock. We value the stock at 35x FY20 with a target of Rs.6800 (earlier Rs,6797). Retain “Accumulate”**

■ **Volumes up 8%, Adj. PAT up 20.4%:** Revenues up 7% to Rs11.8bn including operational income with 8% volume growth on a negative base. Volume growth ~6.5% factoring in higher grammage on small packs. Gross margins expanded 370bps to 68.3%, on benign sugar and barley. EBIDTA up by 14.7% to Rs.2.5bn as margins increased by 140bps to 21.2% on 140bps decrease in advertisement costs though staff costs increased by 240bps. Adj. PAT up 20.4% to Rs2.11bn

■ **Concall takeaways:** 1) Rural contributes 32% of the total revenue. GSK plans to increase focus on rural markets in low price SKUs 2) Sachets (now 8% of sales) are growing in high double digit led by strong distribution 3) Business Auxiliary income grew by 3-4% in 4Q and FY18 and is expected to grow in high double digits 4) Pilot project of Ready to drink Boost on-the-go in TN (priced at Rs.30/-) has seen good response. 5) GSK would focus to increase growth in Nutrition portfolio and premium segments 6) Market share has been 55.9% in value terms and 64.6% in volume with Horlicks and Boost gaining 70bps and 40bps respectively. 7) Oats portfolio has seen strong growth however biscuits segment has remained soft. 8) GSK has Rs.2-3bn capex plans for the next 2 years. 9) wholesale is 20% of GSK sales and is likely to remain flat.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	39,865	43,363	43,165	53,596
Growth (%)	(3.6)	8.8	(0.5)	24.2
EBITDA (Rs m)	8,335	8,720	8,834	10,749
PAT (Rs m)	6,567	6,821	7,001	8,264
EPS (Rs)	156.1	162.2	166.5	196.5
Growth (%)	(4.4)	3.9	2.6	18.0
Net DPS (Rs)	70.0	70.0	70.0	76.0

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	20.9	20.1	20.5	20.1
RoE (%)	22.2	20.8	19.2	20.3
RoCE (%)	21.7	20.3	18.8	19.9
EV / sales (x)	6.2	5.7	5.8	4.6
EV / EBITDA (x)	29.8	28.5	28.1	23.1
PE (x)	37.9	36.5	35.6	30.1
P / BV (x)	8.0	7.2	6.5	5.8
Net dividend yield (%)	1.2	1.2	1.2	1.3

Source: Company Data; PL Research

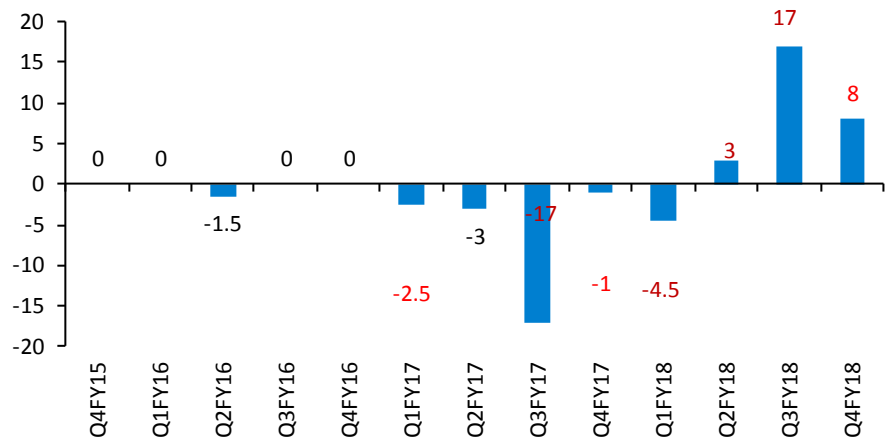


**Exhibit 1: Sales up 7%, Adj. PAT up 20.4% on 250bps Gross margin expansion**

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
<b>Net Revenues</b>	<b>11,796</b>	<b>11,028</b>	<b>7.0</b>	<b>10,347</b>	<b>43,165</b>	<b>39,913</b>	<b>8.1</b>
Gross Profit	8,059	7,264	10.9	7,123	28,839	26,943	7.0
<i>% of NS</i>	<i>68.3</i>	<i>65.9</i>	<i>2.5</i>	<i>68.8</i>	<i>66.8</i>	<i>67.5</i>	
Advertising & Promotion	1693	1735	(2.5)	1125	5467	5147	6.2
<i>% of NS</i>	<i>14.3</i>	<i>15.7</i>		<i>10.9</i>	<i>12.7</i>	<i>12.9</i>	
Total Expenses	9,296	8,848	5.1	8,307	34,332	31,530	8.9
<i>% of NS</i>	<i>78.8</i>	<i>80.2</i>		<i>80.3</i>	<i>79.5</i>	<i>79.0</i>	
<b>EBITDA</b>	<b>2,500</b>	<b>2,180</b>	<b>14.7</b>	<b>2,040</b>	<b>8,834</b>	<b>8,383</b>	<b>5.4</b>
<i>Margins %</i>	<i>21.2</i>	<i>19.8</i>		<i>19.7</i>	<i>20.5</i>	<i>21.0</i>	
Depreciation	145	177	(17.9)	151	644	642	0.3
Interest	8	9	(11.5)	2	20	28	(27.0)
Financial other Income	842	700	20.2	642	2,574	2,391	7.7
<b>PBT</b>	<b>3,189</b>	<b>2,695</b>	<b>18.3</b>	<b>2,529</b>	<b>10,744</b>	<b>10,104</b>	<b>6.3</b>
Tax	1,071	936	14.4	892	3,743	3,537	5.8
<b>Adjusted PAT</b>	<b>2,118</b>	<b>1,759</b>	<b>20.4</b>	<b>1,637</b>	<b>7,001</b>	<b>6,567</b>	<b>6.6</b>

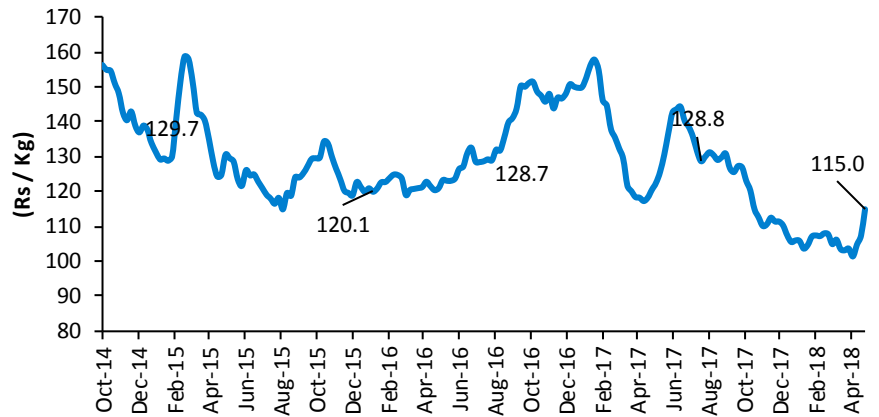
Source: Company Data, PL Research

**Exhibit 2: Volumes at 8% on a Demon base, 6.5% excluding free grammage on small packs**



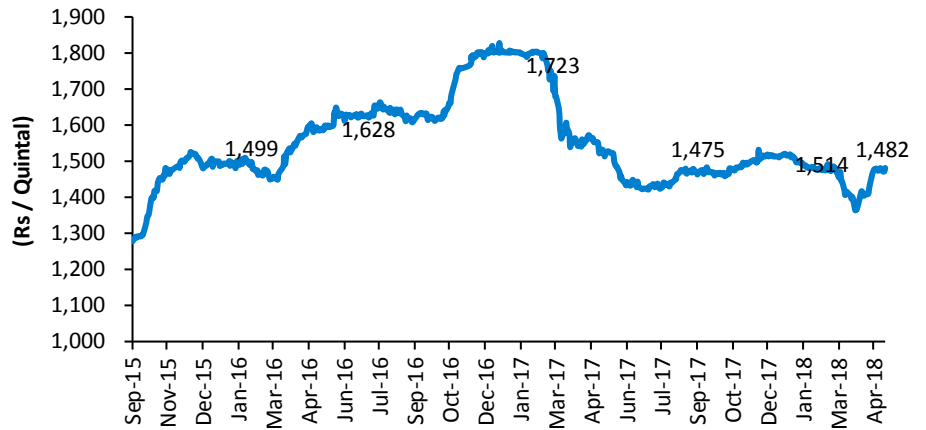
Source: Company Data, PL Research

**Exhibit 3: Skimmed Milk Powder down 23.6% YoY and 5.1% QoQ in 4Q18**



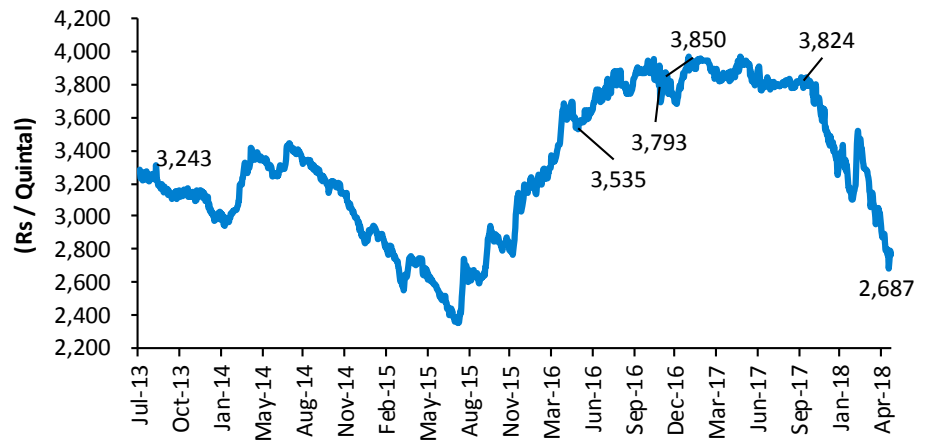
Source: Bloomberg, PL Research

**Exhibit 4: Barley prices increase 8.7% to Rs.1482/quintal after making a bottom**



Source: xx, Bloomberg, PL Research

**Exhibit 5: Sugar prices down 22% from the peak of 3520 in Feb-18**



Source: Bloomberg, PL Research

**Income Statement(Rs m)**

Y/e March	2017	2018	2019E	2020E
<b>Net Revenue</b>	<b>39,865</b>	<b>43,363</b>	<b>43,165</b>	<b>53,596</b>
Raw Material Expenses	10,535	11,808	14,326	14,781
Gross Profit	29,329	31,555	28,839	38,815
Employee Cost	4,580	5,204	5,277	6,271
Other Expenses	16,414	17,631	14,729	21,795
<b>EBITDA</b>	<b>8,335</b>	<b>8,720</b>	<b>8,834</b>	<b>10,749</b>
Depr. & Amortization	642	691	644	911
Net Interest	(2,411)	(2,306)	(2,554)	(2,849)
Other Income	2,439	2,333	2,574	2,875
<b>Profit before Tax</b>	<b>10,104</b>	<b>10,335</b>	<b>10,744</b>	<b>12,687</b>
Total Tax	3,537	3,514	3,743	4,422
<b>Profit after Tax</b>	<b>6,567</b>	<b>6,821</b>	<b>7,001</b>	<b>8,264</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>6,567</b>	<b>6,821</b>	<b>7,001</b>	<b>8,264</b>
<b>Avg. Shares O/S (m)</b>	<b>42.1</b>	<b>42.1</b>	<b>42.1</b>	<b>42.1</b>
<b>EPS (Rs.)</b>	<b>156.1</b>	<b>162.2</b>	<b>166.5</b>	<b>196.5</b>

**Cash Flow Abstract(Rs m)**

Y/e March	2017	2018	2019E	2020E
C/F from Operations	4,301	4,737	5,606	6,063
C/F from Investing	(766)	(1,100)	(2,000)	(2,250)
C/F from Financing	(3,371)	(3,558)	(3,555)	(3,858)
Inc. / Dec. in Cash	163	79	51	(45)
Opening Cash	131	294	373	424
Closing Cash	294	373	424	379
FCFF	7,287	6,746	6,636	7,568
FCFE	7,243	6,733	6,626	7,558

**Key Financial Metrics**

Y/e March	2017	2018	2019E	2020E
<b>Growth</b>				
Revenue (%)	(3.6)	8.8	(0.5)	24.2
EBITDA (%)	(0.6)	4.6	1.3	21.7
PAT (%)	(4.4)	3.9	2.6	18.0
EPS (%)	(4.4)	3.9	2.6	18.0
<b>Profitability</b>				
EBITDA Margin (%)	20.9	20.1	20.5	20.1
PAT Margin (%)	16.5	15.7	16.2	15.4
RoCE (%)	21.7	20.3	18.8	19.9
RoE (%)	22.2	20.8	19.2	20.3
<b>Balance Sheet</b>				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	(109)	(91)	(74)	(86)
<b>Valuation</b>				
PER (x)	37.9	36.5	35.6	30.1
P / B (x)	8.0	7.2	6.5	5.8
EV / EBITDA (x)	29.8	28.5	28.1	23.1
EV / Sales (x)	6.2	5.7	5.8	4.6
<b>Earnings Quality</b>				
Eff. Tax Rate	35.0	34.0	34.8	34.9
Other Inc / PBT	24.1	22.6	24.0	22.7
Eff. Depr. Rate (%)	5.9	5.8	4.8	5.7
FCFE / PAT	110.3	98.7	94.6	91.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	31,226	34,503	38,432	42,848
Total Debt	84	70	60	50
Other Liabilities	648	712	784	862
<b>Total Liabilities</b>	<b>31,957</b>	<b>35,285</b>	<b>39,275</b>	<b>43,760</b>
Net Fixed Assets	5,451	5,860	7,089	8,427
Goodwill	—	—	—	—
Investments	30,580	33,480	36,592	40,467
Net Current Assets	(5,351)	(5,497)	(6,037)	(6,975)
<i>Cash &amp; Equivalents</i>	294	373	424	379
<i>Other Current Assets</i>	11,999	12,976	14,369	15,717
<i>Current Liabilities</i>	17,644	18,847	20,830	23,071
Other Assets	1,278	1,444	1,632	1,840
<b>Total Assets</b>	<b>31,958</b>	<b>35,286</b>	<b>39,275</b>	<b>43,760</b>

**Quarterly Financials (Rs m)**

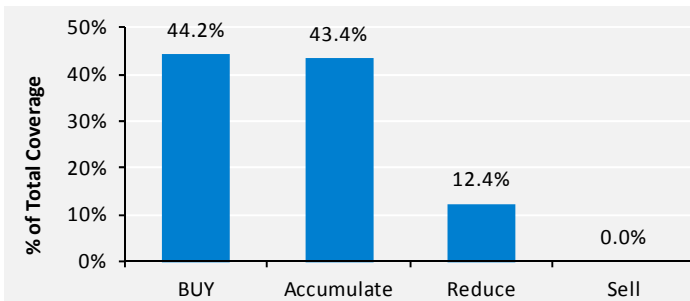
Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Net Revenue</b>	<b>9,853</b>	<b>11,153</b>	<b>10,347</b>	<b>11,795</b>
<b>EBITDA</b>	<b>1,664</b>	<b>2,614</b>	<b>2,040</b>	<b>2,499</b>
<i>% of revenue</i>	16.9	23.4	19.7	21.2
Depr. & Amortization	170	177	151	145
Net Interest	5	6	2	8
Other Income	557	550	642	842
<b>Profit before Tax</b>	<b>2,045</b>	<b>2,981</b>	<b>2,529</b>	<b>3,188</b>
Total Tax	723	1,057	892	1,071
<b>Profit after Tax</b>	<b>1,322</b>	<b>1,989</b>	<b>1,617</b>	<b>2,117</b>
<b>Adj. PAT</b>	<b>1,322</b>	<b>1,924</b>	<b>1,637</b>	<b>2,117</b>

Source: Company Data, PL Research.

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<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
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