



## GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,493	SKB IN
	REUTERS CODE
S&P CNX: 5,474	GLSM.BO

23 October 2007

Buy

Previous Recommendation: Buy

Rs627

Equity Shares (m)	45.4
52-Week Range (Rs)	670/500
1,6,12 Rel. Perf. (%)	-6/-10/-23
M.Cap. (Rs b)	28.4
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	11,119	1,268	30.2	18.4	20.8	4.8	22.9	35.1	2.1	12.9
12/07E	13,039	1,662	39.5	31.0	15.9	4.0	25.5	39.1	1.7	9.7
12/08E	14,770	1,942	46.2	16.8	13.6	3.4	25.2	38.6	1.4	8.1

- GSK Consumer's 3QCY07 results were above expectations, with 16.6% increase in net sales and 39.5% PAT growth in comparison to our estimates of 12.8% and 12.1%, respectively.
- Consistent price hikes and cost control resulted in 180bp margin expansion. EBITDA margin for the quarter was 19.3%. Other income grew 50% to Rs209m, mainly led by increase in income from mutual fund investments. PAT grew 39.4% to Rs505m.
- The management has guided 7-8% volume growth and 12% sales growth in CY08. Milk and wheat prices are expected to remain strong due to global shortages. Management seems confident of passing on upto 5% price increase to the consumer without any impact on demand.
- We expect the company to maintain market share in the malted food market in India, despite entry of new players (Dabur) and aggressive product promotion plans of existing players like Nestle. We are revising our EPS estimates to Rs39.5 for CY07 from Rs34.5 and to Rs46.2 for CY08 from Rs39.1. The stock trades at 15.9x CY07E and 13.6x CY08E earnings. We maintain **Buy**.

### QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,769</b>	<b>2,680</b>	<b>3,015</b>	<b>2,647</b>	<b>3,265</b>	<b>3,156</b>	<b>3,516</b>	<b>3,102</b>	<b>11,119</b>	<b>13,039</b>
YoY Change (%)	24.2	10.4	16.5	9.2	17.9	17.8	16.6	17.2	15.0	17.3
Total Exp	2,189	2,218	2,486	2,372	2,641	2,571	2,839	2,664	9,274	10,715
<b>EBITDA</b>	<b>580</b>	<b>462</b>	<b>528</b>	<b>275</b>	<b>624</b>	<b>585</b>	<b>677</b>	<b>437</b>	<b>1,845</b>	<b>2,323</b>
Margins (%)	20.9	17.2	17.5	10.4	19.1	18.5	19.3	14.1	16.6	17.8
Depreciation	104	105	109	108	108	109	111	103	427	431
Interest	8	9	10	8	11	11	12	14	35	48
Other Income	72	142	139	169	139	166	209	145	522	659
<b>PBT</b>	<b>540</b>	<b>490</b>	<b>548</b>	<b>328</b>	<b>644</b>	<b>631</b>	<b>763</b>	<b>465</b>	<b>1,904</b>	<b>2,503</b>
Tax	196	181	185	76	221	208	258	154	637	841
Rate (%)	36.2	37	33.8	23.2	34.3	33.0	33.8	33.1	33.5	33.6
<b>PAT</b>	<b>345</b>	<b>309</b>	<b>362</b>	<b>252</b>	<b>423</b>	<b>423</b>	<b>505</b>	<b>311</b>	<b>1,267</b>	<b>1,662</b>
YoY Change (%)	67.9	6.4	19.7	17.9	22.8	36.8	39.4	23.5	18.4	31.2

E: MOST Estimates

### Strong growth momentum continues in 3QCY07

GSK Consumer maintained strong underlying growth across brands. Sales volumes grew by 7% both for *Horlicks* as well as *Boost*. Gross sales growth also included the benefit of close to 5.5% price increase affected during the course of the year. The company has indicated that the growth momentum will continue. Competitive landscape continues to be favorable with emphasis on innovation, marketing and geographical expansion being ahead of the competitors. GSK maintained around 70% market share in the malted drinks market. The company plans to expand its reach in the rural area by launching small SKUs. Low-priced small SKUs can attract large number of first-time users.

### Raw material price on an uptrend...

Prices of all the key raw materials like wheat, barley and milk have been rising. Price of skimmed milk has been 25% higher on YoY basis, while that of wheat has been 15% higher. Drought in some of the key milk producing countries like Australia and New Zealand is expected to keep prices high. In addition, the removal of ban on the export of skimmed milk powder will result in price increase. Wheat production has been showing staid growth in India. In addition, some of the large exporters like Australia have lower area under wheat cultivation, thus reducing export surplus. Consequently, wheat prices are expected to rule firm in the medium term.

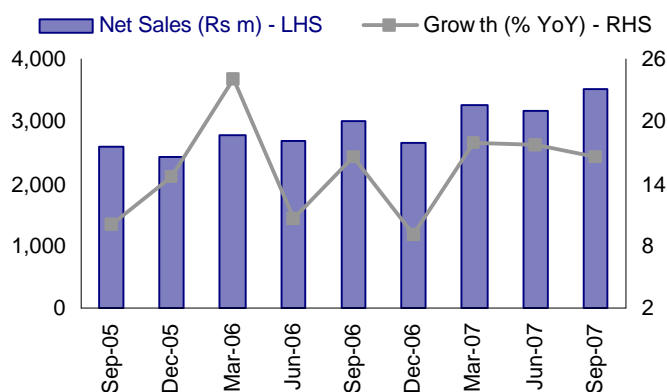
### ...but consistent price hike resulted in margin expansion

Due to its strong brands and leadership position, GSK Consumer has been able to pass on the raw material cost-push by increasing prices on a consistent basis. During the year, the company has taken an effective price hike of 5.5%. During the quarter, higher realization resulted in 160bp increase in gross margin while cost control enabled a 180bp EBITDA margin expansion. Management is confident of passing on upto 5% price increase to the consumer without any impact on demand.

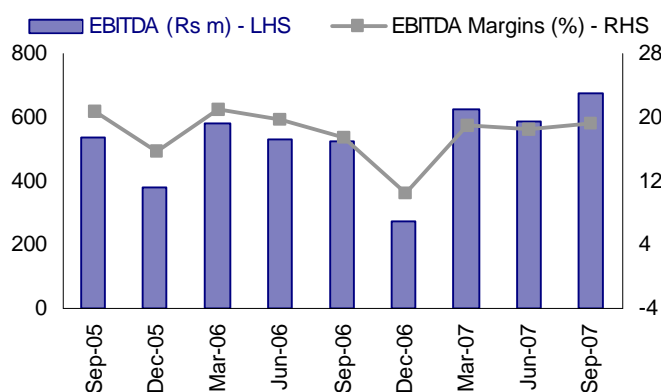
### Launch of new products would provide scalability

GSK plans to bring in few products from its parent company in CY08. Further, the company is also planning to launch new products in during CY08. We believe this would provide scalability.

TREND IN SALES AND SALES GROWTH



EBITDA MARGINS - QUARTERLY TREND



Source: Company/Motilal Oswal Securities

### Valuation and view

We expect the company to maintain market share in the malted food market in India, despite entry of new players (Dabur) and aggressive product promotion plans of existing players like Nestle. We are revising our EPS estimates to Rs39.5 for CY07 from Rs34.5 and to Rs46.2 for CY08 from Rs39.1. The stock trades at 15.9x CY07E and 13.6x CY08E earnings. We maintain **Buy**.

## GlaxoSmithkline Consumer: an investment profile

### Company description

GSK Consumer is the largest player in the Rs13b Indian health foods market, with a 70% market share with brands like Horlicks, Boost, Viva and Maltova. The malted foods market is expected to grow at 7-8% in volumes. The company has launched Horlicks Lite targeted at health conscious adults, a product positioning its shrugged off few years back.

### Key investment arguments

- ✍ We expect an EPS CAGR of 20% over CY05-07E, driven by new product launches, selective price increases and benefits of lower excise duty from third party packaging units.
- ✍ Cash rich company with Bank FD's of Rs 36 per share, looking for higher yield investments and acquisitions.

### Key investment risks

- ✍ Commodity linked prices of Milk and Milk solids, Malt and Sugar are the key raw material and can have significant bearing on the margins of the company.
- ✍ GSK Consumer drives 95% sales from Malted drinks, a product category which is growing in mid to high single digits only. The dependence on single product segment is key risk to future growth.

### Recent developments

- ✍ GSK Consumer relaunched Horlicks in a new formulation that claims to make children 'Taller, Sharper and Stronger'. Chocolate Horlicks and Junior Horlicks were also re-launched in new packaging.
- ✍ The company initiated a new advertising campaign during the quarter for Horlicks- 'Exam ka bhooth bhagao'

### Valuation and view

- ✍ We have EPS forecasts of Rs39.5 for CY07 and Rs46.2 for CY08.
- ✍ The stock is currently valued at 15.9x CY07E EPS and 13.6x CY08E EPS. We maintain **Buy**.

### Sector view

- ✍ We are positive on the sector. The sector is showing strong volume growth across product categories with improving pricing power for leading players.
- ✍ Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- ✍ Longer term prospects bright, given rising incomes and low penetration.

#### COMPARATIVE VALUATIONS

		GSK. CON	GODREJ. CON	MARICO
P/E (x)	CY07E	15.9	17.0	23.4
	CY08E	13.6	14.4	18.8
EV/EBITDA (x)	CY07E	9.7	13.1	14.7
	CY08E	8.1	11.3	12.1
EV/Sales (x)	CY07E	1.7	2.4	2.0
	CY08E	1.4	2.1	1.7
P/BV (x)	CY07E	4.0	24.8	15.4
	CY08E	3.4	24.1	10.8

#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	43.2	43.2	43.2
Domestic Inst	27.9	28.4	28.2
Foreign	4.5	3.9	4.1
Others	24.4	24.5	24.5

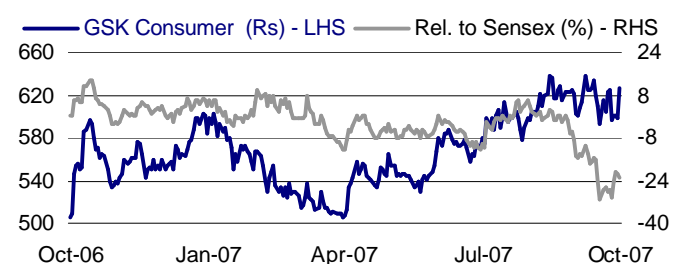
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
CY07	39.5	-	-
CY08	46.2	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
627	785	25.2	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E DECEMBER	2004	2005	2006	2007E	2008E	
Net Sales	8,622	9,668	11,119	13,039	14,770	
Change (%)	7.9	2.1	15.0	17.3	13.3	
Total Expenditure	-7,255	-7,827	-9,274	-10,715	-12,178	
<b>EBITDA</b>	<b>1,367</b>	<b>1,842</b>	<b>1,845</b>	<b>2,323</b>	<b>2,592</b>	
Change (%)	7.2	34.7	0.2	26.0	11.6	
Margin (%)	15.9	19.1	16.6	17.8	17.6	
Depreciation	-415	-419	-427	-431	-439	
Int. and Fin. Charges	-53	-42	-35	-48	-50	
Other Income - Recurring	250	243	522	659	821	
<b>Profit before Taxes</b>	<b>1,150</b>	<b>1,624</b>	<b>1,904</b>	<b>2,503</b>	<b>2,924</b>	
Change (%)	13.0	41.3	17.3	31.4	16.8	
Margin (%)	13.3	16.8	17.1	19.2	19.8	
Tax	-387	-597	-671	-876	-1,024	
Deferred Tax	-38	44	35	35	41	
Tax Rate (%)	-37.0	-34.0	-33.4	-33.6	-33.6	
<b>Profit after Taxes</b>	<b>725</b>	<b>1,072</b>	<b>1,268</b>	<b>1,662</b>	<b>1,942</b>	
Change (%)	-7.7	47.9	18.4	31.0	16.8	
Margin (%)	8.4	11.1	11.4	12.7	13.1	
Non-rec. (Exp)/Income	0	0	0	0	0	
<b>Reported PAT</b>	<b>725</b>	<b>1,072</b>	<b>1,268</b>	<b>1,662</b>	<b>1,942</b>	

BALANCE SHEET		(RS MILLION)				
Y/E DECEMBER	2004	2005	2006	2007E	2008E	
Share Capital	454	421	421	421	421	
Reserves	4,840	4,331	5,107	6,108	7,277	
<b>Net Worth</b>	<b>5,294</b>	<b>4,751</b>	<b>5,527</b>	<b>6,528</b>	<b>7,698</b>	
Loans	0	0	0	0	0	
<b>Capital Employed</b>	<b>5,294</b>	<b>4,751</b>	<b>5,527</b>	<b>6,528</b>	<b>7,698</b>	
Gross Block	4,973	5,069	5,157	5,247	5,339	
Less: Accum. Deprn.	-1,972	-2,339	-2,763	-3,194	-3,633	
<b>Net Fixed Assets</b>	<b>3,001</b>	<b>2,730</b>	<b>2,394</b>	<b>2,053</b>	<b>1,706</b>	
Capital WIP	73	108	108	108	108	
<b>Curr. Assets, L&amp;A</b>	<b>4,323</b>	<b>4,018</b>	<b>5,254</b>	<b>6,784</b>	<b>8,596</b>	
Inventory	852	1,310	1,584	1,786	1,902	
Account Receivables	252	241	311	365	414	
Cash and Bank Balance	2,632	1,858	2,636	3,785	5,325	
Others	586	608	722	848	955	
<b>Curr. Liab. and Prov.</b>	<b>1,783</b>	<b>1,829</b>	<b>1,918</b>	<b>2,071</b>	<b>2,326</b>	
Account Payables	1,324	1,444	1,500	1,616	1,831	
Other Liabilities	250	337	346	359	383	
Provisions	209	47	72	96	112	
<b>Net Current Assets</b>	<b>2,539</b>	<b>2,189</b>	<b>3,336</b>	<b>4,713</b>	<b>6,270</b>	
Miscellaneous Expense	0	0	0	0	0	
Deferred Tax Liability	-320	-276	-311	-346	-387	
<b>Application of Funds</b>	<b>5,294</b>	<b>4,751</b>	<b>5,527</b>	<b>6,529</b>	<b>7,697</b>	

E: MOST Estimates

RATIOS						
Y/E DECEMBER	2004	2005	2006	2007E	2008E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>16.0</b>	<b>25.5</b>	<b>30.2</b>	<b>39.5</b>	<b>46.2</b>	
Cash EPS	25.1	35.4	40.3	49.8	56.6	
BV/Share	116.6	113.0	131.4	155.2	183.0	
DPS	7.0	8.0	10.0	13.4	15.7	
Payout %	43.8	31.4	33.2	34.0	34.0	
<b>Valuation (x)</b>						
P/E		24.6	20.8	15.9	13.6	
Cash P/E		17.7	15.5	12.6	11.1	
EV/Sales		2.5	2.1	1.7	1.4	
EV/EBITDA		13.3	12.9	9.7	8.1	
P/BV		5.5	4.8	4.0	3.4	
Dividend Yield (%)		13	16	2.1	2.5	
<b>Return Ratios (%)</b>						
RoE	13.7	22.6	22.9	25.5	25.2	
RoCE	22.7	35.1	35.1	39.1	38.6	
<b>Working Capital Ratios</b>						
Debtor (Days)	11	9	10	10	10	
Asset Turnover (x)	16	2.0	2.0	2.0	1.9	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E DECEMBER	2004	2005	2006	2007E	2008E	
OP/(loss) before Tax	952	1,423	1,417	1,892	2,153	
Int./Div. Received	250	243	522	659	821	
Depreciation and Amort.	415	419	427	431	439	
Interest Paid	-53	-42	-35	-48	-50	
Direct Taxes Paid	-387	-597	-671	-876	-1,024	
(Incr)/Decr in WC	-91	-424	-368	-229	-17	
<b>CF from Operations</b>	<b>1,087</b>	<b>1,022</b>	<b>1,292</b>	<b>1,830</b>	<b>2,323</b>	
Extraordinary Items	0	0	0	0	0	
(Incr)/Decr in FA	-124	-131	-88	-90	-92	
(Pur)/Sale of Investments	0	0	0	0	0	
<b>CF from Invest.</b>	<b>-124</b>	<b>-131</b>	<b>-88</b>	<b>-90</b>	<b>-92</b>	
Issue of Shares	0	-1,264	0	0	1	
(Incr)/Decr in Debt	0	0	0	0	0	
Dividend Paid	-318	-336	-421	-565	-660	
Others	-51	-65	-6	-26	-32	
<b>CF from Fin. Activity</b>	<b>-369</b>	<b>-1,665</b>	<b>-427</b>	<b>-591</b>	<b>-691</b>	
<b>Incr/Decr of Cash</b>	<b>594</b>	<b>-774</b>	<b>778</b>	<b>1,149</b>	<b>1,540</b>	
Add: Opening Balance	2,038	2,632	1,858	2,636	3,785	
<b>Closing Balance</b>	<b>2,632</b>	<b>1,858</b>	<b>2,636</b>	<b>3,785</b>	<b>5,325</b>	

**N O T E S**



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**GlaxoSmithKline Consumer**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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