

## BUY

Price	Rs637
Target Price	Rs821
Investment Period	12 months

### Stock Info

Sector	FMCG
Market Cap (Rs cr)	2,573
Beta	0.4
52 WK High / Low	748 / 489
Avg Daily Volume	12,222
Face Value (Rs)	10
BSE Sensex	17,126
Nifty	5,112
BSE Code	500676
NSE Code	GSKCONS
Reuters Code	SMTH.BO
Bloomberg Code	SKB IN

### Shareholding Pattern (%)

Promoters	43.2
MF/Banks/Indian FIs	38.0
FII/ NRIs/ OCBs	1.7
Indian Public	17.1

Abs.	3m	1yr	3yr
Sensex (%)	(6.7)	23.1	172.8
GSK Cons (%)	2.2	24.2	95.9

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## Performance Highlights

- Strong Topline growth, up 25.8%:** For 1QCY2008, GSK Consumer posted a strong Topline yoy growth of 25.8% (highest in the last 12 quarters) to Rs411cr (Rs327cr) significantly ahead of our expectation of 15.5% growth to Rs377cr. The higher-than-anticipated Topline growth was aided by a robust 17% volume growth and 9% value growth (aided by price hikes and low base). Both its core brands, *Horlicks* and *Boost*, continue to perform well across regions aided by better marketing push and contribution from variants. A pipeline correction of 2-3% also aided Topline growth. The company has already initiated average price hikes of 4-4.5% (effective January 1, 2008), which should help boost Topline growth in the ensuing quarters.
- Impressive Earnings growth, up 33.8%:** GSK Consumer's Earnings for the quarter grew at an impressive 34% yoy to Rs56.5cr (Rs42.3cr) as against our expectation of a growth of 25% to Rs53cr. The higher-than-anticipated Earnings growth was aided by a robust Topline growth, moderate Margin expansion and higher Other income, which grew 34% yoy to Rs18.6cr (Rs13.9cr) aided by higher dividend income and service commission.
- Margins expand by 30bp:** On the Operating front, GSK Consumer posted a modest Margin expansion of 30bp to 19.4% (19.1%), despite an 184bp increase in raw material costs and 34bp jump in Advertising expenses (as a % of Net Sales). Higher operating leverage, better cost containment measures and saving in Staff costs (down 129bp) were the key reasons leading to Margin expansion during the quarter driving a strong EBITDA growth of 27.7% yoy to Rs80cr (Rs62cr). Input cost inflation remains the key challenge for the company as most of its key raw materials like Milk, Milk Powder, Malt and Wheat are expected to witness an average rise of 15-20% during CY2008 owing to supply side issues and strong demand for agri-commodities. Further, owing to media inflation and launch of new products/variants, we expect advertising expenses to remain strong in the range of 13-14% of Net Sales.

### Exhibit 1: Key Financials

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
<b>Net Sales</b>	<b>1,108</b>	<b>1,278</b>	<b>1,481</b>	<b>1,681</b>
% chg	14.6	15.3	15.9	13.5
<b>Net Profit</b>	<b>126.9</b>	<b>162.7</b>	<b>190.1</b>	<b>221.1</b>
% chg	18.5	28.2	16.9	16.3
OPM (%)	16.7	17.6	17.3	17.8
<b>EPS (Rs)</b>	<b>30.1</b>	<b>38.7</b>	<b>45.2</b>	<b>52.6</b>
P/E (x)	21.1	16.5	14.1	12.1
P/BV (x)	4.9	4.1	3.5	3.0
RoE (%)	23.4	25.2	24.9	24.7
RoCE (%)	25.0	27.3	27.2	27.4
EV/Sales (x)	2.4	2.1	1.8	1.6
EV/EBITDA (x)	14.3	11.7	10.3	8.8

Source: Company, Angel Research

## Outlook and Valuation

During CY2007-09, we expect GSK Consumer to report a CAGR growth of 14.7% in Topline and 16.6% 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 acquisitions (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 2HCY2008E) entails an upside risk to our estimates. On the Operating front, we have factored in a marginal contraction of 30bp during CY2008E owing to higher advertising expenses and input cost inflation. However, we expect the company to register a 50bp Margin expansion in CY2009E supported by improved productivity and cost cutting initiatives.

We believe in the quarter under review the company witnessed super-normal growth owing to factors like pipeline correction and higher value growth (aided by low base and price hikes). However, we are positively surprised with the robust volume growth in its core brands and remain bullish on the future prospects of the company to clock sustainable Topline growth. We have marginally tweaked our estimates factoring in the latest Annual Report numbers (CY2007) accounting for higher input cost inflation, which is reflected in our assumption of Margin contraction for CY2008.

At the CMP of Rs637, the stock is trading at attractive valuations of 12.1x CY2009E EPS of Rs52.6 and 8.8x EV/EBITDA, which is at a significant discount to its peers. Moreover, GSK Consumer has surplus Cash & Investments of Rs430cr, which equates to Rs102 per share, which we believe could potentially be utilised for inorganic growth opportunities or share buyback/ higher dividend payout. **We maintain a Buy on the stock, with a 12-month Target Price of Rs821.**

### Exhibit 2: 1QCY2008 Performance

Y/E Dec (Rs cr)	1QCY2008	1QCY2007	% chg	CY2007	CY2006	% chg
<b>Net Sales</b>	<b>410.6</b>	<b>326.5</b>	<b>25.8</b>	<b>1,277.8</b>	<b>1,107.9</b>	<b>15.3</b>
Consumption of RM	154.2	116.6	32.2	447.7	384.2	16.5
(% of Sales)	37.6	35.7		35.0	34.7	
Staff Costs	38.6	34.9	10.6	154.9	134.7	15.0
(% of Sales)	9.4	10.7		12.1	12.2	
Advertising	55.6	43.0	29.3	164.1	143.2	14.6
(% of Sales)	13.5	13.2		12.8	12.9	
Other Expenses	82.5	69.6	18.5	286.8	261.3	9.8
(% of Sales)	20.1	21.3		22.4	23.6	
<b>Total Expenditure</b>	<b>330.9</b>	<b>264.1</b>	<b>25.3</b>	<b>1,053.5</b>	<b>923.4</b>	<b>14.1</b>
<b>Operating Profit</b>	<b>79.7</b>	<b>62.4</b>	<b>27.7</b>	<b>224.3</b>	<b>184.5</b>	<b>21.5</b>
OPM (%)	19.4	19.1		17.6	16.7	
Interest	1.3	1.1	18.2	4.6	3.5	31.4
Depreciation & Amortisation	10.6	10.8	(1.9)	43.6	42.7	2.1
Other Income	18.6	13.9	33.8	68.9	52.2	32.0
<b>PBT (excl. Extraordinary Items)</b>	<b>86.4</b>	<b>64.4</b>	<b>34.2</b>	<b>245.0</b>	<b>190.5</b>	<b>28.6</b>
Extraordinary Income/(Expense)	0.0	0.0		0.0	0.0	
<b>PBT (incl. Extraordinary Items)</b>	<b>86.4</b>	<b>64.4</b>	<b>34.2</b>	<b>245.0</b>	<b>190.5</b>	<b>28.6</b>
(% of Sales)	21.0	19.7		19.2	17.2	
Provision for Taxation	29.8	22.1	34.8	82.4	63.7	29.4
(% of PBT)	34.5	34.3		33.6	33.4	
<b>Reported PAT</b>	<b>56.6</b>	<b>42.3</b>	<b>33.8</b>	<b>162.6</b>	<b>126.9</b>	<b>28.2</b>
PATM (%)	13.8	13.0		12.7	11.5	
Equity shares (cr)	42.1	42.1		42.1	42.1	
<b>EPS (Rs)</b>	<b>13.4</b>	<b>10.0</b>		<b>38.6</b>	<b>30.1</b>	

Source: Company, Angel Research



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