

**GSK Consumer Healthcare Ltd.****INR: 619****Health is Wealth!****BUY**

GlaxoSmithKline Consumer Healthcare Ltd. is an Indian group company of GlaxoSmithKline plc U.K. GSKCHL is one of the largest players in Health Food Drink industry in India. The company has its manufacturing plants located in Nabha, Rajahmundry and Sonapat. The Nutritional division includes health food drinks like Horlicks, which includes Junior Horlicks, Mother's Horlicks, Horlicks Lite, and Horlicks biscuits, Boost, Viva and Maltova.

### Investment Rationale

#### GSK Consumer is King

GSK Consumer possesses a market share of 70% in the domestic malted beverage segment with its brand portfolio of Horlicks, Boost, Viva, Maltova etc. which have become well established and recognized names. It has launched new variants which are exclusive for certain categories and also made its foray into the fast growing protein segment by launching ActiBase, a protein health drink.

#### Zero Debt Company

GSK Consumer is a cash rich and debt free company. Cash & Bank balance as at CY07 end stood at Rs 93.7 crore and Investments at Rs 297 crore which would help to support stock price of the company.

#### Strong Performance

For the current year, the company expects higher sales on the back of new launches and price hikes. Going forward, we expect the company to achieve volume growth of ~5-7% coupled with a penetration growth of ~2-3% and a price growth of ~5-6 %.

#### Aggressive Plan of New Launches

The company has got aggressive plans to launch new products – some would be in Horlicks variants in addition to a new product category in the malted segment by H2CY08 and some would be in completely different category from its parent company product portfolio in next 3-4 years.

#### Financial Snapshot

Particulars	CY06	CY07	CY08E	CY09E
Net Sales	1,107.7	1,277.8	1,508.7	1,750.4
% growth		15.4%	18.1%	16.0%
EBITDA	183.8	223.7	245.7	301.1
% growth		21.7%	9.8%	22.5%
PAT	126.1	162.1	182.8	219.0
% growth		28.5%	12.8%	19.8%
EPS	30.0	38.5	43.5	52.1
EBITDA Margin	16.6%	17.5%	16.3%	17.2%
PAT Margin	11.4%	12.7%	12.1%	12.5%

Source: KRC Research

#### Valuation

At the CMP of Rs 619, the stock is trading at 14.4x TTM EPS of Rs 43.0. Going forward, we believe the company is expected to see strong performance driven by leveraging its flagship brand Horlicks and aggressive plans of new launches. We initiate coverage on the stock with a Buy rating and a 12-month target price of Rs 781, implying an upside potential of 26% which is arrived by discounting CY09E EPS of Rs 52 by 15x.

### Price Outlook (INR): 781

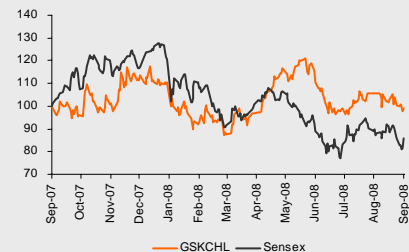
Market Data 19<sup>th</sup> September, 2008

Shares outs (Cr)	4.2
Equity Cap (Rs. Cr)	42.1
Mkt Cap (Rs. Cr)	2,607.5
52 Wk H/L (Rs)	766/489
Avg Vol (1yr avg)	7,140
Face Value (Rs)	10
Bloomberg Code	SKB IN
BSE Code	500676
NSE Code	GSKCONS

#### Market Info:

SENSEX: 13,675  
NIFTY: 4,040

#### Price Performance



Source: BSE, KRC Research

#### Share Holding pattern (%)

Particulars	Jun-08	Mar-08	Chg
Promoter	43.2	43.2	0.0
Institutions	28.9	28.6	0.3
Foreign	1.6	1.7	0.0
Public & others	26.3	26.6	-0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Source: BSE, KRC Research

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**FMCG industry set to grow at ~ 16% in FY09**

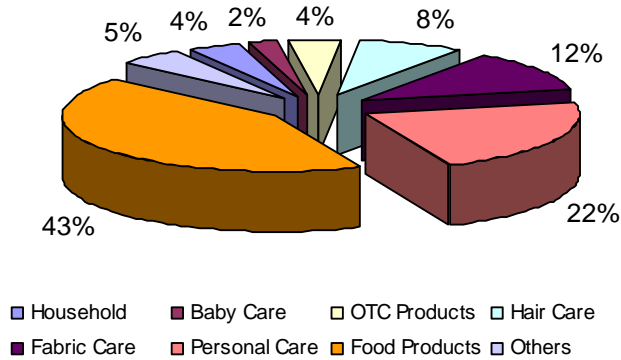
**Food Products contributes 43% to FMCG industry**

**There is a growing awareness that healthy eating is important and consumers are looking for options in foods which are tasty, nutritionally balanced and healthy**

**Industry Overview**

The Indian Fast Moving Consumer Goods (FMCG) industry comprises of consumer non-durable products like personal care, healthcare, food and beverages, household care etc. It is the fourth largest sector in the economy and is valued at Rs 72,000 crore (\$18bn). The FMCG industry is set to grow at faster rate i.e. by ~16% in FY09. Rural regions, where nearly 70% of India's population resides, account for 34% of the off take for FMCG products. The recent spike in commodity prices has resulted in more money in the pockets of rural consumers, which is pushing higher rural demand. Moreover, good monsoons will boost rural income and spur demand.

**Segment-wise Breakup**



**Source: KRC Research, Industry**

India is making an important mark in the global food arena, both as a large producer and exporter of agricultural products and as a very large and growing market for processed foods. The Government of India aims to propel the industry growth through various initiatives like government subsidies, food parks, tax breaks, increased FDI, proposals for public-private investment partnership, increased spending on supply chain infrastructure, a burgeoning middle class, modern retail formats and international road shows. The rapid transformation in the lifestyle of Indians, particularly those living in urban India, has resulted in rapid increase in demand for processed food. Growth in working women's population and prevalence of nuclear families with double income are other trends causing this change in the lifestyle of Indians which is boosting the growth of food processing & packaging sector. Further, the growth of modern organized retailing in contrast to the traditional trade has opened tremendous opportunities for the FMCG companies. There is a growing awareness that healthy eating is important and consumers are looking for options in foods which are tasty, nutritionally balanced and healthy.

Very good investment opportunities exist in many areas of food processing industries, the important ones being : fruit & vegetable processing, convenience food and drinks, milk products meat, fish & poultry processing, packaged, etc.

***Rise in disposable income and subsequently higher consumer spending acts as one of the important growth drivers for the sector***

***High Inflation and rise in agri-commodity prices is a concern***

### Demand Drivers

- **Rise in disposable income:** Consistent rise in disposable income due to broad-based economic growth, increase in number of working women and fiscal measures like increase in the basic exemption limit for personal income tax and pay reforms like the Sixth Pay Commission. Thus, higher consumer spending acts as one of the important growth drivers for the sector.
- **Growing share of organized retail:** Organized Retail roughly constitutes 10-15% of total FMCG sales and this would further enhance volume growth as Organized Retail is expected to grow at a CAGR of 28% over the next 5 years.
- **Health Conscious:** With rising awareness and health consciousness, this new age category is attracting lot of attention and would be immensely beneficial for the industry.
- **Brand Conscious:** FMCG market in India is largely unorganized, fragmented with vast amount of unbranded products but now people are getting more brand conscious.
- **Introducing newer, smaller packs** at lower price point has 2 primary benefits:
  - a) To enable consumers not to discontinue their purchases,
  - b) Targeting new consumers may lead to increase penetration level.

### Key Concerns

- **Inflation - at historic highs:** Inflation has risen from 4-5 % levels in FY07 to current levels of 12.63%. The companies have been passing on hikes in raw material prices to its consumers. We have seen significant price increases in the last five-six months by most players. However, it has to be noted that some more price hikes are imminent particularly to tackle packaging cost pressures which have risen due to rise in the prices of polymers which is directly proportional to the rise in crude prices.
- **Agflation:** Spike in agri-commodity prices is another concern. Players are trying to protect their margin and enhance sales through a slew of initiatives including focus on improving their product mix, and reduction in advertisement and sales promotion cost and weight of products.
- **Rising Competition:** Competition among FMCG players is another matter of concern as it would lead to shifting of market share among the FMCG companies.

**Strategies such as introducing newer, smaller packs at lower price point might help the FMCG companies to mitigate the low volume sale in the current scenario where inflation is high and would also help to increase the penetration level.**

**The Indian Malted food beverages Industry is estimated to be ~ Rs 1550 crore markets and is divided into white and brown health drinks. White beverages constitute about ~70 per cent of the market.**

### Outlook

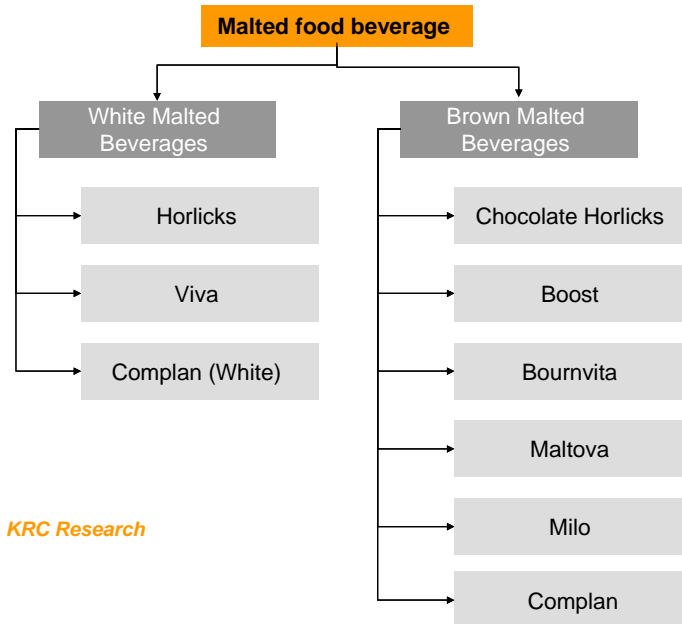
FMCG companies from the beginning of the year till date have outperformed the BSE Sensex thus proving themselves to be defensive bets in the current scenario. BSE sensex fallen by ~31% since January,2008 while BSE FMCG index has declined only by ~8%. Strategies such as introducing newer, smaller packs at lower price point have got benefits and this might help the FMCG companies to mitigate the low volume sale in the current scenario where inflation is high and would also help to increase the penetration level. Recent price hikes on several products have enabled the FMCG companies to improve or hold profit margins despite rising input costs. We expect consistent growth in earnings, improvement in return ratios and new strategies and product mix would lead to growth in top line as well as bottom line, thus sustaining their margins. Further we believe GSK Consumer would also be able to perform well in the coming years due to its brand product portfolio and its future growth plans.

### Malted Food Beverage Industry

The malted food beverage industry also popularly known as the health beverages sector is estimated to be ~ Rs 1550 crore market. The annual production of malted food as on March, 2008 stands at 83,840 tonnes.

Historically energy drinks or milk drinks were perceived as a luxury. This explains the slow off-take. Besides malted beverages has had a strong association with milk which due to its limited availability caused the segment to stagnate. Another significant reason for medium growth rates of malted food industry lies in its limited acceptability and reach in Indian society. Malted foods have primarily been used in upper and upper middle-class families, which constitute a small proportion of the Indian population. However, over the last few years, there have been clear indications of a recovery. Several factors are responsible for this: chief among these is the demand for better products and an increased acceptability of malted products. This demand has contributed to the growth in consumer options in terms of variety of taste and products. Other factors include improved standard of living, increased awareness and health consciousness amongst people, and product availability at reasonable prices. This trend is keeping with the patterns observed across international economies where the growth of middle-class has driven the uptrend in food industry in general and health beverages in particular.

The Indian health beverages market is divided into white and brown health drinks. White beverages constitute about ~70 per cent of the market. The market has marginally moved from the white malted beverages to the brown segment. The product categories can be further classified into two broad segments:



Source: KRC Research

**White Malted Beverages:** The white category accounts for ~70% of the total beverage volumes. White Malted Beverages are preferred by young children and are more associated with health benefits. The drink can also be prepared by mixing the ingredients with just hot water and hence the products are more popular in the southern and eastern regions of the country which have been traditionally milk deficient.

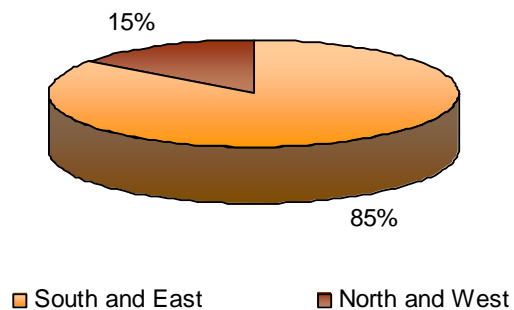
**Brown Malted Beverages:** The segment accounts for ~30 percent of the total category volume. Growth rates in this segment have always been below the white beverages segment. With their chocolate taste, the influencers - in this case the mothers have generally used browns to disguise the taste of milk. As a result, usage was restricted to children, whereas white beverages hold appeal across target groups. These products contain added cocoa besides malted barley, wheat, and milk solids. They have always been targeted at the youth and have been positioned as energy drinks.

**GSK Consumer has a market share of around 70% of the health food drink market. Its flagship product, Horlicks, is a widely regarded and respected brand and enjoys more than half of the Health Food Drink market.**

### Company Background

GlaxoSmithKline Consumer Healthcare Ltd. is an Indian group company of GlaxoSmithKline plc U.K. GCKCHL is one of the largest players in Health Food Drink industry in India. The company has its manufacturing plants located in Nabha, Rajahmundry and Sonepat. The products of GSK Consumer are categorized as Nutritional and Over the Counter (OTC) products. The Nutritional division includes health food drinks like Horlicks, which includes Junior Horlicks, Mother's Horlicks, Horlicks Lite, and Horlicks biscuits, Boost, Viva and Maltova. The OTC division promotes and distributes a number of products in diverse categories, including prominent brands such as, Crocin, Eno and Iodex. The company has also successfully launched products viz. ActiBase, Women's Horlicks thus entering into new segments besides extending the health drink into a complete family health drink brand with variants suiting every member of the family such as parents and kids. GSK Consumer has a market share of around 70% of the health food drink market. Its flagship product, Horlicks, is a widely regarded and respected brand, present in India over 100 years and enjoys more than half of the Health Food Drink market. Boost has a market share of ~13% across the nation, while it commands a market share of 24% in southern part of the nation. The company has strong marketing and distribution network in India comprising over 2,200 wholesalers and direct coverage of over 5,15,000 retail outlets.

### Geographical Revenue



Source: KRC Research, Company

GSK consumer received 85 % revenue from South and East and 15 % from North & West in CY07. Out of the total volume, their off-take to urban area is 75 % and 25% to rural area.

**Competitors:**

White Malted Beverages								
Own Brands	Qty	Price (Rs.)		Other Brands	Qty	Price (Rs.)		
		Bottle	Pouch			Bottle	Pouch	
Horlicks	200 gm	64	-	Complan (White)	500 gm	-	144	
	500 gm	131	124		Complan Caramel	200 gm	90	-
	1 Kg	234	222			500 gm	184	170
Horlicks Elaichi		131	-	Kesar Badam Complan	400 gm	-	170	
Womens Horlicks	200 gm	100	-					
Junior Horlicks	500 gm	140	-	Chawan Junior	500 gm	-	110	
Mothers Horlicks	500 gm	-	200					
Horlicks Lite	500 gm	150	-					

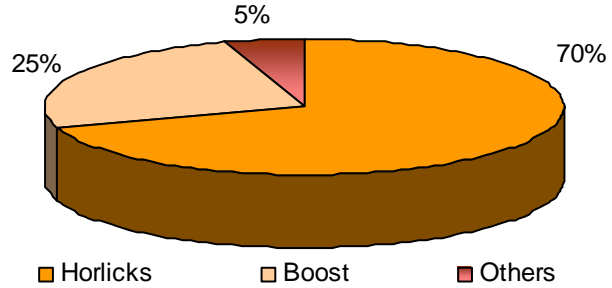
Brown Malted Beverages								
Own Brands	Qty	Price (Rs.)		Other Brands	Qty	Price (Rs.)		
		Bottle	Pouch			Bottle	Pouch	
Chocolate Horlicks	200 gm	64	-	Complan	500 gm	-	170	
	500 gm	131	124		500 gm	184	-	
					200 gm	90	-	
Boost	500 gm	128	215	Bournvita	500 gm	-	121	
	1 kg	-	215		200 gm	60	-	
					1 Kg	218	-	
Boost Chocoblast	500 gm	-	121	Bournvita - 5 star	500 gm	123	-	
					Milo	500 gm	-	88
					60 gm	-	10	

Source: KRC Research



**Horlicks contributes ~70% to the company's revenues and 25% Boost and rest from others**

**Revenue -Mix**

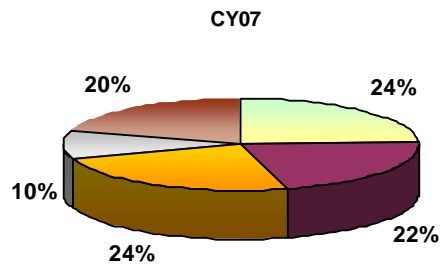


Source: KRC Research, Company

Horlicks contributes around 70% and the balance comes from the variants wherein Boost contributes around 25% and it has got one variant Chocoblast which contributes 10%.

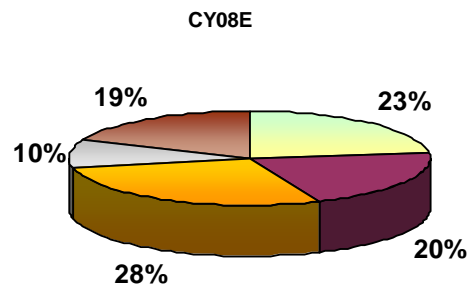
**Malt prices which constitutes ~24-28% of total raw material has risen by 38% so far but the company expects to average it to 35% for the current year**

**Raw Material-mix (CY07 and CY08E)**



Legend: Milk Powder, Liquid Milk, Malt & Malt Extract, Flour (Wheat), Others

Source: KRC Research, Company



Legend: Milk Powder, Liquid Milk, Malt & Malt Extract, Flour (Wheat), Others

Source: KRC Research, Company

Note: Raw Material in the above chart does not include Packaging material.

Raw material for the company mainly comprises of malt & malt extract, milk, flour (wheat). Going forward, we believe the wheat prices would soften on the back of surplus production. Products are prepared from barley made Malt and malt extract and other material. Malt prices have risen by 38% since the beginning of the year and the company expects to average it to 35% for CY08E. Raw Material costs (excluding Packaging) constitute ~28% of Net Sales and ~33% of Total Expenditure and Raw Material (including Packaging) constitute ~45% of the Total Expenditure.

***GSK Consumer is King in the malted food industry and has a market share of more than 70%.***

***GSK Consumer is a cash rich and debt free company. Its Cash & Investment adds Rs 72 per share to the target price***

***Going forward, we believe the company will achieve volume growth of ~5-7% coupled with a penetration growth of 2-3% and a price growth of 5-6 %.***

***The company has got aggressive plans to launch new products***

### **Investment Rationale**

#### **GSKCHL is King**

GSK Consumer, a 100-year-old brand, possesses a market share of more than 70% in the domestic malted beverage segment thus catapulting it to a clear market leader. Over the years, it has developed brands such as Horlicks, Boost which have become well established and recognized names in many households in India. In addition its brand portfolio also includes Viva which is present in the white segment and brand Boost and Maltova which are brown malted beverages. It has launched new variants which are exclusive for certain categories and also made its foray into the fast growing protein segment by launching ActiBase, a protein health drink.

#### **Zero Debt Company**

GSK Consumer has got a strong Balance sheet. The company is a cash rich and debt free company. Cash & Bank balance as on CY07 stood at Rs 93.7 crore and Investments as on CY07 stood at Rs 297 crore which would help to support stock price of the company. The company plans to utilize its cash for future capex plan besides introducing new products.

#### **Preferred Pick in Times of Inflation**

It has been generally said that sticking with companies which have great brand names during inflationary times will reap rewards in the long run. GSK consumer fits the bill perfectly during these times of high inflation with its product portfolio consisting of strong brands catering to a complete family.

#### **Strong performance**

The company has seen a ~8.5% volume growth in malted beverages over the last couple of years on account of new product launches, revitalized packaging and buoyant economic growth. For the current year the company expects higher sales on the back of new launches and prices hikes. Going forward, we believe the company will achieve volume growth of ~5-7% coupled with a penetration growth of 2-3% and a price growth of 5-6 %.

#### **Successful New Product Launches**

GSK Consumer is performing very strong brand led activities. The company aims to extend the health drink into a complete family health drink brand with variants suiting every member of the family such as parents and kids. With this view, GSK Consumer has launched Women Horlicks - India's first health drink designed keeping women's nutritional needs in mind, Horlicks Extra Light, which is the lowest calorie malt drink on the market and flavored drinks viz. Butter scotch and Pistachio which are very well received by kids. The company by launching its product, ActiBase, which is a top-notch quality protein supplement with perfect blend of isolated soy and whey-milk protein,

*The company has a capex plan of Rs 50-60 crore in CY08, Rs 50-60 crore in CY09 and Rs 110-120 crore in CY10*

*GSK Consumer targets to double its revenues over the next 4 years*

forayed in the Rs 500 crore protein supplement market. The nutrition supplement market is witnessing a high growth rate, with the global market being pegged at \$3bn.

**Aggressive Plan of New Launches:** The company has got aggressive plans to launch new products - some would be in Horlicks variants in addition to a new product category in the malted segment by H2CY08 and some would be in completely different category such as energy drink 'Lucozade', oral care 'Sensodyne', vitamin drink 'Ribena', and nasal strips and snore relief product 'Breathe Right' from its parent company brand in next 3-4 years. The company wants to leverage the global brands because these are well-established brands.

#### Capex Plan

The company has a capex plan of Rs 50-60 crore in CY08 and Rs 50-60 crore in CY09. Thereafter, the company plans to undertake a capex of Rs 110 -120 crore in early CY10 to expand the capacity. The company is now operating at 75% capacity utilization and will expand to 90% by end of CY09. The Capex is for capacity expansion and to improve quality and productivity of the company which subsequently will lead to improvement in the profitability of the company.

#### Safe Bet

Horlicks being a great brand name, would enable the company to be a safe bet in the prevailing economic scenario as well as the current stock market sentiment. The company is in Health drink category which is expected to grow as people who are health and fitness conscious are increasing and they are ready to pay this price as well.

#### Growth Strategy of GSK consumer

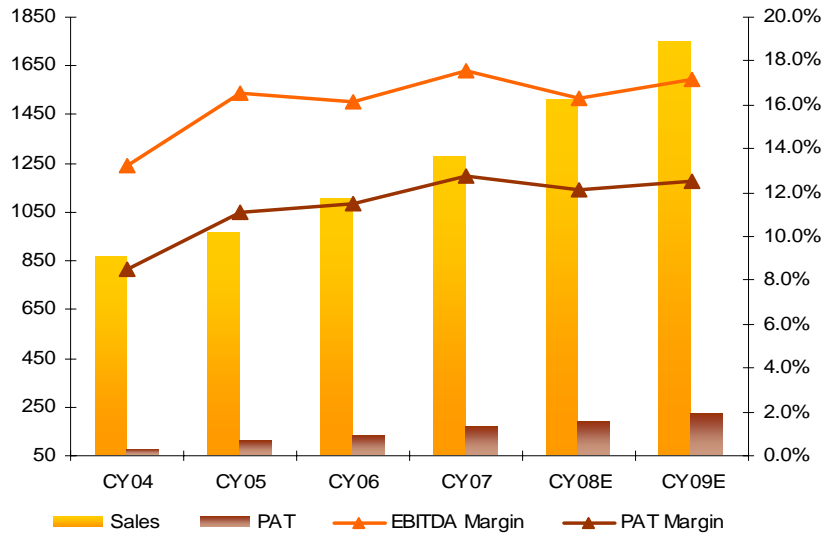
The company **targets to double its revenues over the next 4 years** and has adopted the following strategy:

- **Leveraging the Horlicks brand:** The company has got aggressive plans to launch new products - some in Horlicks variants, Horlicks in a new product category by H2CY08.
- **Bringing parent company's products :** The company plans to bring products from its parent brand viz. Lucozade, Sensodyne, Ribena etc. in next 3-4 years.
- **Bottom of the pyramid:** GSK consumer would be launching a new product for bottom of the pyramid by the end of CY09. In this they will be targeting mainly the rural people who can afford the product. Moreover, products with price points of 10 rupees and 20 rupees etc. will enable the company to obtain sales growth coming from the bottom of the pyramid.

**Net Profit has grown at a 3-year CAGR of 30% and we expect it to grow at 2-year CAGR of ~16%**

**Financial Performance**

**Revenue and Margins is expected to expand**

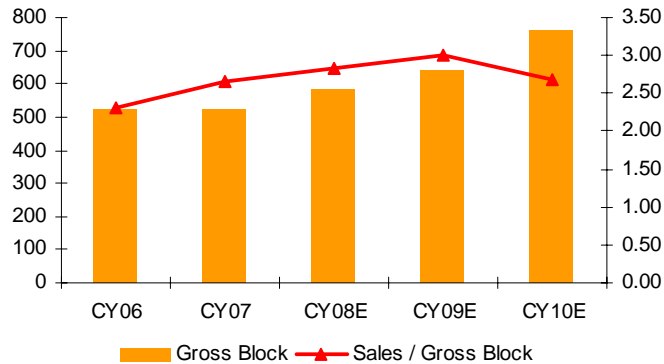


Source: KRC Research, Company

Revenue has grown at 3-year CAGR of ~14% and we expect the revenue to grow at 2-year CAGR of ~17%. The company has been enjoying EBITDA margin of 16-17% and we expect the margins to grow to ~17.2% by CY09. The improvement in the margin is to be driven by higher volumes and expected lower wheat prices. Net Profit has grown at a 3-year CAGR of 30% and we expect it to grow at 2-year CAGR of ~16%. The company is enjoying a PAT margin of ~12%.

**We believe higher sales will improve this ratio going forward to ~3 in CY09**

**Gross Block**



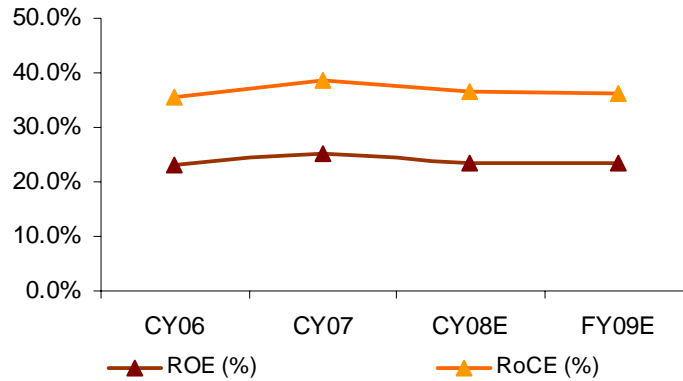
Currently the company is enjoying ROE of ~25% and we expect the company to maintain almost the same level

Debtors collection period of the company is gradually decreasing which has given leverage to the company in terms of efficient & effective working capital management.

Source: KRC Research, Company

The company has capex plan of Rs 50-60 crore in CY08 and CY09 each and Rs 110-120 crore in CY10. The company has maintained its Sales to Gross Block Ratio at ~2.5 since CY06 and we believe higher sales will improve this ratio going forward to ~3 in CY09 while it may decrease it to ~2.7 in CY10 due to higher capex. However, it may further bounce back driven by higher growth plan.

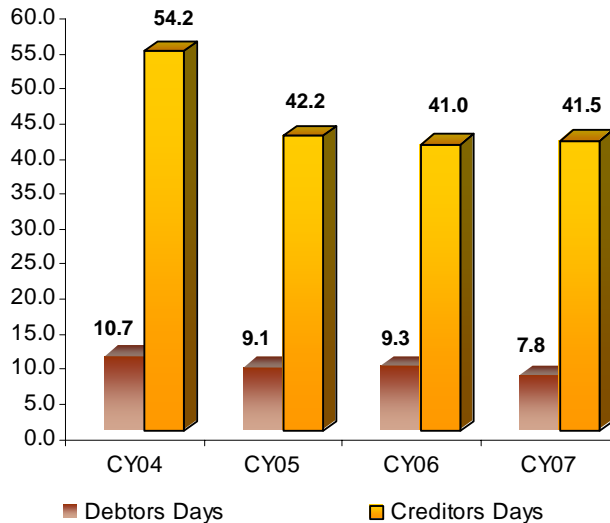
ROE and ROCE



Source: KRC Research, Company

Due to quality working capital management, company has been able to enjoy higher ROE & ROCE of ~25% & ~38% in CY07. Further, we expect the company would be able to maintain almost the same level on back of low debtor & creditor period.

Low Debtors and Creditors Turnover Ratios



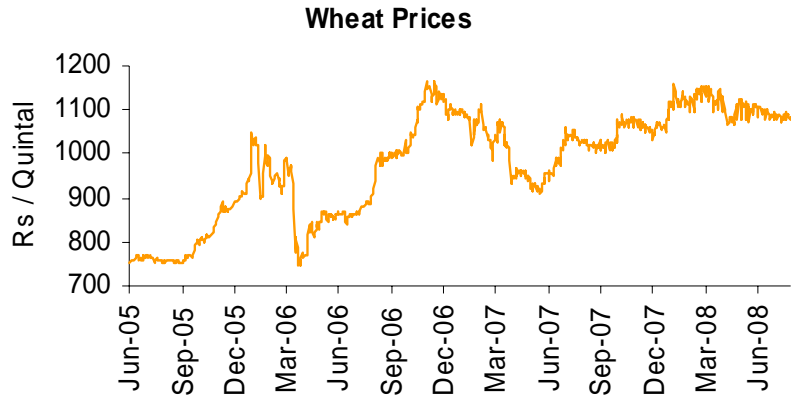
Source: KRC Research, Company

Debtors collection period of the company has been gradually decreasing over the past few years to ~8 days in CY07. This reflects the company's ability to receive payments quickly from customers. On the other hand, creditors days are steady at 42 levels over the last 3 years which have given leverage to the company in terms of efficient & effective working capital management.

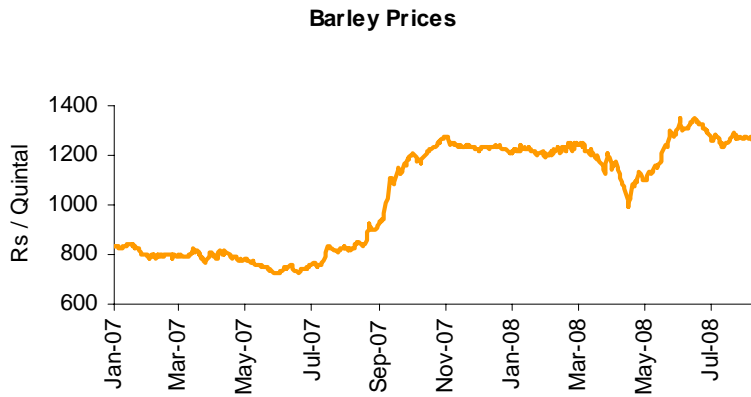
**Key Concern**

**Increasing Commodity Prices**

An overall increase in the prices of commodities like Barley, Wheat, Milk could further affect the company's margins unless it is offset by suitable price hikes. Company's cost containment measures by 2% would help them to maintain the margin.

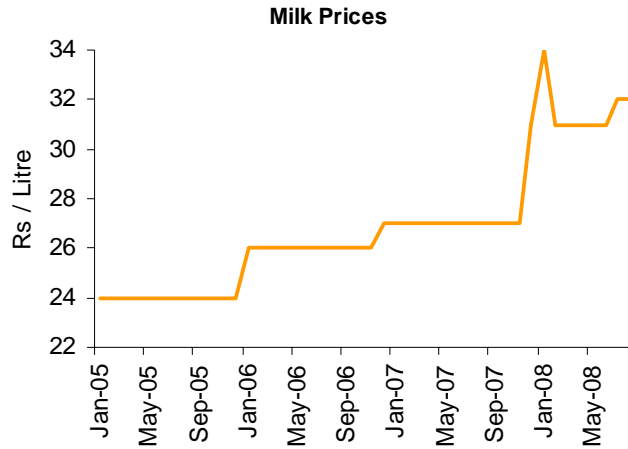


Source: KRC Research, NCDEX (Delhi prices)



Source: KRC Research, NCDEX (Jaipur Prices)





Source: KRC Research, CM IE

#### Increasing competition

GSKCHL operates in Malted Health Beverage segment, which has been witnessing increasing competition from entrants like Nestle (through Milo, a chocolate drink for children), HLL (through Amaze, a brainfood for children) and new entrant Dabur India (through Chawan Junior, a variant of its Chyawanprash). The company is overly dependent on its Horlicks brand for its topline growth. Increasing competition from other aggressive players could pose a severe threat to the company's growth prospects. However, Company's growth strategy will help them to counter the increasing competition.

### Valuation

At the CMP of Rs 619, the stock is trading at 14.4x TTM EPS of Rs 43.0. Going forward, we believe the company is expected to see strong performance driven by leveraging its flagship brand Horlicks and aggressive plans of new launches. We initiate coverage on the stock with a Buy rating and a 12-month target price of Rs 781, implying an upside potential of 26% which is arrived by discounting CY09E EPS of Rs 52 by 15x.

Valuation	
P/E	15.0
EPS (CY09E) (Rs)	52.1
<b>Target Price (Rs)</b>	<b>781.1</b>

Source: KRC Research

### Relative Valuation

Particulars	GSKCHL	Nestle
CMP (Rs)	619.0	1675.8
Net Sales (Rs Cr)	1422.7	3928.9
Mcap (Rs Cr)	2607.5	17121.8
PER (x)	14.4	34.0
EV/Sales (x)	1.8	4.3
EV/EBITDA (x)	7.9	21.3
Mcap/Sales (x)	1.8	4.4
OPM (%)	22.5%	20.4%
NPM (%)	12.7%	12.8%

Source: KRC Research, Note: Figures on TTM basis

## Income Statement

Year ending	CY	CY	CY	CY
31st Dec.	2006	2007	2008E	2009E
<b>Net Sales</b>	1,107.7	1,277.8	1,508.7	1,750.4
Other Income	52.2	68.9	83.0	87.5
<b>Total Income</b>	1,159.9	1,346.7	1,591.7	1,837.9
Raw Material Consumed	386.6	470.6	566.9	650.5
<i>% of Net Sales</i>	34.9%	36.8%	37.6%	37.2%
Employee Expenses	134.7	154.9	175.0	192.5
<i>% of Net sales</i>	12.2%	12.1%	11.6%	11.0%
Selling & admin	143.2	164.1	203.7	238.1
<i>% of Net Sales</i>	12.9%	12.8%	13.5%	13.6%
Other Expenses	261.3	286.8	316.8	367.6
<i>% of Net Sales</i>	23.6%	22.4%	21.0%	21.0%
<b>Total Expenditure</b>	924.0	1,054.1	1,263.0	1,449.3
<b>EBIDTA (excl. OI)</b>	183.8	223.7	245.7	301.1
<b>EBIDTA Margin</b>	16.6%	17.5%	16.3%	17.2%
EBIDTA (incl. OI)	235.9	292.6	328.7	388.7
Depreciation	42.7	43.5	46.7	51.1
<b>EBIT</b>	193.2	249.1	282.0	337.6
Interest	3.5	4.6	5.0	5.8
<b>PBT</b>	189.7	244.5	277.0	331.8
Tax	63.7	82.5	94.2	112.8
<b>Reported PAT</b>	126.1	162.1	182.9	219.0
Extra-ordinary Items	0	0	0	0
<b>Net Profit</b>	126.01	162.1	182.9	219.0
<i>Net Profit Margin</i>	11.4%	12.7%	12.1%	12.5%
<b>EPS</b>	30.0	38.5	43.5	52.1
Cash EPS	40.1	48.9	54.6	64.2
Equity	42.1	42.1	42.1	42.1
Face Value	10	10	10	10

Source: KRC Research

### Cash Flow Statement

Cash Flow Statement	CY06	CY07	CY08E	CY09E
<b>Profit Before Tax</b>	190.6	245.1	277.0	331.8
Add: Depreciation/ Amortization	42.7	43.5	46.7	51.1
Other Operating Activities	(94.7)	(100.6)	(95.6)	(109.6)
<b>Cash Generated from Operations</b>	138.6	188.1	228.1	273.3
Capex	(19.3)	(26.2)	(60.0)	(55.0)
Other investment Activities	(205.4)	(52.9)	0.0	0.0
<b>Cash flow from investing activities</b>	(224.8)	(79.1)	(60.0)	(55.0)
Dividend Paid	(42.6)	(50.4)	(47.5)	(56.9)
Other Financing Activities	(9.1)	(12.9)	(12.1)	(14.3)
<b>Cash flow from financing activities</b>	(51.7)	(63.3)	(59.6)	(71.3)
Net changes in Cash	(137.9)	45.8	108.5	147.1
Cash at beginning	185.8	47.9	93.7	202.1
<b>Cash at End</b>	<b>47.9</b>	<b>93.7</b>	<b>202.1</b>	<b>349.2</b>

Source: KRC Research

### Balance sheet

SOURCES OF FUNDS	CY06	CY07	CY08E	CY09E
Share Capital	42.1	42.1	42.1	42.1
Reserves & Surplus	500.7	604.3	732.5	886.0
Networth	542.7	646.4	774.5	928.0
Deferred Tax Liabilities (NET)	24.1	17.3	17.3	17.3
<b>Total Sources of Funds</b>	<b>566.8</b>	<b>663.6</b>	<b>791.8</b>	<b>945.3</b>
APPLICATION OF FUNDS	CY06	CY07	CY08E	CY09E
Gross Block	521.7	523.7	583.7	638.7
Depreciation	270.3	297.7	344.3	395.4
Net Block	251.4	226.0	239.3	243.2
Capital W-i-P	6.5	17.3	17.3	17.3
Investments	219.7	297.8	297.8	297.8
Current Assets, Loans and Advances	297.8	371.9	525.0	720.6
Inventories	145.6	194.8	215.5	250.1
Sundry Debtors	28.1	27.4	35.1	40.7
Cash & Bank Balance	47.9	93.7	202.1	349.2
Other Current Assets	15.9	20.2	19.4	19.4
Loans & Advances	60.3	35.8	52.8	61.3
Current liabilities & Provisions	208.6	249.5	287.6	333.7
Current liabilities	188.2	220.3	257.4	298.7
Provisions	20.3	29.2	30.2	35.0
Net Current Assets	89.2	122.5	237.3	386.9
<b>Total Application of Funds</b>	<b>566.8</b>	<b>663.6</b>	<b>791.8</b>	<b>945.3</b>

Source: KRC Research

### Important Ratios

<b>(A) Operational Performance (%)</b>	<b>CY06</b>	<b>CY07</b>	<b>CY08E</b>	<b>CY09E</b>
Operating Profit Margin (excl. O.I.)	16.6%	17.5%	16.3%	17.2%
Operating Profit Margin (incl. O.I.)	21.3%	22.9%	21.8%	22.2%
Gross Profit Margin (EBDT)	21%	22.5%	21.5%	21.9%
Tax / PBT	33.6%	33.7%	34.0%	34.0%
Net Profit Margin	11.4%	12.7%	12.1%	12.5%
<b>(B) Financial Performance</b>	<b>CY06</b>	<b>CY07</b>	<b>CY08E</b>	<b>CY09E</b>
Debt / Equity (x)	-	-	-	-
Inventory Turnover Ratio (x)	7.6	6.6	7.0	7.0
Fixed Assets Turnover (x)	4.4	5.7	6.3	7.2
Working Capital Turnover	12.4	10.4	6.4	4.5
<b>(C) Valuation Performance</b>	<b>CY06</b>	<b>CY07</b>	<b>CY08E</b>	<b>CY09E</b>
Earnings Per Share (Rs.)	30.0	38.5	43.5	52.1
Cash Earnings Per Share (Rs.)	40.1	48.9	54.6	64.2
Dividend Per Share (Rs.)	8.0	10.0	11.3	13.5
Book Value (Rs.)	129.0	153.7	184.2	220.7
ROE (%)	23.2%	25.1%	23.6%	23.6%
RoCE (%)	35.6%	38.5%	36.4%	36.4%
<b>(D) Market Data</b>	<b>CY06</b>	<b>CY07</b>	<b>CY08E</b>	<b>CY09E</b>
Market Price (Rs.)	619.0	619.0	619.0	619.0
P/E ratio (x)	20.6	16.1	14.2	11.9
Market Cap. to Sales (x)	2.4	2.0	1.7	1.5
Enterprise Value (Rs. Cr.)	2,654.8	2,700.6	2,809.0	2,956.1
EV / Sales (x)	2.4	2.1	1.9	1.7
EV / EBITDA	14.4	12.1	11.4	9.8
Price to Book Value	4.8	4.0	3.4	2.8

Source: KRC Research

## Annexure

Total Population	
Male	532,156,772
Female	496,453,556
Total	1,028,610,328

Source: Census 2001

## Percentage terms

As of 2001	0-20		20-40		40-60		80+	
Age Group	G / TP	G / TGP	G / TP	G / TGP	G / TP	G / TGP	G / TP	G / TGP
Male	23.7%	45.7%	15.7%	30.3%	8.6%	16.6%	3.7%	7.1%
Female	21.4%	44.4%	15.2%	31.6%	7.7%	16.0%	3.8%	7.8%

**Note:** G - Gender; TP - Total Population; TGP - Total Gender Population

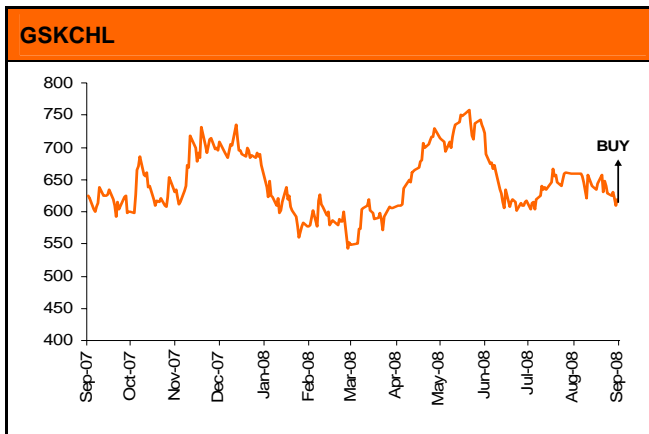
Source: KRC Research, Census 2001

## Products of GSK consumer and their features (Age-wise)

Product	Age	Features
Horlicks	Any age	Supplementary nutrient
Horlicks Lite	30+	High fibre and low fat drink specially formulated for people with diabetics
Junior Horlicks	2-5	To fulfill nutrient diet required for child
Womens Horlicks	19-50	Tailor-made nutrient diet for urban working women
Mothers Horlicks	18-40	Nutrient requirement for Mothers
Actibase	18-40	High quality protein supplement
Viva	20-50	A combination of 9 essential vitamins for nourishment for women
Boost	5-45	Secret of winning energy for youth
Maltova	5-15	A yummy choco-malt drink consisting of a mixture of vitamins, minerals and carbohydrates

Source: KRC Research

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Rating	In next 12 months, expected to:
<b>Buy</b>	Appreciate over 15%
<b>Accumulate/Hold</b>	Appreciate upto 15%
<b>Reduce</b>	Depreciate upto 10%
<b>Sell</b>	Depreciate over 10%

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