

November 8, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 2,499	Rs 2,743
EPS change CY11E/12E (%)	+1/-1
Target Price change (%)	+8
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	4	11	10
Rel. to Nifty	(6)	4	16	31

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumer
Bloomberg	SKB@IN
Equity Capital (Rs mn)	421
Face Value(Rs)	10
No of shares o/s (mn)	42
52 Week H/L	2,554/1,907
Market Cap (Rs bn/USD mn)	105/2,132
Daily Avg Volume (No of sh)	24646
Daily Avg Turnover (US\$m)	1.2

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	43.2	43.2	43.2
FII/NRI	14.4	13.0	12.3
Institutions	16.6	18.1	18.6
Private Corp	10.4	10.3	10.4
Public	15.5	15.5	15.5

Source: Capitaline

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- **Buoyed by other income, GSK Consumer's Q3CY11 results ahead of expectations... Sales growth of 17.5% yoy to Rs 7.2 bn and APAT growth of 16.4% yoy to Rs 1.0 bn**
- **Swings in volume growth – Moderates to 8% yoy in the domestic malted food beverage segment, with Horlicks growing at 10% and Boost at 8% for the quarter**
- **Non-MFD portfolio remains mixed bag... Biscuits grows by 35% yoy, but Foodles slows down to 0-2% facing distribution issues**
- **Maintain estimates for CY11E/12E at Rs 85.6/share and Rs 101.1/share. Maintain 'ACCUMULATE' rating with revised target price of Rs 2,743/share**

GSK Consumer's performance better than expectation led by higher other income...

Swing in other income, resulted in Q3CY11 performance being ahead of expectations. Revenues at Rs7.2 bn and growth of 17.5% yoy was marginally below expectations. It was driven by 10% volume growth, balance driven by price increases in MFD portfolio and contribution from non-food franchisee. Gross margin contraction continues with 70 bps reduction in gross margins to 62.1%. Nevertheless, lower A&P spends resulted in EBITDA margin expansion of 90 bps to 16.4%. This coupled with higher other income resulted in APAT growth of 31% yoy to Rs 1.0 bn, in line with our expectations.

Swings in MFD growth and Horlicks growth continues... Infact category growth moderates

Swings in MFD growth continues... category volume growth moderates to 8% in Q3CY11 against 16% in Q2CY11. On YTD basis, category growth has moderated by 100-200 bps. GSK reports 8-9% volume growth and 17% value growth in Q3CY11. Horlicks reported volume growth of 10%, but Boost volume growth slowed down to 6% in the quarter. Horlicks value growth was 18% and Boost value growth was 11%. With GSK growing in-line with category growth, there is no change in market shares amongst GSK Consumer & Kraft Foods.

In non-MFD portfolio, Biscuits grows and Foodles stumbles

The non-MFD portfolio reported mixed performance... Biscuits continue to grow at +35% yoy, but Foodles continue to witness pressure. Infact, Foodles growth has slowed down from 13% in Q2CY11 to 0-2% in Q3CY11...attributed to distribution-led issues. The contribution of non-MFD portfolio has consistently stood at 6% of revenues in YTD 2011, being in-line with estimates. So far, non-MFD portfolio has not flourished... 'Horlicks' brand's category extension into Biscuits, Foodles and Nutri Bar continues to witness pressure.

Financial Snapshot

YE- Dec	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
CY09	19,215	3,106	16.2	2,328	55.4	23.6	27.9	43.4	29.9	11.2
CY10	23,061	3,768	16.3	2,999	71.3	28.8	32.2	33.7	24.2	10.5
CY11E	26,921	4,305	16.0	3,599	85.6	20.0	33.5	28.0	20.8	8.5
CY12E	31,521	5,098	16.2	4,251	101.1	18.1	32.2	23.7	16.8	6.9

Quarterly Results

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	9MCY11	9MCY10	YoY (%)
Net Sales	6,126	5,078	7,100	6,534	7,201	17.5	10.2	20,835	17,984	15.9
Expenditure	5,175	4,493	5,647	5,548	6,021	16.3	8.5	17,216	14,808	16.3
Material costs	2,279	1,784	2,702	2,655	2,729	19.7	2.8	8,086	6,865	17.8
% of sales	37.2	35.1	38.1	40.6	37.9	70 bps	-274 bps	38.8	38.2	64 bps
Employee expenses	583	609	624	680	663	13.8	(2.5)	1,967	1,688	16.5
% of sales	9.5	12.0	8.8	10.4	9.2	-31 bps	-120 bps	9.4	9.4	5 bps
Other expenses	2,314	2,101	2,321	2,213	2,629	13.6	18.8	7,164	6,255	14.5
% of sales	37.8	41.4	32.7	33.9	36.5	-126 bps	263 bps	34.4	34.8	-40 bps
Operating profit	951	584	1,453	985	1,180	24.1	19.7	3,618	3,176	13.9
EBITDA (%)	15.5	11.5	20.5	15.1	16.4	87 bps	131 bps	17.4	17.7	-29 bps
Other income	334	331	340	360	476	42.6	32.4	1,176	850	38.3
Interest	7	7	7	9	10	41.1	14.4	26	19	34.9
Depreciation	100	109	109	113	117	17.0	3.0	339	288	17.6
PBT	1,178	800	1,677	1,223	1,530	29.9	25.1	4,430	3,719	19.1
Tax	392	266	571	398	499	27.3	25.3	1,468	1,253	17.2
PAT	786	534	1,106	825	1,030	31.1	24.9	2,961	2,465	20.1
EPS	18.7	12.7	26.3	19.6	24.5	31.1	24.9	70.4	58.6	20.1

Margins (%)	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD CY11	YTD CY10	YoY (%)
EBIDTA	15.5	11.5	20.5	15.1	16.4	87 bps	131 bps	17.4	17.7	-29 bps
EBIT	13.9	9.4	18.9	13.4	14.8	88 bps	142 bps	15.7	16.1	-32 bps
EBT	19.2	15.8	23.6	18.7	21.2	202 bps	252 bps	21.3	20.7	58 bps
PAT	12.8	10.5	15.6	12.6	14.3	148 bps	169 bps	0.0	0.0	0 bps
Effective Tax rate	33.3	33.3	34.0	32.6	32.6	-65 bps	7 bps	33.2	33.7	-55 bps

Price hikes of 7.5% in CY2011 to offset input cost rise....

The company has raised product prices by 2.3% across its portfolio effective July 2011, after increasing prices by 5% in January-April 2011. Corresponding increase in raw material - 16% yoy in barley and 16% yoy in milk and milk products and 6% yoy in wheat.

Outlook remains positive... Maintain ACCUMULATE

We believe GSK Consumer is well placed to benefit from the low-penetrated category of malted foods drinks promising healthy growth in its core MFD portfolio. Also, efforts to increase the MDF growth through product development (smaller packs for rural markets, premium product – Horlicks Gold priced at 30% higher, etc) could augur well in long-term. However, concerns on performance of brand extensions in new category persist... remains key risk to valuations and not to earnings. We maintain our ACCUMULATE rating on the stock with a revised target price of Rs 2,743/share, rolling valuations on CY13E earnings.

Y/E, Dec (Rs. mn)	CY11E			CY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	27,650	26,921	-2.6	32,770	31,521	-3.8
EBITDA	4,428	4,305	-2.8	5,355	5,098	-4.8
EBITDA Margin (%)	16.0	16.0	-	16.3	16.2	-
APAT	3,559	3,599	1.1	4,284	4,251	-0.8
EPS (Rs)	84.6	85.6	1.1	101.9	101.1	-0.8

Financials

Income Statement

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	19215	23061	26921	31521
Growth	24.6	20.0	16.7	17.1
Expenses	16109	19294	22616	26422
Growth	23.5	19.8	17.2	16.8
Raw Materials	7106	8712	10594	12384
% Of Sales	37.0	37.8	39.4	39.3
Employee Cost	2007	2297	2641	3117
% Of Sales	10.4	10.0	9.8	9.9
Manufacturing Expenses	1296	1582	1777	2080
% Of Sales	6.7	6.9	6.6	6.6
Admin Expenses	1129	1272	1494	1749
% Of Sales	5.9	5.5	5.5	5.5
Selling & Distribn Expenses	4571	5430	6110	7093
% Of Sales	23.8	23.5	22.7	22.5
Ebidta	3106	3768	4305	5098
Growth	30.8	21.3	14.3	18.4
Ebidta%	16.2	16.3	16.0	16.2
Other Income	893	1174	1567	1789
Interest	40	26	26	26
Depreciation	420	397	458	498
PBT	3539	4518	5388	6363
Tax	1211	1519	1789	2113
PAT (Before EO Item)	2328	2999	3599	4251
Growth	23.6	28.8	20.0	18.1
Net Margin%	12.1	13.0	13.4	13.5
E/O Item	0	0	0	0
Reported PAT	2328	2999	3599	4251

Cash Flow

Y/E, Dec (Rs. mn)	CY09	CY10E	CY11E	CY12E
Pre-Tax Profit	3539	4518	5388	6363
Depreciation	420	397	458	498
Chg in W Cap	2284	1954	-617	657
Tax Paid	-1211	-1519	-1789	-2113
Operating CashFlow	5032	5350	3440	5406
Capex	-482	-1181	-431	-130
Free Cash Flow	4550	4170	3009	5276
Investments	0	0	0	0
Equity Capital	0	0	0	0
Loans	0	0	0	0
Dividend	-886	-2452	-1324	-1569
Others	-176	-155	0	0
Net Change in Cash	3488	1563	1684	3707
Opening Cash Position	4710	8198	9761	11446
Closing Cash Position	8198	9761	11445	15153

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity Share Capital	421	421	421	421
Reserves	8630	9180	11455	14137
Networth	9051	9601	11876	14557
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Total Liabilities	9051	9601	11876	14557
Gross Block	5585	5990	7090	7140
Less: Depreciation	3640	3967	4310	4728
Net Block	1945	2023	2779	2411
Capital Work In Progress	378	1083	300	300
Investments	0	0	0	0
Current Assets	11729	14231	16138	20450
Inventories	2660	3120	3410	3835
Debtors	314	505	443	519
Cash&Bank	8198	9761	11446	15153
Loans&Advances	557	845	839	944
Current Liabilities & Provisions	5111	8004	7608	8871
Net Current Assets	6618	6227	8529	11579
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	110	267	267	267
Total Assets	9051	9600	11876	14557

Key Ratios

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Profitability %				
Ebidta Mgn	16.2	16.3	16.0	16.2
PAT Mgn	12.1	13.0	13.4	13.5
ROCE	39.3	43.5	43.3	42.0
ROE	27.9	32.2	33.5	32.2
Per Share Data				
EPS	55.4	71.3	85.6	101.1
CEPS	65.3	80.8	96.5	112.9
BVPS	215.2	228.3	282.4	346.1
DVPS	18.0	50.0	27.0	32.0
Valuations				
PER	43.4	33.7	28.0	23.7
CPER	36.7	29.7	24.9	21.3
P/BV	11.2	10.5	8.5	6.9
Ev/Sales	4.8	4.0	3.3	2.7
Ev/Ebidta	29.9	24.2	20.8	16.8
Dividend Yield	0.8	2.1	1.1	1.3
Turnover X Days				
Debtor TO	6.0	8.0	6.0	6.0
Inventory TO	50.5	49.4	46.2	44.4
Gearing Ratio				
Net Debt/Equity	-90.6	-101.7	-96.4	-104.1
Total Debt/Equity	0.0	0.0	0.0	0.0

Recommendation History: GlaxoSmithkline Consumer – SKB IN

Date	Reports	Reco	CMP	Target
15/09/2011	Consumers Sector Sector Update			
03/08/2011	GSK Cosnumer Q2CY11 Result Update	Accumulate	2,388	2,547
02/05/2011	GSK Cosnumer Q1CY11 Result Update	Accumulate	2,383	2,590
07/04/2011	Consumer Sector Report Rule of the game...			

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	Jubilant FoodWorks Q2FY12 Result Update	Accumulate	815	900
31/10/2011	Colgate Palmolive Q2FY12 Result Update	Reduce	1,003	826
31/10/2011	Hindustan Unilever Q2FY12 Result Update	Hold	375	347
24/10/2011	Titan Industries Q2FY12 Result Update	Hold	226	225

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