India Infoline Result Update
GlaxoSmithKline Consumer Healthcare Ltd *(F12/06)*
February 02, 2007

- **Net sales grew by 15% yoy to Rs11bn in F12/06 driven by ~8% volume growth in Horlicks and Boost.**
- **Margins dipped 250bps to 16.6% due to sharp rise in raw material cost. Net profit increased by 18% yoy to Rs1.3bn.**

Financials Highlights

Period to	12/06	12/05	Growth	12/06	12/05	Growth
(Rs mn)	**(3)**	**(3)**	**(%)**	**(12)**	**(12)**	**(%)**
Gross sales	2,888	2,684	7.6	12,142	10,891	11.5
Excise duty	(241)	(260)	(7.3)	(1,023)	(1,222)	(16.3)
Net sales	2,647	2,424	9.2	11,119	9,669	15.0
Expenditure	(2,372)	(2,041)	16.2	(9,274)	(7,827)	18.5
Operating profit	275	383	(28.2)	1,845	1,842	0.2
Other income	169	76	122.4	522	243	114.8
Interest	(8)	(9)	(11.1)	(35)	(42)	(16.7)
Depreciation	(108)	(107)	0.9	(427)	(419)	1.9
PBT	328	343	(4.4)	1,905	1,624	17.3
Tax	(76)	(129)	(41.1)	(636)	(553)	15.0
PAT	252	214	17.8	1,269	1,071	18.5
OPM (%)	10.4	15.8	-	16.6	19.1	-
Equity	421	421	-	421	421	-
EPS (Rs) Annualized	23.9	20.3	-	30.1	25.4	-
PE(x), CMP - Rs582	24.3	-		19.3	-	

Net sales grew 15% yoy driven by 8% volume growth
GlaxoSmithkline Consumer recorded 15% yoy growth in net sales at Rs11.1bn during F12/06 driven by average volume growth of ~8% in Horlicks and Boost. Revenues for the quarter increased by 9.2% yoy (down 12.2% qoq) to Rs2.6bn, led by a average volume growth of ~4% in Horlicks and Boost. Biscuits category recorded a ~11% yoy growth during the year. The company has taken ~5% price increase in Horlicks and 2% price hike in Boost (in November) resulting in a average price increase of ~4.5%.

Unprecedented increase in input cost pulled down margins
Operating profit for the year remained almost stable at Rs1.8bn. Operating margins dipped by 250bps to 16.6% mainly due to the sharp 190bps rise in raw material cost. Milk prices increased significantly by 16% this year and are expected to remain higher by ~20-25% in F12/07. Prices of other key raw materials like malted barley (expected to remain higher by 5% yoy in F12/07), wheat, sugar, coco powder etc are also expected to remain firm. During Q4 F12/06, margins dipped by 540bps to 10.4% due to higher input (370bps) and staff (250bps) cost. Lower adspend (12.7% of net sales in Q4 F12/06 from 14.9% of net sales in Q4 F12/05) restricted further margin erosion.

Cost Analysis

Period	12/06	12/05	Inc/Dec	12/06	12/05	Inc/Dec
As % of net sales	**(3)**	**(3)**		**(12)**	**(12)**	
Raw Material	33.6	29.9	3.7	34.6	32.7	1.9
Staff Cost	15.3	12.8	2.5	12.1	11.8	0.3
Advertising & promotion	12.7	14.9	(2.2)	12.9	13.1	(0.2)
Other expenditure	28.0	26.6	1.4	23.9	23.4	0.5

Higher other income drive bottomline growth
Other income (including cross charge of Rs70mn per quarter received on account of OTC products sold on behalf of GlaxoSmithkline Pharmaceuticals Ltd) for the quarter and year was higher at Rs169mn and Rs522mn respectively. PBT rose by 17.3% yoy to Rs1.9bn during F12/06 driven by higher other income and lower interest cost. Effective tax rate was at 33.4% resulting in a tax outgo of Rs636mn. Net profit for the year increased by 18.5% yoy to Rs1.3bn translating into an EPS of Rs30.1.

Conference call highlights

- ✓ The company enjoys a market share of ~72% (both in value and volume terms) of the health beverage market.
- ✓ Horlicks & Boost recorded a average volume growth of ~8% during F12/06 and ~4% for the quarter. Biscuits sales have grown by ~11% during the year.
- ✓ The company has taken a ~5% price increase in Horlicks and 2% price hike in Boost (in November) resulting in a average price increase of ~4.5%. The management has indicated that they may take a further price increase to offset higher input cost.
- ✓ During F12/06, margins were impacted by unprecedented input cost rise. Milk prices have increased significantly by 16% this year. The management expects milk prices to remain higher by ~20-25% in 2007.
- ✓ The two large milk producing countries - New Zealand and Australia are facing drought like situation due to which there is drop in exports.
- ✓ In F12/07, prices of malted barley are expected to remain higher by 5% compared to this year. The prices of other key raw materials like wheat, sugar, coco powder etc are also expected to remain firm.
- ✓ The management expects to record a double-digit topline growth for F12/07 driven by Horlicks and Boost.
- ✓ Exports are expected to continue at the same level.
- ✓ The company plans to maintain its adspend to sales ratio at ~13% level.
- ✓ Operating margins are expected to remain at ~20%.
- ✓ The total cash on the books as on December 31, 2006 is at Rs2.3bn.
- ✓ The company is actively looking at any suitable inorganic growth opportunity mainly in the nutritional space, which will help in increasing its revenues.

Outlook

The management expects to record a double-digit topline growth in F12/07 driven by strong growth in Horlicks and Boost and expects to maintain the margins at ~20% (including other income). However, higher input cost could put pressure on margins. Exports account for 5% on the company's total sales and are expected to continue at the same level. Acquisitions, if any could be a growth driver for the company.

At the current market price of Rs582, the stock is trading at 19.3x FY07 EPS of Rs30.1 per share. We recommend a 'Hold' rating this stock.