

GlaxoSmithkline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,686	SKB IN
	REUTERS CODE
S&P CNX: 2,940	GLSM.BO

25 January 2006

Buy

Rs606

Previous Recommendation: Buy

		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
Equity Shares (m)	45.4	12/05A	9,669	1,072	25.4	46.8	23.9	6.5	27.4	42.6	2.5	12.9
52-Week Range (Rs)	620/318	12/06E	10,752	1,240	29.4	15.8	20.6	5.0	24.4	37.5	2.1	10.6
1,6,12 Rel. Perf. (%)	5/9/32	12/07E	11,950	1,487	35.2	19.9	17.2	4.9	28.2	42.6	1.8	9.0
M.Cap. (Rs b)	27.5											
M.Cap. (US\$ b)	0.6											

- 4QCY05 results were marginally better than expectations with lower milk prices driving the strong margin expansion.
- Sales for the quarter grew 14.7% YoY to Rs2.4b, with the flagship brands, Horlicks and Boost driving the strong volume growth. The company has increased average prices by approximately 2.3% across product categories for January 2006, which is likely to result in higher price realizations during CY06.
- EBITDA margins expanded 330bp to 15.8%, driven largely by lower milk prices.
- Management has given guided for CY06 volume growth in high single digits, given the strong uptick in the FMCG sector. Further, the company expects milk prices to be higher in CY06 compared with CY05 resulting in higher raw material prices. However management is confident of maintaining margins at current levels. The company expects to incur capex of Rs500m-Rs600m over the next two years.
- We believe the company would be able to achieve high single-digit volume growth in CY06, given its strong market position in this segment and healthy uptick in the FMCG environment. We introduce our CY07 estimates at Rs35.2. The stock is currently trading at 20.6x CY06E EPS and 17.2x CY07E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY04				CY05				CY04	CY05
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	2,101	2,102	2,349	2,114	2,230	2,428	2,587	2,424	8,622	9,669
YoY Change (%)	15.6	6.4	3.0	10.2	6.2	15.5	10.1	14.7	7.9	12.1
Total Exp	1,751	1,759	1,929	1,849	1,801	1,936	2,049	2,041	7,254	7,827
EBITDA	350	343	420	264	429	492	538	383	1,367	1,842
Margins (%)	16.7	16.3	17.9	12.5	19.2	20.3	20.8	15.8	15.9	19.0
Depreciation	-89	-89	-90	-124	-91	-101	-108	-118	-415	-419
Interest	-8	9	3	-11	-10	-11	-12	-9	37	-42
Other Income	40	33	30	67	60	60	47	76	165	243
PBT	293	296	363	196	387	441	465	332	1,155	1,624
Tax	-106	-110	-138	-71	-124	-149	-162	-117	-427	-553
Rate (%)	-36.2	-37.1	-38.0	-36.3	-31.9	-33.9	-35.0	35.4	36.9	34.0
PAT	187	186	225	125	264	291	302	214	728	1,072
YoY Change (%)	2.9	-16.4	36.7	18.0	41.0	56.4	34.2	71.7	-7.3	47.1

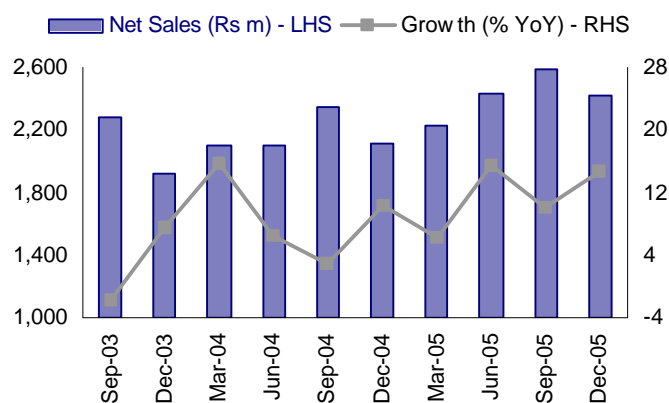
E: MOST Estimates

Horlicks and Boost continue to drive growth

Horlicks and Boost, the two flagship brands of the company reported approximately 10% and 14% growth respectively during the quarter. The company continues to leverage on the strong brand equity of Horlicks and Boost by launching new products as variants of these brands. New initiatives/ launches are also bearing fruit with Horlicks Lite, Boost Chocoplast (introduced in southern markets during the quarter) and Boost biscuits recording strong growth. Viva and Malto also reported strong growth, albeit on the low base of the corresponding quarter, last year.

The company has approximately 70% market share in the Health and Malted Drink segment (HMD), which enables it to pass on raw material price increases to the consumers. However, with other large players like Britannia and Nestle considering entering the HMD segment, the company was guarded with its guidance for CY06 with the management indicating high single-digit volume growth. The company has increased average prices modestly by 2.3% across categories from January 2006. We expect the company to report strong double-digit revenue growth for CY06 driven largely by high single-digit volume growth and better price realizations.

REVENUE GROWTH CONTINUES TO REMAIN STRONG

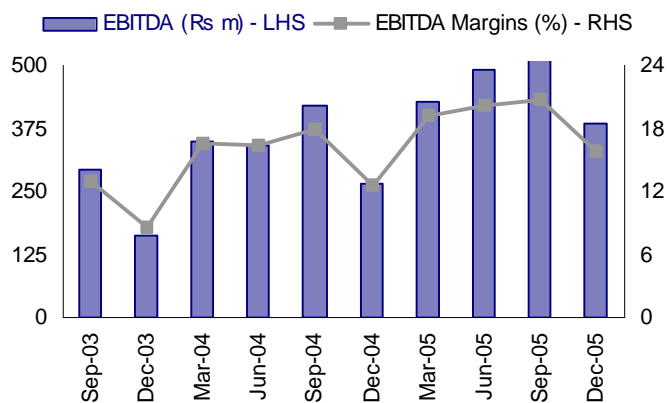


Source: Company/Motilal Oswal Securities

Low milk prices leads to margin expansion

EBITDA margins expanded 330bp YoY to 15.8% in 4QCY05 primarily driven by low milk prices. Gross margins expanded 440bp, as milk prices were lower on a YoY basis. However, advertising spend was higher during the quarter, as management decided to invest a significant portion of the margin expansion to support of the new products. Management said that they expected milk prices to be higher in CY06 compared with CY05 resulting in higher raw material costs. However, management was confident of maintaining margins at current levels with effective cost controls and judicious price increases. We believe that the company’s dominant market share in the category gives management the flexibility to pass on raw material cost increases to consumers and hence we are confident that the company will be able to maintain margins at current levels.

LOW MILK PRICES DRIVES EBITDA MARGIN EXPANSION



Source: Company/Motilal Oswal Securities

Cash rich

GSK Consumer has approximately Rs1.8b of cash on its books as at 31 December 2005, which works out to Rs39 per share. Management has given guidance for capex of Rs500-Rs600m over the next two years. This leaves the company with idle cash of Rs1.2b (Rs26 per share) on its

books. The company has a history of share buybacks and strong dividend payouts that enhance shareholder value. We expect the company to pass on a large portion of this cash balance to shareholders either by the way of share buyback or substantial dividend payouts.

Valuation and view

GSK continues to leverage its strong brand equity in the Health and Malted Drink segment to launch new products and drive growth. We believe that the company would be

able to achieve high single-digit volume growth in CY06, given its sound market position in this segment and strong uptick in the FMCG environment. Further, the company has approximately Rs1.2b (Rs26 per share) in idle cash on its books, which we believe is likely to be passed on to the shareholders either by way of dividend payout or share buyback. We are introducing our CY07 estimates at Rs35.2. The stock is currently trading at 20.6x CY06E EPS and 17.2x CY07E EPS. We are revising our price target to Rs640 from Rs550 based on CY07E EPS. We maintain **Buy**.

GlaxoSmithkline Consumer: an investment profile

Company description

GSK Consumer is the largest player in the Rs11b Indian health foods market, with a 70% market share. The market is expected to grow 7% in volume in CY06. The company has reduced dependence on Horlicks, with Boost, biscuits and other brands now contributing almost 20% of total revenues in CY04.

Key investment arguments

- ☞ We expect an EPS CAGR of 17.8% over CY05-07E driven by new product launches and lower raw material prices.
- ☞ Approximately 35% of the capital employed is in cash which the company regularly uses for share buybacks and thereby enhancing shareholder value.

Key investment risks

- ☞ Milk and milk products form more than 50% of the total raw material costs for the company and any steep increase in milk prices would impact margins.
- ☞ GSK Consumer has more than 70% market share in the health food segment and entry of any significant competition in this segment will result in erosion of market share.

Recent developments

- ☞ Launched Boost Chocoplast and Horlicks Lite

Valuation and view

- ☞ We have an EPS forecasts of Rs29.4 for CY06 and Rs35.2 for CY07.
- ☞ The stock is currently trading at 20.6x CY06E EPS and 17.2x CY07E EPS. We maintain **Buy**.

Sector view

- ☞ We are neutral on the sector. There are signs of volume pickup, but input cost pressure remains
- ☞ Companies with low competitive pressures (like ITC) will be better off.
- ☞ Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		GSK.CON	GODREJ.CON	MARICO
P/E (x)	CY05E	23.9	27.3	23.3
	CY06E	20.6	23.0	18.8
EV/EBITDA (x)	CY05E	12.9	24.2	16.1
	CY06E	10.6	20.6	12.3
EV/Sales (x)	CY05E	2.5	4.8	2.0
	CY06E	2.1	4.3	1.7
P/BV (x)	CY05E	6.5	58.3	8.4
	CY06E	5.0	48.2	6.6

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	43.2	43.2	40.0
Domestic Institutions	23.1	22.7	24.4
FII's/FDIs	8.3	8.7	9.6
Others	25.4	25.4	26.0

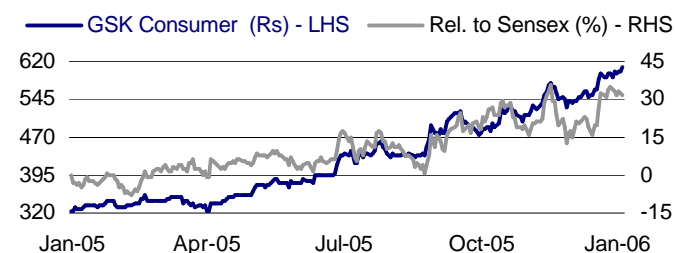
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
CY06	29.4	29.0	1.5
CY07	35.2	34.3	2.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
606	640	5.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E DECEMBER	2003	2004	2005	2006E	2007E	
Net Sales	7,991	8,622	9,669	10,752	11,950	
Change (%)	6.1	7.9	12.1	11.2	11.1	
Total Expenditure	-6,716	-7,254	-7,827	-8,657	-9,510	
EBITDA	1,276	1,367	1,842	2,095	2,440	
Change (%)	-15.2	7.2	34.7	13.8	16.5	
Margin (%)	16.0	15.9	19.0	19.5	20.4	
Depreciation	-456	-415	-419	-441	-464	
Int. and Fin. Charges	-50	-53	-42	-30	-10	
Other Income - Recurring	248	255	243	255	271	
Profit before Taxes	1,018	1,155	1,624	1,879	2,237	
Change (%)	-19.6	13.4	40.6	15.7	19.0	
Margin (%)	12.7	13.4	16.8	17.5	18.7	
Tax	-307	-387	-597	-639	-749	
Deferred Tax	75	-38	44	0	0	
Tax Rate (%)	-22.8	-36.8	-34.0	-34.0	-33.5	
Profit after Taxes	786	730	1,072	1,240	1,487	
Change (%)	-7.5	-7.1	46.8	15.8	19.9	
Margin (%)	9.8	8.5	11.1	11.5	12.4	
Non-rec. (Exp)/Income	0	0	0	0	0	
Reported PAT	786	730	1,072	1,240	1,487	

BALANCE SHEET		(RS MILLION)				
Y/E DECEMBER	2003	2004	2005E	2006E	2007E	
Share Capital	454	454	422	422	422	
Reserves	4,467	4,840	3,492	4,670	4,846	
Net Worth	4,921	5,294	3,915	5,092	5,268	
Loans	0	0	0	0	0	
Capital Employed	4,921	5,294	3,915	5,092	5,268	
Gross Block	4,859	4,973	5,073	5,323	5,673	
Less: Accum. Deprn.	-1,623	-1,972	-2,391	-2,832	-3,296	
Net Fixed Assets	3,236	3,001	2,682	2,491	2,378	
Capital WIP	64	73	73	73	73	
Investments	0	0	41	1,496	1,871	
Deferred Charges	0	0	0	0	0	
Curr. Assets, L&A	3,630	4,323	3,448	3,479	3,523	
Inventory	923	852	901	901	911	
Account Receivables	184	252	280	311	345	
Cash and Bank Balance	2,038	2,632	1,782	1,782	1,782	
Others	485	586	485	485	485	
Curr. Liab. and Prov.	1,776	1,783	2,010	2,127	2,257	
Account Payables	1,230	1,324	1,464	1,581	1,711	
Other Liabilities	346	250	288	259	230	
Provisions	200	209	258	288	317	
Net Current Assets	1,854	2,539	1,438	1,351	1,266	
Miscellaneous Expense	49	0	0	0	0	
Deferred Tax Liability	-282	-320	-320	-320	-320	
Application of Funds	4,921	5,294	3,914	5,092	5,268	

E: M OSt Estimates

RATIOS						
Y/E DECEMBER	2003	2004	2005E	2006E	2007E	
Basic (Rs)						
EPS	17.3	16.1	25.4	29.4	35.2	
Cash EPS	27.4	25.2	35.3	39.8	46.2	
BV/Share	108.4	116.6	92.8	120.7	124.8	
DPS	7.0	7.0	9.0	10.5	12.0	
Payout %	40.4	43.5	35.4	35.7	34.0	
Valuation (x)						
P/E		37.7	23.9	20.6	17.2	
Cash P/E		24.0	17.2	15.2	13.1	
EV/Sales		2.9	2.5	2.1	1.8	
EV/EBITDA		18.2	12.9	10.6	9.0	
P/BV		5.2	6.5	5.0	4.9	
Dividend Yield (%)		12	15	17	2.0	
Return Ratios (%)						
RoE	16.0	13.8	27.4	24.4	28.2	
RoCE	21.7	22.8	42.6	37.5	42.6	
Working Capital Ratios						
Debtor (Days)	8	11	11	11	11	
Asset Turnover (x)	1.6	1.6	2.5	2.1	2.3	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E DECEMBER	2003	2004	2005E	2006E	2007E	
OP/(loss) before Tax	820	953	1,423	1,654	1,976	
Int./Div. Received	248	255	243	255	271	
Depreciation and Amort.	456	415	419	441	464	
Interest Paid	-50	-53	-42	-30	-10	
Direct Taxes Paid	-307	-387	-597	-639	-749	
(Incr)/Decr in WC	347	-91	252	87	85	
CF from Operations	1,514	1,092	1,698	1,768	2,037	
Extraordinary Items	0	0	0	0	0	
(Incr)/Decr in FA	233	-124	-100	-250	-350	
(Pur)/Sale of Investments	0	0	-41	-1,455	-375	
CF from Invest.	233	-124	-141	-1,705	-725	
Issue of Shares	0	0	-1,112	0	0	
(Incr)/Decr in Debt	0	0	0	0	0	
Dividend Paid	-318	-318	-380	-443	-506	
Others	-390	-56	-915	380	-805	
CF from Fin. Activity	-708	-374	-2,407	-63	-1,311	
Incr/Decr of Cash	1,040	594	-850	0	0	
Add: Opening Balance	998	2,038	2,632	1,782	1,782	
Closing Balance	2,038	2,632	1,782	1,782	1,782	



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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 |

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