

*"FORM IS TEMPORARY, CLASS IS PERMANENT"*



PRE-INITIATING COVERAGE

GLAXOSMITHKLINE CONSUMER HEALTHCARE LTD.

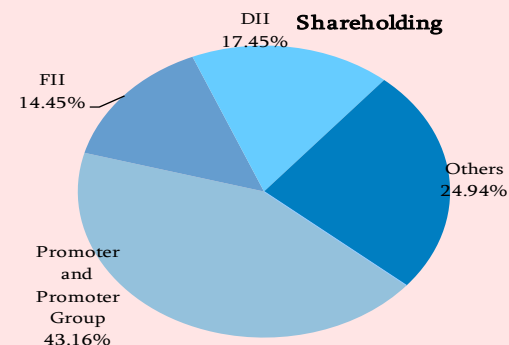
RATING - BUY

TARGET -3642

**BUY**

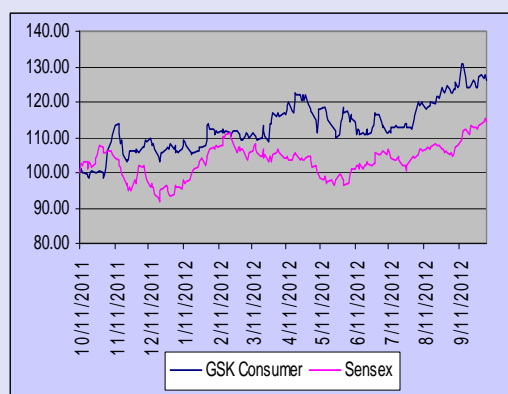
**Market Data**

Current Market Price (INR)	2,977.00
Target Price	3,642.00
% Upside	22.3%
52 Week High / Low (INR)	3115/ 2179
Market Capitalization (In INR cr)	12,519



**STOCK SCAN**

BSE Code	500676
NSE Code	SKSCONS
Bloomberg Ticker	GKB IN
Reuters Ticker	GLSB.BO
Face Value (INR)	10.00
Equity Share Capital (In INR Cr.)	42.06
Average P/E (last 3 Years)	28.66x
Beta vs Sensex	0.52
Average Daily Volume	24,250
Dividend Yield	1.17%
PEG Ratio	NA



**GlaxoSmithKline Consumer Healthcare Ltd.**

**Sector – FMCG**

We rate **GSK Consumer Healthcare Ltd** a BUY. GlaxoSmithKline Consumer Healthcare Ltd (GSKCH) is an Indian associate of GlaxoSmithKline plc, UK. It is one of the largest players in the Health Food Drinks Industry in India. Its flagship product, **Horlicks**, is a highly respected brand which is over 100 yrs old in India. It also manufactures **Boost**, **Viva** and **Maltova** and distributes brands like **Eno**, **Crocina** and **Iodex**. It has a distribution network of over 4800 wholesalers and over 700000 retail outlets.

**Investment Highlights**

**Expansion plan of Enhancing the Capacity to Boost Sales Growth in coming years:** GlaxoSmithKline Consumer Healthcare plans to spend Rs 250 crore in CY12E and Rs 150 crore in CY13E towards expanding its existing capacities. Part of the expansion plan will be completed in Q3 CY12E and the total expansion will be completed by June 2013 at its Sonapat, Haryana plant. This will boost the topline in the coming 3 years time.

**Rural Market, a Big Opportunity because of low penetration of Malted Health Food Drinks :** Rural markets have low penetration levels of around 11 per cent in Malted Health Food Drinks category compared with the 40 per cent levels of urban markets. Growing income levels and low awareness present an opportunity to the company to penetrate it higher.

**Price Hike Undertaken by the company will keep margin intact for the company :** GSK Consumer has undertaken price hike in Horlicks and Boost (i.e. from INR162 to INR171/500g pack) at the end of July 2012 which will help it in keeping its margin intact and protect it against the rising raw- material prices. GSK Consumer has pricing power for its products as it is evident from its stable margin in the range of 18-19% in last 5 Yrs.

**Volume Growth of 8-9% to be back on track by the end of CY12E :** With the introduction of new range of products like Horlicks Gold, Women Horlicks, Junior Horlicks and aggressive advertisement campaign in media, we expect the volume growth of 8-9% to be back on track by the end of CY12E. As it is said in cricket that **“Form is temporary, class is permanent”**, the same is applied to the volume growth of GSK Consumer which we believe will bounce back and sustain for long term in india once the form returns.

**Exhibit 1. GSK consumer Healthcare– Historical Financials and Projections**

Particulars	CY09	CY10	CY11	CY12E	CY13E
Net Sales	1,984.0	2,374.0	2,771.0	3,193.0	3,852.0
Growth (%)		20%	17%	15%	21%
EBITDA	373	444	510	594	724
EBITDA Margins (%)	18.8%	18.7%	18.4%	18.6%	18.8%
Net Profit	233.0	300.0	355.0	430.0	528.0
Net Profit Margins (%)	11.7%	12.6%	12.8%	13.5%	13.7%
Net Profit Growth (%)		29%	18%	21%	23%
EPS	55.3	71.3	84.5	102.3	125.6
BVPS	215	228	272	339	428
P/E	53.8	41.8	35.3	29.1	23.7
P/BV	13.8	13.1	10.9	8.8	7.0
RoE	27.9%	32.2%	33.8%	33.5%	32.7%

Source: Company, Microsec Research (In INR Crores)



### Product Profile

**Nutritional drinks**- Under this it manufactures and markets wide range of health drinks. Besides Horlicks, it has created brands like, Boost, Maltova and Viva. Apart from youth, it also caters to other consumers like mothers with Mother's Horlicks and Horlicks Lite for diabetic consumers.

**OTC Products**- It promotes and distributes over the counter products like Iodex, Eno and Crocin.

### Brands of the Company

- ❖ Horlicks
- ❖ Boost
- ❖ Viva
- ❖ Maltova
- ❖ Iodex, Eno and Crocin
- ❖ Sensodyne

### Peer Group Comparison

Cement Company	SALES INR Cr	EBITDA	EBITDA (%)	PAT	PAT (%)	EPS	ROE (%)	CMP as on 10Oct 2012	MCAP (INR CR)	EPS CY12E	EPS CY13E	P/E CY12E	P/E CY13E
<b>GSK Consumer Healthcare</b>	<b>2771</b>	<b>510</b>	<b>18.4%</b>	<b>355</b>	<b>12.8%</b>	<b>84.5</b>	<b>34</b>	<b>2977</b>	<b>12519</b>	<b>102.3</b>	<b>125.6</b>	<b>29.1</b>	<b>23.7</b>
Nestle	7514	1519	20.2%	962	12.8%	99.7	90	4640	44740	116.7	139.9	39.8	33.2
Britannia Ind	5485	311	5.7%	200	3.6%	16.7	54	504	6024	21.2	23.8	23.8	21.2
Colgate-Palmolive	2693	579	21.5%	446	16.6%	32.8	160	1249	16986	38.03	43.76	32.8	28.5
Dabur Ltd	5305	890	16.8%	645	12.2%	3.7	44.6	129	22544	4.4	5.2	29.3	24.8

Source: Company Database, Bloomberg

### VALUATION

At the CMP of INR2977 the stock discounts its CY12E EPS of INR102.3 by 29.1x and its CY13E EPS of INR125.6 by 23.7x. **With Established Brand like Horlicks, Boost, Maltova and Viva, Strong ROE, Stable EBITDA Margin and Focus on Health & Nutrients, the prospect of the company appears to be good for long term. We assign a P/E multiple of 29x to its CY13E EPS of INR125.6 to arrive at the target price of INR3642 for the stock.**

### Key Concern

Abnormal Rise in the Raw-material price of the company for a longer period of time may impact the margin of the company and may reduce its profitability.

The company faces tough competition in malted food drinks segment from Complan and Bourn vita. New product launches of the competitors if successful may drag the sales of the company.

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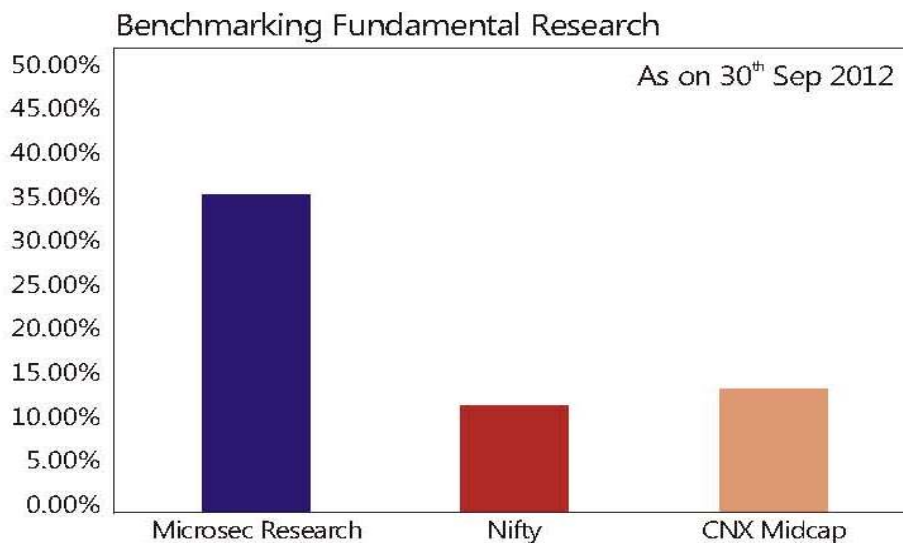
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<b>Recommendation</b>	<b>Expected absolute returns (%) over 12 months</b>
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

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# Research?

## Microsec Benchmark its Research



An amount of ₹ 1,00,000 invested individually in all 169 stocks ie, ₹ 1,69,00,000 investment as and when recommended has appreciated to ₹ 2,28,07,723 giving a return of 34.9 percent. On the same basis Nifty has given a return of 10.8 percent and CNXMID CAP has given a return of 13 percent.

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