

## GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

August 07, 2012

### RECOMMENDATION: BUY

(BSE Code: 500676)

Present Price: Rs.2808

Target Price: Rs.3800 (Upside: 35 per cent)

Time Horizon: 12 months

Investment Rationale

**Strong play on the consumption theme on the back of renowned brands:** Glaxosmithkline Consumer Healthcare (GSK Consumer) is a strong play on the domestic consumption theme with 100+ years old brands like Horlicks. Other brands include Boost, Viva, Maltova. Moreover, the company also generates margins from the distribution of various products like Crocin analgesic, Eno antacid and Iodex ointment and Sensodyne toothpaste.

The strength of the brand can be gauged from the fact that Horlicks sold almost twice as much in India as Coca-Cola company's Thums Up soda, double Pepsi and brought in 50 percent more revenue than Tata Global Beverages Limited's Tata Tea last year, according to Euromonitor.

**Brand extensions contributing well, albeit on a lower base:** Leveraging the strength of Horlicks brand, the company has launched extensions into breakfast cereals, noodles, biscuits, among others. These brand extensions are contributing very well, albeit on a lower base.

**Debt-free cash-surplus Balance Sheet:** The company has a clean Balance Sheet with net cash and cash equivalent adding up to Rs.1148.7 crore, translating into Rs.273.1 per share.

**Financials:** GSK Consumer has doubled its sales during CY07-11 period. The net profit has increased 2.2x during the corresponding period. The company posted a net profit of Rs.355.2 crore on net sales of Rs.2685.5 crore during CY'11. The company clocked a net profit of Rs.238.6 crore on net sales of Rs.1542.7 crore during H1CY'12, translating into an EPS of Rs.56.7.

Particulars (Rs. cr.)	CY07	CY08	CY09	CY10	CY11	CAGR
Net Sales	1274.1	1541.9	1921.5	2306.1	2685.5	20.5%
EBITDA	293.2	331.4	399.9	494.1	589.7	19.1%
PAT	162.6	187.0	232.7	298.2	355.2	21.6%
EPS (Rs.)	38.7	44.8	55.4	71.3	84.5	21.6%

(Source: Capitaline, Nirmal Bang Research)

**Significant underperformance over the last few quarters:** The share price of GSK Consumer has been underperforming the sectoral index as well as peers in the sector over the last few quarters. We do not expect the relative underperformance of the scrip to continue for long and expect the share price to catch up with the valuations soon.

Particulars	6 month returns (%)	12 month returns (%)
<b>GSK Consumer</b>	<b>2.6</b>	<b>11.9</b>
Marico	17.2	24.2
Dabur India	21.4	19.1
Nestle	4.2	4.3
BSE FMCG	19.4	26.4
CNX FMCG	24.3	30.8

(Source: Bloomberg, Nirmal Bang Research)

**Company Background:** GlaxoSmithKline Consumer Healthcare Limited (GSK Consumer) is one of the largest players in the health food drinks industry in India. The company is an Indian associate of GlaxoSmithKline plc, UK. The company's principal activities are to manufacture and distribute a wide range of healthcare foods, drugs, pharmaceuticals and dairy products. The products include malted milk food, malted foods, biscuits, energy and protein foods, among others. The company has its manufacturing facilities located at Nabha in Punjab, Rajahmundry in Andhra Pradesh and Sonapat in Haryana.

**Valuation & Recommendation:** Historically the share has traded at 26-28x 1-year forward earnings. The EPS for CY'11 and H1CY'12 stood at Rs.84.5 and Rs.56.7 respectively. We expect the EPS for CY'13E to be minimum Rs.120 and Rs.140 for CY'14. By applying a multiple of 27x to CY'14E earnings, we arrive at a price target of Rs.3780 (~3800) over the next 12 months.

**PCG Research**

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**Note**

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