

- **Net sales grew by 18% yoy to Rs3.3bn in Q1 F12/07 driven by strong 13% volume growth. Horlicks and Boost recorded volume growth of ~15% and 25% respectively.**
- **Margins dipped 190bps to 19% mainly due to sharp rise in adspend and firm raw material prices. Net profit above expectations at Rs423mn – an increase of 23% yoy.**

Financials Highlights

Period to	03/07	03/06	Growth	12/06	12/05	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Gross sales	3,562	3,022	17.9	12,142	10,891	11.5
Excise duty	(297)	(263)	12.8	(1,023)	(1,222)	(16.3)
Net sales	3,265	2,759	18.4	11,119	9,669	15.0
Expenditure	(2,641)	(2,178)	21.2	(9,274)	(7,827)	18.5
Operating profit	624	580	7.5	1,845	1,842	0.2
Other income	139	72	92.5	522	243	114.8
Interest	(11)	(7)	57.1	(35)	(42)	(16.7)
Depreciation	(108)	(105)	2.9	(427)	(419)	1.9
PBT	644	541	19.1	1,905	1,624	17.3
Tax	(221)	(196)	13.0	(636)	(553)	15.0
PAT	423	345	22.6	1,269	1,071	18.5
OPM (%)	19.1	21.0	-	16.6	19.1	-
Equity	421	421		421	421	
EPS (Rs) Annualized	40.2	32.8		30.1	25.4	
PE (x), CMP - Rs532	13.2			17.7		

Net sales grew 18% yoy driven by strong 13% volume growth

GlaxoSmithkline Consumer surpassed our expectations by recording 18.4% yoy growth in net sales at Rs3.3bn during Q1 F12/07. The growth was primarily driven by strong volume growth of 13% led by ~15% volume growth in Horlicks and 25% in Boost. The company has taken ~2.8% price hike during November 2006. The management has indicated that they may take a further price increase to offset higher input cost.

Higher adspend and firm input prices pulled down margins

Operating profit for the quarter increased by 7.5% yoy to Rs624mn. Operating margins dipped by 190bps to 19.1% mainly due to firm raw material prices and sharp increase in adspend (up 7.9% yoy to Rs430mn). Milk prices increased significantly by ~30-35% yoy and are expected to increase further by ~5-6% in F12/08. Prices of other key raw materials like malted barley, wheat, sugar, coco powder etc are also expected to remain firm.

Cost Analysis

Period	03/07	03/06	Inc/Dec	12/06	12/05	Inc/Dec
As % of net sales	(3)	(3)		(12)	(12)	
Raw Material	35.7	35.5	0.2	34.6	32.7	1.9
Staff Cost	10.7	9.5	1.2	12.1	11.8	0.3
Advertising & promotion	13.2	14.4	(1.3)	12.9	13.1	(0.2)
Other expenditure	21.3	19.5	1.8	23.9	23.4	0.5

Strong topline growth coupled with higher other income drive bottomline growth

Other income [~Rs30-40mn from financial sources and ~Rs100mn from the core business (including cross charge of Rs70mn per quarter received on account of OTC products sold on behalf of GlaxoSmithkline Pharmaceuticals Ltd)] for the quarter was higher at Rs139mn compared to Rs72mn in Q1 F12/06. PBT rose by 19.1% yoy to Rs644mn partly driven by higher other income. Effective tax rate was at 34.3% resulting in a tax outgo of Rs221mn. Net profit for the quarter increased by 22.6% yoy to Rs423mn translating into an annualized EPS of Rs40.2.

Outlook

The management expects to record a double-digit (12-13%) topline growth in F12/07 driven by strong growth in Horlicks and Boost. The company plans to maintain its adspend to sales ratio at ~12-13%. 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. The company is scouting for acquisition of brands or businesses mainly present in the nutrition, medicinal or OTC segment and expects to finalize the deal within the next 2-3 quarters. Acquisitions, if any could be a growth driver for the company.

At the current market price of Rs532, the stock is trading at 16x F12/07E EPS of Rs33.3 per share. We recommend a 'Buy' rating on this stock.

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