

Stock Update

Strong performance, maintain Hold

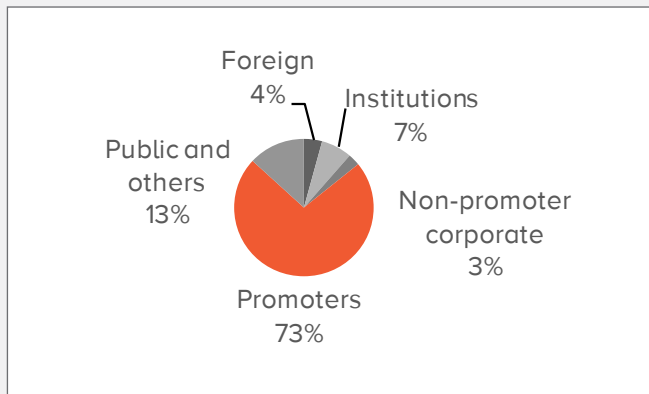
GlaxoSmithKline Consumer Healthcare

Reco: Hold | CMP: Rs7,146

Company details

Price target:	Rs7,931
Market cap:	Rs30,052 cr
52-week high/low:	Rs7,935/5,849
NSE volume: (No of shares)	29,893
BSE code:	500676
NSE code:	GSKCONS
Sharekhan code:	GSKCONS
Free float: (No of shares)	1.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.7	-7.5	-1.3	21.8
Relative to Sensex	2.3	-9.9	-7.6	13.2

Key points

- Volume growth sustains; Low input cost and efficiencies led to margin expansion:** GSK Consumer reported strong results in Q4FY2019, with broad-based growth across products and channels. Revenue grew by 9%, driven by 6.3% volume growth. Business auxiliary income rose by 20% y-o-y, led by double-digit growth across all products. Unlike other FMCG companies, GSK Consumers continued to see acceleration in the rural growth with double-digit revenue growth during the quarter. Gross margin expanded by 164BPS y-o-y, while operating profit margin (OPM) improved by 357 BPS y-o-y to 24.8% due to cost savings and operational efficiencies. Operating profit grew by 27.4% y-o-y to Rs. 318.5 crore. This along with higher other income led to reported PAT growing by 34.9% to Rs. 285.8 crore during the quarter. However, other income includes one-off exceptional gain of Rs. 46 crore towards tax reversal, excluding which adjusted PAT would have grown by 13% during the quarter.
- Company remains leader in the HFD category; Sachets continue to grow in double digits:** In the health food drinks (HFD) category, *Horlicks* continues to be a leader with value-based market share standing at 42.9% (volume market share stood at 49.5%), while that of *Boost* stood at 10.7% (volume market share is 14%). The HFD category's revenue grew in high single digit with volume growth standing at ~6% during the quarter. Both *Horlicks* and *Boost* have grown in single digits. The recently launched *Horlicks Protein+* is gaining market share sequentially and it currently holds 5-6% market share. Sachet sales (contributes 10% to overall revenue) grew in the upwards of 20%, driven by high double-digit volume growth (driving penetration into rural areas). Exports grew by 24%, with volume growth of 21% in Q4FY2019. Malaysia was another market that became part of GSK Consumers' export revenue during the quarter. Excluding Malaysia, export revenue grew by 67% on like-to-like basis. The company has expanded its distribution reach by 1,96,000 outlets this year across the portfolio (increased by 10% on a y-o-y basis).
- Volumes to grow by 5-7%; Rising input cost to put margin pressure in the near term:** GSK Consumer's revenue grew by 12% in FY2019,

driven by 10% volume growth. Management has indicated slowdown in the demand environment with rural India's growth slowing down from the second half of Q4FY2019. We expect volume growth to sustain at 5-7% in FY2020 and gradually increase with improvement in domestic demand. Steady growth seen in base products, increasing rural penetration led by sachets, and growing acceptance and awareness of high science products such as *Horlicks Protein+* (Rs. 50 crore revenue by FY2020), *Women's Horlicks* and *Horlicks Growth+* (Rs. 35 crore-40 crore revenue by FY2020) will be one of the key revenue drivers in the near to medium term. Restructuring of the foods business (~5% of total revenue) is done by exiting from loss-making products (revenue declined by 19% y-o-y in FY2019). Going ahead, management is expecting to add new products in the foods segment, which will help in achieving good growth in the coming years. Dairy prices have increased by 40% y-o-y and barley prices have increased by 30% y-o-y in recent months. So, to mitigate this input cost

inflation, the company has taken 2.5-3.0% price hike in January 2019. This along with efficient buying of key inputs will help the company to mitigate rising cost pressures to some extent in the coming quarters. Thus, we expect OPM to remain at about 23% in FY2020/FY2021.

- ◆ **Maintain Hold with an unchanged PT of Rs. 7,931:** We have fine-tuned our earnings estimates for FY2020 and FY2021 to factor in better-than-expected operating performance. The merger of GSK Consumer with Hindustan Unilever Limited (HUL) is going as planned and is expected to fructify by the end of FY2020 with all required approvals likely in place. The business of GSK Consumer is growing steadily; and under HUL's umbrella, growth prospects of the brands will further improve in the near to medium term. We believe it is prudent for shareholders of GSK Consumer to hold the stock as the share-swap deal is more favourable towards shareholders of GSK Consumer. Hence, we maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 7,931.

Valuation (Standalone)

Particulars	Rs cr				
	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Revenue (Rs crore)	4425.9	4377.1	4832.0	5428.8	6127.7
OPM (%)	18.9%	20.2%	22.7%	22.9%	22.9%
PAT (Rs crore)	656.7	700.1	885.8	993.2	1108.1
EPS (Rs.)	156.1	166.5	210.6	236.1	263.5
P/E (x)	45.6	42.8	33.8	30.2	27.0
EV/EBIDTA (x)	24.9	23.1	18.9	16.9	14.8
RONW (%)	22.2	21.2	23.8	23.5	23.2
ROCE (%)	34.2	32.6	36.1	35.2	34.6

Results (Standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	yoy%	Q3FY19	qoq%
Total operating income	1286.1	1179.6	9.0	1116.8	15.2
Total Expenditure	967.6	929.6	4.1	878.3	10.2
Operating Profit	318.5	250.0	27.4	238.5	33.5
Other Income	76.9	84.2	-8.6	84.3	-8.7
EBIDTA	395.4	334.2	18.3	322.8	22.5
Interest	0.2	0.8	-74.0	0.2	-4.8
Depreciation	14.9	14.5	2.6	15.8	-5.6
PBT	380.3	318.9	19.2	306.8	24.0
Tax	140.4	107.1	31.2	125.7	11.7
Adjusted PAT	239.8	211.8	13.2	181.1	32.4
Extra ordinary item	46.0	-	-	40.0	15.0
Reported PAT	285.8	211.8	34.9	221.1	29.3
EPS (Rs.)	57.0	50.4	13.2	43.0	32.4
			BPS		BPS
GPM (%)	70.0	68.3	164BPS	70.7	-74BPS
OPM (%)	24.8	21.2	357BPS	21.4	341BPS

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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