



**NEUTRAL**

Price	Rs1,076
Target Price	-
Investment Period	-

**Stock Info**

Sector	FMCG
Market Cap (Rs cr)	4,527
Beta	0.3
52 WK High / Low	1,085 / 480
Avg Daily Volume	8,415
Face Value (Rs)	10

BSE Sensex	15,173
Nifty	4,514

BSE Code	500676
NSE Code	GSKCONS
Reuters Code	SMTH.BO
Bloomberg Code	SKB@IN

**Shareholding Pattern (%)**

Promoters	43.2
MF/Banks/Indian FIs	33.0
FII/ NRIs/ OCBs	6.4
Indian Public	17.4

Abs.	3m	1yr	3yr
Sensex (%)	33.1	10.0	41.2
GSK Cons (%)	30.0	68.0	123.1

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**Performance Highlights**

- **Robust Top-line growth, up 25%:** For 2QCY2009, GSK Consumer posted a robust growth of 24.5% yoy in Top-line to Rs469cr (Rs377cr) in line with our estimates. Top-line growth was aided by a steady 12% Volume growth, 7% Value growth and Excise cut of 5%. Both the company's core brands, *Horlicks* and *Boost* continued to perform well across regions and posted 12% and 10% volume growth respectively, during the quarter aided by strong marketing push and higher contribution from variants. Exports grew 30% yoy during the quarter. The company launched two new products during the quarter – *Junior Horlicks Toddler Biscuits* and *Chill Dood* (energy drink).
- **Modest Earnings growth, up 20%:** Bottom-line for the quarter registered a modest growth of 19.6% yoy to Rs55.2cr (Rs46.2cr) in line with our estimates. Earnings grew despite the 13% fall in Other Income aided by robust Top-line growth and Margin Expansion coupled with flat Depreciation charges. Other Income fell owing to lower Interest Income and Exchange losses of Rs2-3cr.
- **Margins expand 141bp:** On the Operating front, GSK Consumer registered Margin expansion by 141bp yoy to 15.9% driving robust EBITDA growth of 36.6% yoy to Rs74.6cr (Rs54.6cr). Margins expanded largely on account of significant Gross Margin expansion by 193bp yoy, 78bp reduction in Staff costs and 122bp reduction in Other expenditure. Moreover, the 5.5% weighted average price hike affected in Jan 2009 also aided Margin expansion. However, in line with most FMCG companies, GSK Consumer also re-invested Margin gains towards higher Advertising spend (up 252bp yoy) to support brand launches. Management has indicated that input cost inflation, particularly agri-commodities, remains a challenge owing to weak monsoons. While Milk (10%) and Sugar (40%) are on an uptrend, Wheat and Barley prices were almost flat and Milk Powder prices fell 5% during 1QFY2010.

**Key Financials**

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
<b>Net Sales</b>	<b>1,278</b>	<b>1,543</b>	<b>1,933</b>	<b>2,193</b>
% chg	15.4	20.7	25.3	13.5
<b>Net Profit</b>	<b>162.7</b>	<b>188.3</b>	<b>246.0</b>	<b>279.0</b>
% chg	28.2	15.8	30.6	13.4
OPM (%)	17.6	15.4	16.0	16.1
<b>EPS (Rs)</b>	<b>38.7</b>	<b>44.8</b>	<b>58.5</b>	<b>66.3</b>
P/E (x)	27.8	24.0	18.4	16.2
P/BV (x)	7.0	5.9	4.9	4.1
RoE (%)	25.2	24.8	26.8	25.5
RoCE (%)	27.3	25.5	28.8	28.0
EV/Sales (x)	3.5	2.9	2.3	2.0
EV/EBITDA (x)	19.9	18.9	14.5	12.6

Source: Company, Angel Research

## Outlook and Valuation

We remain positively surprised with the robust volume growth in the company's core brands and remain bullish on its future prospects. We have marginally tweaked our Earnings estimates upwards by 3-4% factoring in higher Gross Margin expansion and Operating leverage. During CY2008-10E, we expect GSK Consumer to report 19.2% growth in Top-line backed by robust Volume growth across brands (especially core brands), superior pricing power (effective January 2009, the company initiated an average price hike of 5.5%) and growing modern Retail format. Despite the economic slowdown, management has guided for steady volume growth of 8-9% in its Malted Beverage category during the period. Any acquisition (likely in the Nutraceutical space), New Product launches (already launched two new products in CY2009 – *Horlicks Nutribar* and *Actigrow*) or entry into a New Product Category (like *Chill Dood* – energy drink, already on the anvil) could pose upside risks to our estimates.

On the Operating front, we have factored in marginal expansion of 75bp during CY2008-10E as we expect the company to benefit from lower input costs and higher Operating leverage. Moreover, better cost-curtailing measures in terms of Staff and Other Expenses will help the company improve Margins. Thus, we expect Earnings to post a CAGR of 21.7% over CY2008-10E to Rs279cr.

At the CMP of Rs1,076, the stock is trading at rich valuations of 16.2x CY2010E EPS of Rs66.3, which limits upside potential in the stock. **Hence, we recommend a Neutral rating on the stock.**

### Exhibit 1: 2QCY2009 Performance

Y/E Dec (Rs cr)	2QCY2009	2QCY2008	% chg	1HCY2009	1HCY2008	% chg
<b>Net Sales</b>	<b>468.7</b>	<b>376.6</b>	<b>24.5</b>	<b>1,009.1</b>	<b>787.5</b>	<b>28.1</b>
Consumption of RM	172.2	145.7	18.2	386.2	299.9	28.8
(% of Sales)	36.7	38.7		38.3	38.1	
Staff Costs	52.3	45.0	16.3	102.1	83.6	22.1
(% of Sales)	11.2	12.0		10.1	10.6	
Advertising	74.9	50.7	47.8	135.5	106.3	27.5
(% of Sales)	16.0	13.5		13.4	13.5	
Other Expenses	94.6	80.6	17.4	189.9	162.2	17.1
(% of Sales)	20.2	21.4		18.8	20.6	
<b>Total Expenditure</b>	<b>394.1</b>	<b>322.0</b>	<b>22.4</b>	<b>813.7</b>	<b>652.0</b>	<b>24.8</b>
<b>Operating Profit</b>	<b>74.6</b>	<b>54.6</b>	<b>36.6</b>	<b>195.4</b>	<b>135.5</b>	<b>44.2</b>
OPM (%)	15.9	14.5		19.4	17.2	
Interest	1.1	1.3	(18.6)	2.4	3.8	37.8)
Depreciation & Amortization	10.5	10.2	2.8	21.1	20.9	1.4
Other Income	22.8	26.2	(12.7)	46.3	44.8	3.5
<b>PBT (excl. Extraordinary Items)</b>	<b>85.9</b>	<b>69.2</b>	<b>24.0</b>	<b>218.2</b>	<b>155.6</b>	<b>40.2</b>
Extraordinary Income/(Expense)	-	-		-	-	
<b>PBT (incl. Extraordinary Items)</b>	<b>85.9</b>	<b>69.2</b>	<b>24.0</b>	<b>218.2</b>	<b>155.6</b>	<b>40.2</b>
(% of Sales)	18.3	18.4		21.6	19.8	
Provision for Taxation	30.7	23.1	32.8	79.1	52.9	49.6
(% of PBT)	35.7	33.3		36.3	34.0	
<b>Reported PAT</b>	<b>55.2</b>	<b>46.2</b>	<b>19.6</b>	<b>139.1</b>	<b>102.7</b>	<b>35.4</b>
PATM (%)	11.8	12.3		13.8	13.0	
Equity shares (cr)	4.2	4.2		4.2	4.2	
<b>EPS (Rs)</b>	<b>13.1</b>	<b>11.0</b>		<b>33.0</b>	<b>24.4</b>	

Source: Company, Angel Research


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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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