



# Between the Lines

Daily Corporate News Analysis

May 8th, 2007

**Glaxosmithkline Consumer Healthcare Ltd**

**Q1CY2007 Result Update**

## Key Data

CMP	Rs 546
Date	May 8 <sup>th</sup> , 2007
Sector	FMCG – Health Foods
Face Value	10/-
BSE Code	500676
52 Week H/L	Rs 670 / 403
Market Cap	Rs 2297 Cr

## Investment Rationale

Glaxosmithkline Consumer Healthcare Ltd. (GSKCH) is a leader in the Malted Beverages segment in the Indian FMCG industry. It leads the White Malted Beverages pack with its well-known Horlicks brand. The company has posted handsome 18.4% growth in Net Sales for Q1CY2007 on the back of strong volume growth experienced by its two main brands - Horlicks and Boost. The strong double digit growth has come on top of an equally high growth, 23.7%, posted during the year-ago quarter. The Malted Beverages major has also been able to improve its margins on sequential basis due to selective price hike and other operational efficiencies. It is also benefiting from the aggressive investments made by it in strengthening its brands. The benefit of higher ASP is expected to continue in the coming quarters as well in form of higher turnover. GSKCH also has a strong balance sheet in form of huge cash reserves and zero debt. Going forward, the company is expected to benefit from the overall buoyancy in the FMCG sector due to favourable demographics, changing consumption pattern and rising income level.

## Developments

### Margins improve sequentially due to price hike

GSKCH has been able to improve its profitability on sequential basis due to selective price hikes taken by it during the last quarter of CY2006. However, on Year-on-Year basis it has been able to maintain it at more or less the same levels due to an unprecedented rise in prices of commodities like Milk and Wheat. We thus believe that a recent price hike in the last quarter as well as plans of fresh round of price hike coupled with less than proportionate increase expected in Raw Materials will not only ensure capping further erosion in margins but improve them going forward.



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## Financials

### **“Stronger Sales; Taller Margins”**

GSKCH witnessed a strong double digit, 18.4%, sales growth in Q1CY2007 over an equally high, 23.7% growth in the base period. The margins also improved substantially on a sequential basis.

## Valuations

At the current market price of Rs546, GSKCH is quoting at P/E multiple of 17.1x its TTM Earnings per Share of Rs32. On EV/Sales and on EV/EBIDTA basis it is quoting at 1.9x and 9.1x respectively.



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