

## Downgrade to Reduce on valuation concerns Premium valuations unjustified; prefer Nestle for a more diverse portfolio mix

February 19, 2013

<b>Rating</b> Down from Buy	<b>Reduce</b>
<b>Target price</b> Increased from 3100	INR 3400
<b>Closing price</b> February 18, 2013	INR 3779
<b>Potential downside</b>	-10%

### Action: Downgrade to Reduce; stable business, but valuations not justified given the completion of the open offer

GlaxoSmithKline PLC (GSK LN, Neutral) has now completed an open offer to acquire an additional stake in its Indian subsidiary. Post the completion of the open offer, the parent company's stake has increased from 43.16% to 72.46%. The open offer was made at INR3,900 per share which closed on 30 January 2013. We believe GSK Consumer (SKB) will still deliver ~20% profit growth in the next couple of years. However, at 30.7x CY13F EPS, GSK trades at a significant premium to its three-year average of 25x. We prefer Nestle (NEST IN, Neutral) on a relative basis at similar multiples which has a more diverse portfolio mix. Within the food subsector, we prefer Jubilant Foodworks (JUBI IN, Buy) as its long-term potential to drive earnings growth is significantly higher, in our view.

### Catalysts: Valuations should correct to reflect a stable earnings growth period and bid premium should disappear

The catalyst for the shares to drift lower will be on account of SKB's valuations reducing to reflect the long-term earnings growth trajectory.

### Valuation: GSK Consumer trades at 25.4x

SKB trades at 25.4x CY14F EPS vs. the sector average of ~23.9x FY15F. We believe the valuation has run ahead of the earnings growth potential due to the possibility of a delisting at some point in the future. While we believe GSK Consumer will still deliver ~20% earnings growth over the next couple of years, we prefer Jubilant Foodworks at current valuations (25.8x FY15F) for which the earnings growth over the next couple of years should be significantly higher at ~37%. We also have a relative preference for Nestlé which has a much more diverse portfolio mix and hence a lower risk profile.

31 Dec	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
<b>Revenue (mn)</b>	26,855	31,413	31,413	37,071	37,071	44,208	44,208
<b>Reported net profit (mn)</b>	3,552	4,267	4,267	5,129	5,129	6,198	6,198
<b>Normalised net profit (mn)</b>	3,443	4,267	4,267	5,129	5,129	6,198	6,198
<b>FD normalised EPS</b>	81.86	101.46	101.46	121.95	121.95	147.37	147.38
<b>FD norm. EPS growth (%)</b>	19.0	23.9	24.0	20.2	20.2	20.8	20.9
<b>FD normalised P/E (x)</b>	45.7	N/A	36.9	N/A	30.7	N/A	25.4
<b>EV/EBITDA (x)</b>	28.8	N/A	23.7	N/A	19.2	N/A	15.7
<b>Price/book (x)</b>	13.8	N/A	11.6	N/A	9.7	N/A	8.1
<b>Dividend yield (%)</b>	1.1	N/A	1.2	N/A	1.6	N/A	1.9
<b>ROE (%)</b>	33.8	34.1	34.1	34.4	34.4	34.7	34.7
<b>Net debt/equity (%)</b>	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart.

### Anchor themes

GSK Consumer is the leader in the malted beverages market in India, with a 70% share. With low category penetration levels and the spend on packaged foods increasing, GSK Consumer is an attractive opportunity in the long term.

### Nomura vs consensus

Consensus TPs are disconnected from the earnings growth because of the open offer but our earnings estimates are in line with consensus for the next couple of years.

### Research analysts

#### India Consumer Related

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

# Key data on GSK Consumer Healthcare

## Income statement (INRmn)

Year-end 31 Dec	FY10	FY11	FY12F	FY13F	FY14F
<b>Revenue</b>	<b>23,061</b>	<b>26,855</b>	<b>31,413</b>	<b>37,071</b>	<b>44,208</b>
Cost of goods sold	-11,053	-12,990	-15,591	-18,337	-21,777
<b>Gross profit</b>	<b>12,008</b>	<b>13,865</b>	<b>15,822</b>	<b>18,733</b>	<b>22,431</b>
SG&A	-5,709	-6,658	-7,283	-8,644	-10,489
Employee share expense	-2,297	-2,584	-3,046	-3,473	-3,955
<b>Operating profit</b>	<b>4,003</b>	<b>4,623</b>	<b>5,494</b>	<b>6,617</b>	<b>7,987</b>
<b>EBITDA</b>	<b>4,400</b>	<b>5,083</b>	<b>6,023</b>	<b>7,290</b>	<b>8,750</b>
Depreciation	-397	-460	-529	-674	-764
Amortisation	0	0	0	0	0
EBIT	4,003	4,623	5,494	6,617	7,987
Net interest expense	-26	-35	-36	-44	-40
Associates & JCEs	0	0	0	0	0
Other income	435	704	930	1,105	1,332
<b>Earnings before tax</b>	<b>4,412</b>	<b>5,293</b>	<b>6,388</b>	<b>7,678</b>	<b>9,279</b>
Income tax	-1,520	-1,851	-2,121	-2,549	-3,081
<b>Net profit after tax</b>	<b>2,892</b>	<b>3,443</b>	<b>4,267</b>	<b>5,129</b>	<b>6,198</b>
Minority interests	0	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
<b>Normalised NPAT</b>	<b>2,892</b>	<b>3,443</b>	<b>4,267</b>	<b>5,129</b>	<b>6,198</b>
Extraordinary items	107	110	0	0	0
<b>Reported NPAT</b>	<b>2,999</b>	<b>3,552</b>	<b>4,267</b>	<b>5,129</b>	<b>6,198</b>
Dividends	-2,452	-1,711	-1,892	-2,523	-2,944
<b>Transfer to reserves</b>	<b>547</b>	<b>1,841</b>	<b>2,375</b>	<b>2,605</b>	<b>3,254</b>

## Valuation and ratio analysis

Reported P/E (x)	52.5	44.3	36.9	30.7	25.4
Normalised P/E (x)	54.4	45.7	36.9	30.7	25.4
FD normalised P/E (x)	54.4	45.7	36.9	30.7	25.4
FD normalised P/E at price target (x)	49.4	41.5	33.5	27.9	23.1
Dividend yield (%)	1.6	1.1	1.2	1.6	1.9
Price/cashflow (x)	30.7	42.0	23.7	21.8	22.9
Price/book (x)	16.4	13.8	11.6	9.7	8.1
EV/EBITDA (x)	33.6	28.8	23.7	19.2	15.7
EV/EBIT (x)	36.9	31.7	26.0	21.1	17.2
Gross margin (%)	52.1	51.6	50.4	50.5	50.7
EBITDA margin (%)	19.1	18.9	19.2	19.7	19.8
EBIT margin (%)	17.4	17.2	17.5	17.8	18.1
Net margin (%)	13.0	13.2	13.6	13.8	14.0
Effective tax rate (%)	34.4	35.0	33.2	33.2	33.2
Dividend payout (%)	81.8	48.2	44.4	49.2	47.5
Capex to sales (%)	4.8	3.7	2.8	5.0	2.8
Capex to depreciation (x)	2.8	2.2	1.7	2.7	1.6
ROE (%)	32.2	33.8	34.1	34.4	34.7
ROA (pretax %)	58.0	51.8	52.5	54.0	54.4

## Growth (%)

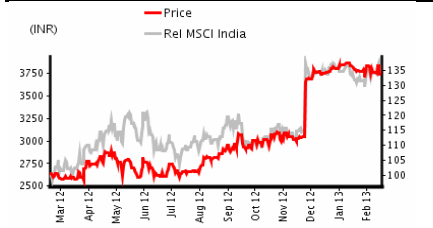
Revenue	20.0	16.5	17.0	18.0	19.3
EBITDA	20.6	15.5	18.5	21.0	20.0
EBIT	24.0	15.5	18.8	20.4	20.7
Normalised EPS	30.2	19.0	24.0	20.2	20.9
Normalised FDEPS	30.2	19.0	24.0	20.2	20.9

## Per share

Reported EPS (INR)	71.30	84.46	101.46	121.95	147.38
Norm EPS (INR)	68.77	81.86	101.46	121.95	147.38
Fully diluted norm EPS (INR)	68.77	81.86	101.46	121.95	147.38
Book value per share (INR)	228.28	272.06	323.61	385.56	462.94
DPS (INR)	58.30	40.68	45.00	60.00	70.00

Source: Company data, Nomura estimates

## Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-2.4	24.7	41.7
Absolute (USD)	-1.7	26.4	29.2
Relative to index	0.6	20.0	35.5
Market cap (USDmn)	2,911.2		
Estimated free float (%)	27.5		
52-week range (INR)	4391/2400		
3-mth avg daily turnover (USDmn)	3.49		
Major shareholders (%)			
Horlicks Ltd	72.5		
LIC India	5.9		

Source: Thomson Reuters, Nomura research

## Notes

**Cashflow (INRmn)**

Year-end 31 Dec	FY10	FY11	FY12F	FY13F	FY14F	Notes
EBITDA	4,400	5,083	6,023	7,290	8,750	
Change in working capital	1,797	-194	1,871	1,429	-86	
Other operating cashflow	-1,071	-1,138	-1,266	-1,488	-1,789	
<b>Cashflow from operations</b>	<b>5,125</b>	<b>3,751</b>	<b>6,628</b>	<b>7,231</b>	<b>6,876</b>	
Capital expenditure	-1,110	-1,004	-889	-1,850	-1,250	
<b>Free cashflow</b>	<b>4,015</b>	<b>2,746</b>	<b>5,738</b>	<b>5,381</b>	<b>5,626</b>	
Reduction in investments	0	0	0	0	0	
Net acquisitions						
Reduction in other LT assets	0	0	0	0	0	
Addition in other LT liabilities	0	0	0	0	0	
Adjustments						
<b>Cashflow after investing acts</b>	<b>4,015</b>	<b>2,746</b>	<b>5,738</b>	<b>5,381</b>	<b>5,626</b>	
Cash dividends	-2,452	-1,711	-1,892	-2,523	-2,944	
Equity issue	0	0	0			
Debt issue	0	0	0			
Convertible debt issue						
Others						
<b>Cashflow from financial acts</b>	<b>-2,452</b>	<b>-1,711</b>	<b>-1,892</b>	<b>-2,523</b>	<b>-2,944</b>	
<b>Net cashflow</b>	<b>1,563</b>	<b>1,036</b>	<b>3,846</b>	<b>2,858</b>	<b>2,682</b>	
Beginning cash	8,198	9,761	10,797	14,642	17,500	
Ending cash	9,761	10,797	14,642	17,500	20,182	
Ending net debt	-9,761	-10,797	-14,642	-17,500	-20,182	

Source: Company data, Nomura estimates

**Balance sheet (INRmn)**

As at 31 Dec	FY10	FY11	FY12F	FY13F	FY14F	Notes
Cash & equivalents	9,761	10,797	14,642	17,500	20,182	
Marketable securities	0	0	0	0	0	
Accounts receivable	505	992	1,126	1,320	1,575	
Inventories	3,120	3,700	3,696	5,067	6,063	
Other current assets	1,112	1,612	2,169	2,140	2,544	
<b>Total current assets</b>	<b>14,499</b>	<b>17,100</b>	<b>21,634</b>	<b>26,027</b>	<b>30,364</b>	
LT investments	0	0	0	0	0	
Fixed assets	3,106	3,718	3,911	5,087	5,573	
Goodwill	0	0	0	0	0	
Other intangible assets	0	0	0	0	0	
Other LT assets	0	0	0	0	0	
<b>Total assets</b>	<b>17,604</b>	<b>20,817</b>	<b>25,545</b>	<b>31,114</b>	<b>35,937</b>	
Short-term debt	0	0	0	0	0	
Accounts payable	4,704	6,663	8,414	9,141	10,901	
Other current liabilities	3,300	2,712	3,521	5,758	5,567	
<b>Total current liabilities</b>	<b>8,004</b>	<b>9,376</b>	<b>11,935</b>	<b>14,899</b>	<b>16,468</b>	
Long-term debt	0	0	0	0	0	
Convertible debt	0	0	0	0	0	
Other LT liabilities	0	0	0	0	0	
<b>Total liabilities</b>	<b>8,004</b>	<b>9,376</b>	<b>11,935</b>	<b>14,899</b>	<b>16,468</b>	
Minority interest	0	0	0	0	0	
Preferred stock	0	0	0	0	0	
Common stock	421	421	421	421	421	
Retained earnings	9,180	11,021	13,189	15,794	19,049	
Proposed dividends						
Other equity and reserves						
<b>Total shareholders' equity</b>	<b>9,600</b>	<b>11,442</b>	<b>13,610</b>	<b>16,215</b>	<b>19,469</b>	
<b>Total equity &amp; liabilities</b>	<b>17,604</b>	<b>20,817</b>	<b>25,545</b>	<b>31,114</b>	<b>35,937</b>	
<b>Liquidity (x)</b>						
Current ratio	1.81	1.82	1.81	1.75	1.84	
Interest cover	153.9	133.4	152.6	150.4	199.7	
<b>Leverage</b>						
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash	
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	
<b>Activity (days)</b>						
Days receivable	6.5	10.2	12.3	12.0	12.0	
Days inventory	95.4	95.8	86.8	87.2	93.3	
Days payable	139.6	159.7	177.0	174.7	168.0	
Cash cycle	-37.7	-53.7	-77.8	-75.5	-62.7	

Source: Company data, Nomura estimates

### 3M performance driven by the open offer announcement

The stock performance over the past three months has been driven by the announcement of an open offer from the parent company GlaxoSmithKline PLC (GSK LN) for its listed subsidiary. The open offer was announced with the intention of taking its share holding up from 43.16% to 75%. The total offer was to acquire 13.39mn shares, of which there was an acceptance ratio of 92%, or 12.32mn shares which were tendered. Post the offer, the stake of the parent company has increased to 72.46%.

**Fig. 1: GSK Consumer's outperformance driven by open offer announcement (INR)**

Stock	Ticker	14-Feb-13	23-Nov-12	3M Return
<b>GSK Consumer</b>	<b>SKB IN</b>	<b>3,836</b>	<b>3,049</b>	<b>26%</b>
Asian Paints	APNT IN	4,526	4,054	12%
Dabur	DABUR IN	134	122	9%
<b>Sensex</b>	<b>SENSEX</b>	<b>19,497</b>	<b>18,507</b>	<b>5%</b>
ITC	ITC IN	301	287	5%
Emami	HMN IN	619	593	4%
Godrej Consumer	GCPL IN	711	688	3%
United Spirits	UNSP IN	1,894	1,880	1%
<b>FMCG Index</b>	<b>BSETMCG</b>	<b>5,802</b>	<b>5,815</b>	<b>0%</b>
Nestle India	NEST IN	4,598	4,620	0%
Colgate Palmolive	CLGT IN	1,312	1,327	-1%
Marico	MRCO IN	211	214	-1%
Titan Industries	TTAN IN	269	296	-9%
Jubilant Foodworks	JUBI IN	1,108	1,258	-12%
Hindustan Unilever	HUVR IN	465	530	-12%

Source: Bloomberg, Nomura research

#### Parent's stake now the highest among MNC consumer companies

Post the open offer, GlaxoSmithKline's parent now has the highest stake in its Indian subsidiary across the names in the sector. Unilever has a 52.5% stake in HUVR, Nestle has 62.8% stake in Nestle India and Colgate has a 51% stake in Colgate Palmolive India. There remains a possibility that over the next few years, parent companies might look to increase their stakes in these companies, in our view. However, given the regulation that all listed companies should have a minimum 75% shareholding with the non-promoter group, an increase in stakes is more likely for other companies than SKB from current levels, in our view.

**Fig. 2: Stake of MNC companies in Indian subsidiaries**

Company	Ticker	Parent's stake in Indian subsidiary
GSK Consumer	SKB IN	72.5%
Hindustan Unilever	HUVR IN	52.5%
Nestle India	NEST IN	62.8%
Colgate Palmolive	CLGT IN	51.0%

Source: Bombay Stock Exchange

#### Surprisingly, the share price has not corrected post the closing of the open offer

The open offer closed on January 30, 2013, with the payment being disbursed to the shareholders who tendered their shares by February 13, 2013. We expected the stock to correct back to its normalised P/E band once the open offer was closed, but surprisingly the stock held firm. We see two reasons for this:

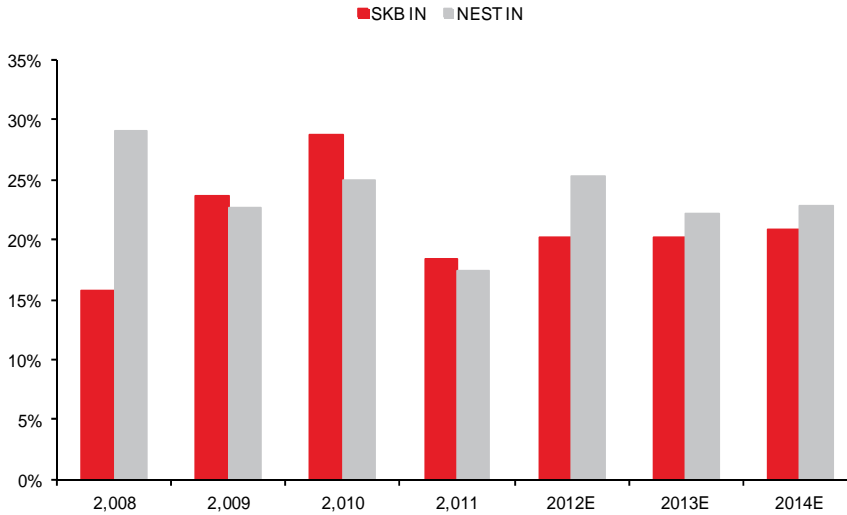
- First, given the large number of shareholders who have already tendered their shares, the free float has reduced considerably.
- Secondly, shareholders who did not tender their shares in the open offer are now holding out for a larger premium to the current share price and a possible delisting of shares in the next few years.

We believe these reasons will continue to support SKB's share price in the near term, but over the next three months or so, we see valuations returning to more normalised levels.

**GSK's earnings growth trajectory similar to Nestle**

If we look at both the past and present earnings growth trajectories for Nestle and SKB, the difference in growth rates was minimal. However, over the next couple of years we expect Nestle to grow at a marginally higher rate than SKB.

**Fig. 3: Earnings growth similar to Nestle**

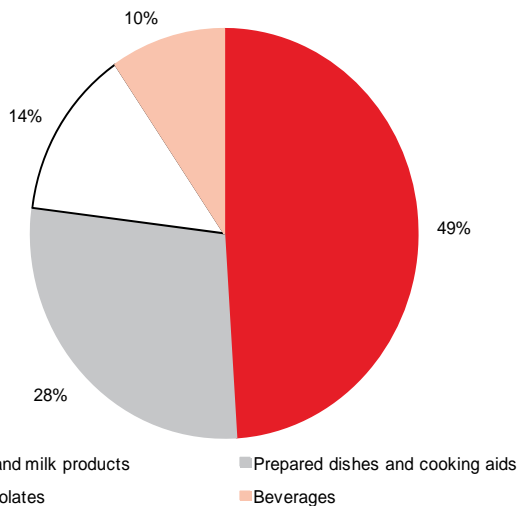


Source: Company, Nomura estimates

**However, Nestle has a much wider and diverse product portfolio**

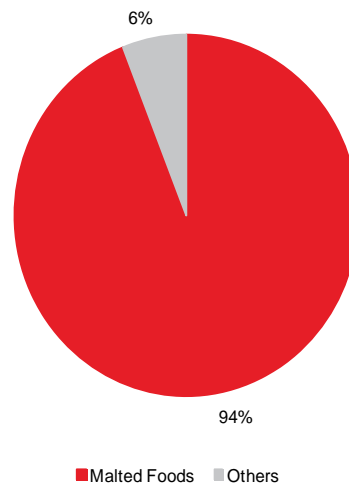
However, importantly Nestle has a much wider portfolio of products, which means risks to earnings growth are much lower, in our view. Nestlé's portfolio mix consists of ~49% from milk and milk products, ~28% from prepared dishes and cooking aids, ~13.5% from chocolates and ~9.5% from beverages. This compares unfavourable with SKB for which >90% of sales comes from the milk food category which has not seen any significant change over the past few years, we believe.

**Fig. 4: Nestlé's portfolio is more diverse (CY11)**



Source: Company, Nomura research

**Fig. 5: GSK Consumer more reliant on one category (CY11)**



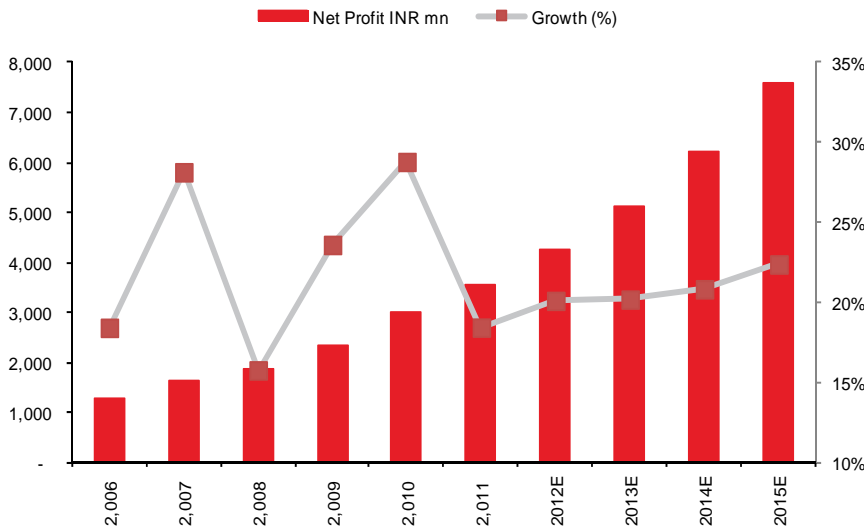
Source: Company, Nomura research

**SKB will continue to have a consistent profit growth delivery**

We expect SKB to continue to deliver ~20% earnings growth over the next couple of years (CY13-14F). This will be driven by consistent topline delivery with volume growth continuing to be in the 9-10% range and a price/mix of ~8%. We are not building in any significant gain on the gross margins front for CY13F, but believe operating leverage can help the company deliver some level of operating margin improvement.

However, there remains no significant upside potential for surprises, given the nature of the portfolio, in our view. We expect the company to retain market share in the category and its growth to be in line with the category growth rate. As discussed earlier, the reliance on one segment makes SKB’s earnings more volatile, in our view, than Nestlé.

**Fig. 6: GSK Consumer’s consistent profit growth history**

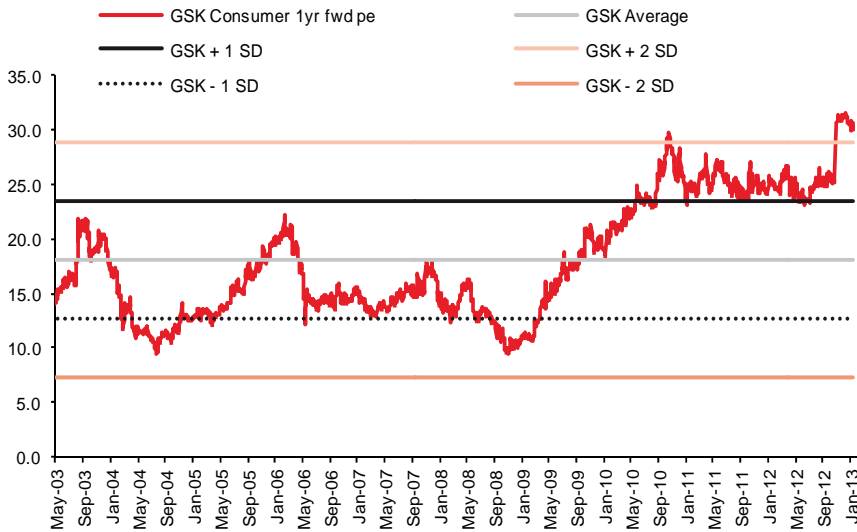


Source: Company data, Nomura estimates

**How does current valuations compare with the long-term history?**

Current valuations are at a significant premium to both the near-term history as well as the long-term average. The stock’s five-year average P/E is 21x one-year forward and even the past three-year average is close to 25x, which includes a period of high P/E since the open offer was made. This compares with the current one-year forward P/E of 30.7x, a significant premium to both long-term and three-year averages for the stock, in our view.

**Fig. 7: GSK Consumer trades at a significant premium to the long-term average**



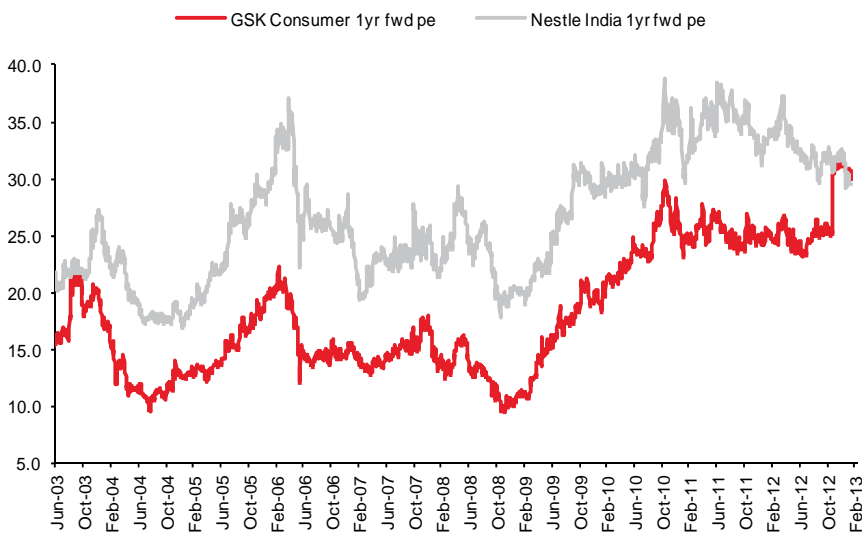
Source: Bloomberg, Nomura research

**How does current valuations compare with Nestle?**

SKB is also at a premium to Nestle, although the diversification of the product portfolio is much inferior. Nestlé also offers a marginally higher growth rate potential over the next couple of years vs. SKB, in our view. The long-term average discount for SKB vs. Nestle is 33% vs. a 4% premium currently. This, we believe, is unjustified as we also have a Neutral rating on Nestlé on account of its high valuations.

Even if we compare with Jubilant Foodworks, for which the earnings growth over the next couple of years (average 37%) should be almost 2x, on our numbers, the expected growth rate (our expectation) at SKB is expensive, we believe.

**Fig. 8: GSK Consumer vs. Nestle India one-year forward P/E**



Source: Bloomberg, Nomura research

**What are the risks to our call?**

We see two risks to our call.

- First, shareholders who have not tendered in the open offer remain on board and wait for a delisting premium to be offered to them in the future. This will ensure that trading volumes in the stock suffer and a liquidity premium is built into the stock. We

acknowledge that this is possible, but the earnings growth trajectory does not justify the current valuations, in our view.

–Second, there are significant surprises on margin performance over the next couple of years, driven by higher pricing. However, we see this risk as minimal, given the competitive nature of the main category in which the company operates as well as the demand elasticity to pricing.

### Downgrading to Reduce; TP raised as a result of the roll forward of valuations

We downgrade our rating to Reduce from Buy as the earnings growth trajectory does not justify current valuations. We see better opportunity in owning Nestle India and Jubilant Foodworks at current levels. A potential upside surprise is more likely at Jubilant Foodworks, where the earnings growth can surprise over the next couple of years. We raise our TP from INR3,100 to INR3,400. The increase in TP is on account of two factors:

- First, the roll forward of valuations by one quarter. Our valuation multiple remains unchanged at 25x. We believe this reflects both the past three years' trading band for the company as well as the ~20% earnings growth we expect the company to deliver over the next couple of years.
- Secondly to reflect the higher level of cash on the balance sheet, which has moved up from INR10.79bn in CY11 to INR14.64bn as in end-CY12. This means that cash per share has moved up from INR257 per share to INR 348 per share.

We use a sum-of-the-parts methodology (unchanged) to value SKB. We value the core operating business at 25x one-year forward EPS of INR122, which gives a value of INR3,052. We value cash at book value. As at the end of CY12, the company had cash of INR14.6bn, which works out to INR348 per share. Adding together the core business value and cash on the balance sheet gives us a combined value of INR3,400.

Fig. 9: Consumer sector valuation

Company	Ticker	Rating	Price INR	EPS growth FY14E %	EPS growth FY15E %	FY14E P/E	FY15E P/E	FY14E PEG	FY15E PEG	Market cap USD mn
Nestle *	NEST IN	Neutral	4,597	22%	23%	30.1x	24.5x	1.4x	1.1x	8,059
GSK Consumer *	SKB IN	Reduce	3,742	20%	21%	30.7x	25.4x	1.5x	1.2x	2,865
Jubilant Foodworks	JUBI IN	Buy	1,112	39%	34%	34.6x	25.8x	0.9x	0.8x	1,305
United Spirits	UNSP IN	Buy	1,898	139%	49%	39.4x	26.4x	0.3x	0.5x	4,513
<b>F&amp;B Average</b>						<b>33.1x</b>	<b>25.3x</b>			
Colgate Palmolive	CLGT IN	Reduce	1,317	14%	15%	30.7x	26.8x	2.2x	1.9x	3,256
Dabur	DABUR IN	Buy	133	20%	18%	25.0x	21.2x	1.2x	1.2x	4,214
Godrej Consumer	GCPL IN	Buy	725	24%	24%	25.6x	20.7x	1.1x	0.9x	4,487
Hindustan Unilever	HUVR IN	Reduce	462	14%	11%	28.8x	25.9x	2.1x	2.3x	18,165
Marico	MRCO IN	Neutral	213	21%	22%	25.9x	21.3x	1.2x	1.0x	2,381
Emami	HMN IN	Buy	622	18%	18%	25.1x	21.3x	1.4x	1.2x	1,712
<b>HPC Average</b>						<b>27.7x</b>	<b>24.2x</b>			
ITC	ITC IN	Buy	301	18%	19%	27.5x	23.0x	1.6x	1.2x	42,731
Asian Paints	APNT IN	Neutral	4,542	20%	20%	31.8x	26.5x	1.6x	1.3x	7,922
Titan Industries	TTAN IN	Buy	268	21%	24%	25.5x	20.7x	1.2x	0.9x	4,323

Source: Bloomberg, Nomura estimates. Prices as on February 15, 2013. \*Denotes calendar year valuations



# Appendix A-1

## Analyst Certification

We, Manish Jain and Anup Sudhendranath, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
GlaxoSmithKline	GSK LN	1471p	15-Feb-2013	Neutral	Bearish	A4,A6
Jubilant Foodworks	JUBI IN	INR 1109	18-Feb-2013	Buy	Not rated	
Nestle India	NEST IN	INR 4567	18-Feb-2013	Neutral	Not rated	
GSK Consumer Healthcare	SKB IN	INR 3779	18-Feb-2013	Reduce	Not rated	

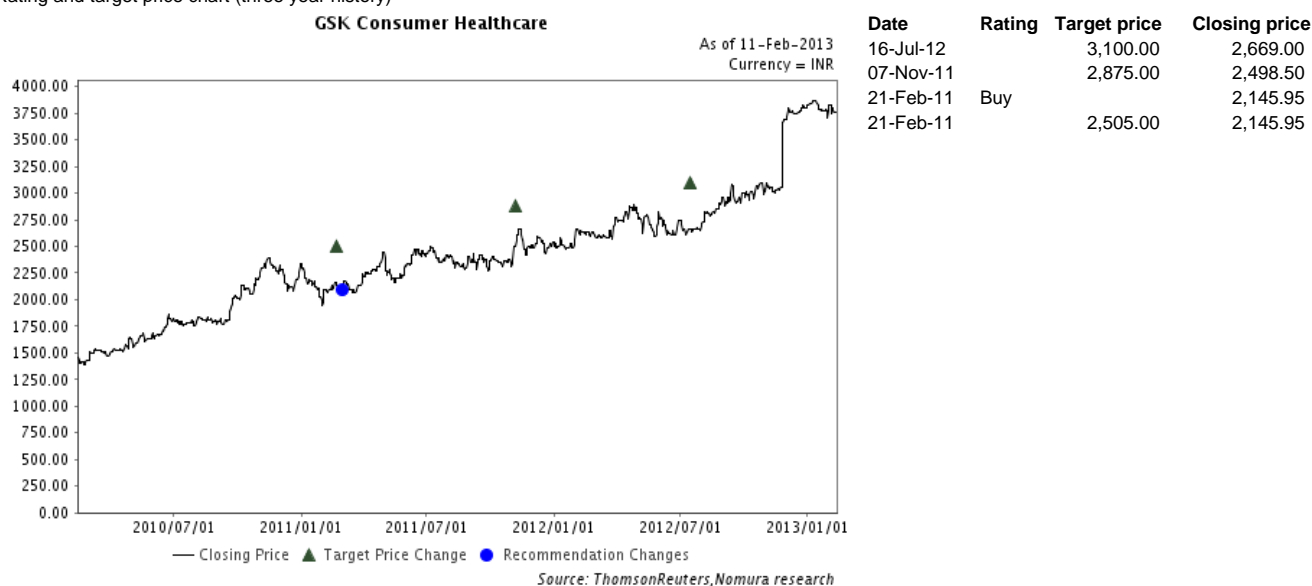
A4 The Nomura Group had an investment banking services client relationship with the issuer during the past 12 months.

A6 The Nomura Group expects to receive or intends to seek compensation for investment banking services from the issuer in the next three months.

### GSK Consumer Healthcare (SKB IN)

INR 3779 (18-Feb-2013) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We have used a sum-of-the-parts methodology to value GSK Consumer. We value the core operating business at 25x one-year forward EPS of INR122, which gives a value of INR3,052. We value cash at book value. As at the end of CY12, the company had cash of INR14.6bn, which works out to INR348 per share. Adding together the core business value and cash on the balance sheet gives us a combined value of INR3,400.

**Risks that may impede the achievement of the target price** A sharp rise in commodity costs and marketing spending is the key downside risk to our estimates.

**GlaxoSmithKline (GSK LN)**

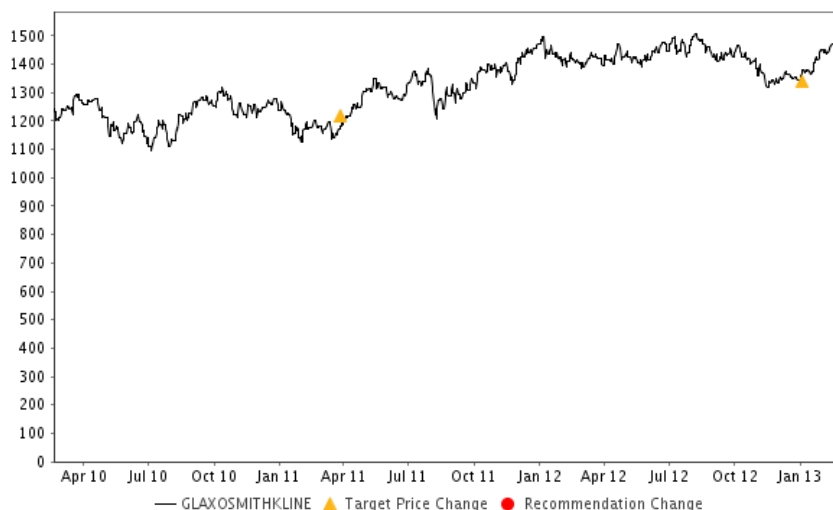
**1471p (15-Feb-2013)** Neutral (Sector rating: Bearish)

Rating and target price chart (three year history)

18-Feb-2010 to 15-Feb-2013

PRICE(GBX)

Date	Rating	Target price	Closing price
04-Jan-13		1340.00	1381.50
28-Mar-11		1220.00	1180.50



— GLAXOSMITHKLINE ▲ Target Price Change ● Recommendation Change

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We believe that the stock should trade in line to the sector's 2013E P/E multiple, as the company offers a 2012-16E EPS CAGR of 6.8% versus the consensus expectation for the sector at 5.8%. Therefore, we apply no discount to our 2013E EPS of 118p. Our DCF methodology using three-stage cash flows projects to 2020, discounted to today (WACC 8.8%; terminal growth 0%). Modulating our P/E and DCF valuation with our PharmaForecasts equity NPV valuation provides a target price of GBP 13.40. The relative index for these stocks is Dow Jones Euro STOXX® TM Pharmaceuticals.

**Risks that may impede the achievement of the target price** In addition to the typical pharmaceutical industry risks associated with potential product approval delays and withdrawals, we believe that GSK has significant risk associated with currency movements; fluctuations in sterling relative to other major currencies (US dollar, euro) would affect our EPS estimates. Pricing pressure in the United States that restricts the company's ability effectively to manage Advair pricing would affect our estimates. Large to midsize acquisitions would affect our estimates.

**Jubilant Foodworks (JUBI IN)**

**INR 1109 (18-Feb-2013)** Buy (Sector rating: Not rated)

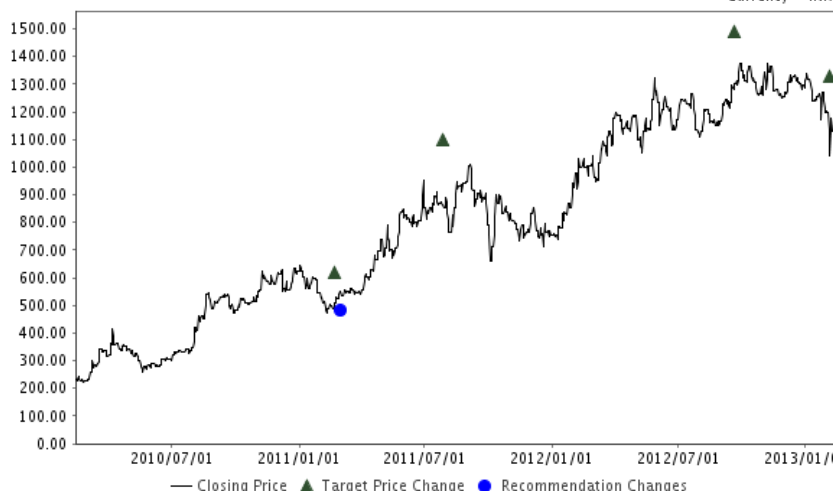
Rating and target price chart (three year history)

Jubilant Foodworks

As of 11-Feb-2013

Currency = INR

Date	Rating	Target price	Closing price
05-Feb-13		1,330.00	1,039.75
20-Sep-12		1,490.00	1,283.85
28-Jul-11		1,100.00	863.45
21-Feb-11	Buy		503.10
21-Feb-11		620.00	503.10



— Closing Price ▲ Target Price Change ● Recommendation Changes

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

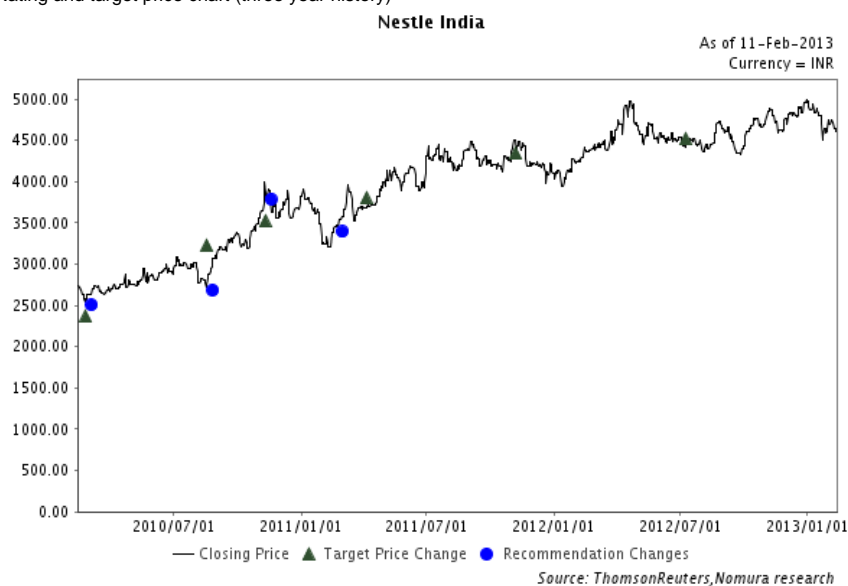
**Valuation Methodology** We use a DCF-based valuation approach to arrive at our target price of INR1,330. Key underlying assumptions are 24.5% medium-term growth followed by 18% long-term growth and 6% terminal growth. Our cost of equity assumption is 12% and we discount back cashflows to FY13F.

**Risks that may impede the achievement of the target price** Higher-than-expected raw material prices and slowing same-store sales growth are key risks.

**Nestle India (NEST IN)**

**INR 4567 (18-Feb-2013)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
09-Jul-12		4,516.00	4,420.65
07-Nov-11		4,345.00	4,497.45
05-Apr-11		3,800.00	3,685.00
21-Feb-11	Neutral		3,462.95
10-Nov-10	Reduce		3,858.60
10-Nov-10		3,525.00	3,858.60
18-Aug-10	Buy		2,753.35
18-Aug-10		3,230.00	2,753.35
24-Feb-10	Reduce		2,574.70
24-Feb-10		2,366.00	2,574.70

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our target price of INR4,516 is based on P/E multiple of 28x on our four forward quarters earnings estimates.

**Risks that may impede the achievement of the target price** Negative risks arise from further increases in input prices and higher A&P spending. Positive risks come from better price/mix improvement vs our expectations.

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### STOCKS

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Benchmarks are as follows: **United States/Europe**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

### SECTORS

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### Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

#### STOCKS

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**Target Price**

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