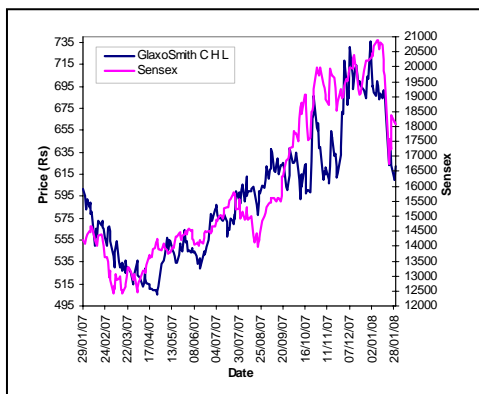


GSK Consumer
CMP: Rs618
Buy
**Target Price: Rs821
(12 Months)**
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Sector	FMCG
Market Cap (Rs cr)	2,615
Beta	0.40
52 WK High / Low	742 / 500
Avg Daily Volume	11,031
Face Value (Rs)	10
BSE Sensex	18,092
Nifty	5,281
BSE Code	500676
NSE Code	GSKCONS
Reuters Code	SMTH.BO
Bloomberg Code	SKB@IN

Shareholding Pattern (%)

Promoters	43.2
MF/Banks/Indian FIs	35.6
FII/ NRIs/ OCBs	4.3
Indian Public	16.9

Share Price Vs Sensex

4QCY2007 Result Update
Performance Highlights

- Topline growth slows down, up 8%:** For 4QCY2007, GSK Consumer posted a poor Topline growth of 7.8% yoy to Rs284cr (Rs264cr) as against our expectation of 15.6% growth to Rs306cr. The lower-than-anticipated Topline growth was due to a mere 2% volume growth (4Q is generally a slack quarter as the company goes through de-stocking of inventory) while rest was on account of price hikes. However, going forward management continues to guide for a 8-9% volume growth in CY2008. Moreover, the company has already initiated an average price hike of 4-4.5% (effective January 1, 2008), which should help boost Topline growth in the ensuing quarters.
- Dismal Earnings growth, up 9%:** GSK Consumer's Earnings for the quarter grew a dismal 9% to Rs28cr (Rs25cr) as against our expectation of a much solid growth of 29% to Rs33cr. The lower-than-anticipated Earnings growth, despite Margin expansion, was largely impacted by the significant jump in Tax rate of almost 10% to 33% (owing to low base in 4QCY2006 due to certain accounting standard benefits).
- Margins expand by 213bp:** On the Operating front, GSK Consumer posted a significant Margin expansion of 213bp to 12.6% (10.4%) despite a 33bp increase in raw material costs (as a % of Net Sales). Milk, one of its key inputs, saw an increase in prices by almost 25% over the year and is expected to continue the uptrend in CY2008 due to limited supplies from Australia and New Zealand. Moreover, the lift on ban on skimmed milk powder is expected to further exert pressure on milk powder prices. However, savings in Staff costs (down by 112bp), Advertising expenditure (down by 36bp) and lower overheads helped GSK Consumer post a Margin expansion in 3QFY2008 driving a strong EBITDA growth of 30% to Rs36cr (Rs28cr).

Exhibit 1: Key Financials

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
Net Sales	1,108	1,278	1,472	1,641
% chg	14.6	15.3	15.2	11.5
Net Profit	126.9	162.6	192.3	218.9
% chg	18.5	28.1	18.3	13.8
OPM (%)	16.6	17.6	17.9	18.1
EPS (Rs)	30.1	38.6	45.7	52.0
P/E (x)	20.5	16.0	13.5	11.9
P/BV (x)	4.8	4.0	3.4	3.0
RoE (%)	23.4	25.3	25.4	25.0
RoCE (%)	25.0	27.1	27.4	27.3
EV/Sales (x)	2.3	2.0	1.7	1.6
EV/EBITDA (x)	13.8	11.4	9.7	8.6

Source: Company, Angel Research

Outlook and Valuation

During CY2007-09E, we expect GSK Consumer to report a CAGR growth of 13% in Topline and 16% in Bottomline backed by strong growth in its core brands, superior pricing power (effective January 1, 2008, the company initiated an average price hike of 4-4.5%) and growing modern retail format. Led by Zubair Ahmed, management has guided for a steady volume growth of 8-9% in its Malted beverages category for the next couple of years. Any acquisition (likely in the Nutraceuticals space), new product launches (already launched two new products – *Women's Horlicks* and *Actibase* – a protein supplement) or entry into a new product category (likely in 2QCY2008E) could lead to additional upside to our estimates. On the Operating front, we have factored in a marginal expansion of 50bp during CY2007-09E supported by improved productivity and cost-cutting initiatives driving a CAGR growth of 15% in EBITDA.

We believe the quarter under review was simply an aberration and remain bullish on the future prospects of the company to clock sustainable Topline growth. In terms of full-year performance for CY2007, the company's results were in-line with our estimates. Hence, we have not changed our future estimates. At the CMP of Rs618, the stock is trading at attractive valuations of 13.5x CY2008E EPS of Rs45.7 and 9.7x CY2008E EV/EBITDA, which is at a significant discount to its peers. Moreover, GSK Consumer has surplus cash of Rs300cr, which equates to Rs71 per share, which we believe could potentially be utilised for inorganic growth opportunities or share buyback/higher dividend payout. **We maintain Buy on the stock, with a 12-month Target Price of Rs821.**

Exhibit 2: 4QCY2007 Performance

Y/E Dec (Rs cr)	4QCY2007	4QCY2006	% chg	CY2007	CY2006	% chg
Net Sales	284.1	263.5	7.8	1,277.8	1,107.9	15.3
Consumption of RM	96.8	88.9	8.9	447.7	384.2	16.5
(% of Sales)	34.1	33.7		35.0	34.7	
Staff Costs	40.6	40.6	-	154.9	134.7	15.0
(% of Sales)	14.3	15.4		12.1	12.2	
Advertising	35.1	33.5	4.8	164.1	143.2	14.6
(% of Sales)	12.4	12.7		12.8	12.9	
Other Expenses	75.9	73.0	4.0	286.8	261.3	9.8
(% of Sales)	26.7	27.7		22.4	23.6	
Total Expenditure	248.4	236.0	5.3	1,053.5	923.4	14.1
Operating Profit	35.7	27.5	29.8	224.3	184.5	21.5
OPM (%)	12.6	10.4		17.6	16.7	
Interest	1.2	0.8	50.0	4.6	3.5	31.4
Depreciation & Amortisation	10.8	10.8	-	43.6	42.7	2.1
Other Income	17.5	16.9	3.6	68.9	52.2	32.0
PBT (excl. Extraordinary Items)	41.2	32.8	25.6	245.0	190.5	28.6
Extraordinary Income/(Expense)	-	-		-	-	
PBT (incl. Extraordinary Items)	41.2	32.8	25.6	245.0	190.5	28.6
(% of Sales)	14.5	12.4		19.2	17.2	
Provision for Taxation	13.7	7.6	80.3	82.4	63.7	29.4
(% of PBT)	33.3	23.2		33.6	33.4	
Reported PAT	27.5	25.2	9.1	162.6	126.9	28.2
PATM (%)	9.7	9.6		12.7	11.5	
Equity shares (cr)	42.1	42.1		42.1	42.1	
EPS (Rs)	6.5	6.0		38.6	30.1	

Source: Company, Angel Research



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