

Sector: Consumer Goods
Result Update

| | Change |
|--------------------------------|--------|
| Reco: Hold | ↔ |
| CMP: Rs. 7,480 | |
| Price Target: Rs. 7,931 | ↔ |

↑ Upgrade ↔ No change ↓ Downgrade

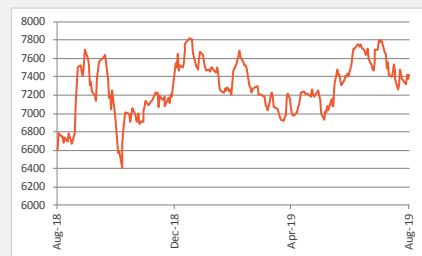
Company details

| | |
|----------------------------|---------------|
| Market cap: | Rs. 31,327 cr |
| 52-week high/low: | Rs. 7935/6340 |
| NSE volume: (No of shares) | 0.2 lakh |
| BSE code: | 500676 |
| NSE code: | GSKCONS |
| Sharekhan code: | GSKCONS |
| Free float: (No of shares) | 1.2 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 72.5 |
| FII | 4.6 |
| DII | 6.9 |
| Others | 16.0 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|-----|------|------|
| Absolute | -3.5 | 5.1 | 0.5 | 13.9 |
| Relative to Sensex | 3.2 | 9.6 | -2.1 | 12.5 |

Sharekhan Research, Bloomberg

GlaxoSmithKline Consumer Healthcare (GSK Consumer) registered steady operating performance with revenue growing by ~8% (driven by 5.4% volume growth). Strong expansion in EBIDTA margins and higher other income led to strong bottom-line growth. Horlicks continued to maintain its leadership in the Health Food Drinks (HFD) category with 44% market share. Premium products gaining good traction coupled with new product launches and improving penetration will be key revenue drivers going ahead. The integration of GSK Consumer and Hindustan Unilever (HUL) will take place by the end of current fiscal. We maintain our Hold recommendation on the stock.

Key positives

- ◆ GSK Consumer maintained its leadership position in HFD category with 64% market share (Horlicks market share stood at 44.3%).
- ◆ Despite higher input prices, gross margins stood stable at 70%, while operating efficiencies led to 248 bps improvement in OPM.
- ◆ The company launched two new products Active Horlicks with Fiber and Boost Bites biscuits in Q1.

Key negatives

- ◆ Volume growth of 5.4% in HFD category (domestic volume growth was 4%) was lower than 6.3% volume growth in Q4FY2019.
- ◆ The management expects input cost inflation of 8-9% in the coming quarters, which might put margins under pressure in H2FY2020.

Our Call

Valuation: We have broadly maintained our earnings estimates for FY2020 and FY2021. The integration of HUL and GSK Consumer will take place by the end of the current fiscal. We expect GSK Consumer's growth prospects to improve post integration with the mound of HUL's strong distribution reach. This will help in improving the growth prospects in the domestic market. We maintain our Hold recommendation on the stock with an unchanged price target of Rs. 7,931.

Key Risks

Any significant increase in key input prices (including dairy prices) would act as a key risk to the earnings estimates in the near term.

Valuation (standalone)

| Particulars | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|-------|-------|-------|-------|-------|
| Revenues | 4,426 | 4,377 | 4,782 | 5,246 | 5,781 |
| OPM (%) | 18.9 | 20.2 | 23.9 | 23.8 | 24.0 |
| Adjusted PAT | 657 | 700 | 869 | 1,039 | 1,120 |
| % YoY growth | -4.5 | 6.6 | 24.1 | 19.6 | 7.8 |
| Adjusted EPS (Rs.) | 156.1 | 166.5 | 206.6 | 247.3 | 266.6 |
| P/E (x) | 47.7 | 44.8 | 36.1 | 30.1 | 27.9 |
| P/B (x) | 10.0 | 9.0 | 7.7 | 6.7 | 6.0 |
| EV/EBIDTA (x) | 26.2 | 24.3 | 18.6 | 17.1 | 15.5 |
| RoNW (%) | 22.2 | 21.2 | 22.9 | 23.8 | 22.7 |
| RoCE (%) | 34.2 | 32.6 | 36.9 | 35.5 | 33.9 |

Source: Company, Sharekhan Estimates

Volume growth stood at ~5%; margin expansion sustains: GSK Consumer's revenue grew by 8% y-o-y, driven by 5.4% volume growth. The domestic volume growth moderated to 4% with general slowdown in the domestic consumption. Business auxiliary income grew by 15% y-o-y to Rs. 75 crore in Q1FY2020 from Rs. 65 crore in Q1FY2019. Gross margin expanded by 38 bps y-o-y as the company is gaining benefit of low-priced inventory of raw materials, while OPM improved by 268 bps y-o-y to 23.5% due to cost savings and operational efficiencies. Operating profit grew by 21.8% y-o-y to Rs. 280.4 crore. This, along with higher other income led to 18.5% growth in adjusted PAT to Rs. 237.6 crore during the quarter. However, other income includes a one-off exceptional gain of Rs. 15 crore towards clearance of old vendor balance and thus, reported PAT grew by 23.8% to Rs. 248.1 crore.

Other conference call highlights

- Domestic volume growth moderated to 4% from about 6% in Q4FY2019 mainly on account of consumption slowdown. Rural growth was largely in-line with urban growth. On the other hand exports grew by 15% mainly on account of higher exports to Malaysian region, which contributed 1.4% incrementally to overall volume growth during the quarter.
- Sachets (contributes 10.5% to overall sales) registered a strong volume growth of 14% during the quarter.
- The company's distribution reach grew by 18% to 2 million outlets from 1.7 million outlets by the end of March 2019.
- All allied/premium brands are performing well and growing along with the base brand. Protein Plus is gaining good acceptance and the company has maintained its target of achieving Rs. 50 crore revenue from the brand by end of FY2020.
- Comparable other income grew by 15% y-o-y as there was a one-time gain of ~Rs. 15 crore towards clearance of old vendor balance.
- The company is expecting raw material cost inflation in the rest of the year as dairy product prices have gone up by ~40% and barley prices have gone up by ~30%. The company has undertaken a weighted average price increase of under 1% and had previously taken a price increase of ~3% to mitigate the impact of higher input costs.

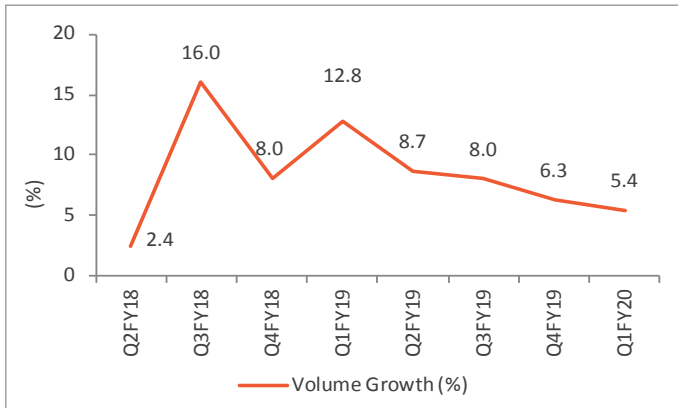
Results (Standalone)

| Particulars | Q1FY20 | Q1FY19 | Y-o-Y % | Q4FY19 | Rs cr Q-o-Q% |
|---------------------|--------|--------|------------|--------|-----------------|
| Net Revenue | 1194.3 | 1107.1 | 7.9 | 1286.1 | -7.1 |
| Total Expenditure | 913.9 | 876.9 | 4.2 | 967.6 | -5.5 |
| Operating Profit | 280.4 | 230.3 | 21.8 | 318.5 | -12.0 |
| Other Income | 110.9 | 96.5 | 15.0 | 76.9 | 44.3 |
| EBIDTA | 391.3 | 326.7 | 19.8 | 395.4 | -1.0 |
| Interest | 1.7 | 0.2 | - | 0.2 | - |
| Depreciation | 19.6 | 14.7 | 33.5 | 14.9 | 31.5 |
| Tax | 132.4 | 111.4 | 18.8 | 140.4 | -5.7 |
| Adjusted PAT | 237.6 | 200.4 | 18.5 | 239.8 | -0.9 |
| Extra ordinary item | 10.5 | 0.0 | - | 46.0 | -77.2 |
| Reported PAT | 248.1 | 200.4 | 23.8 | 285.8 | -13.2 |
| EPS (Rs.) | 56.5 | 47.7 | 18.5 | 57.0 | -0.9 |
| | | | bps | | bps |
| GPM (%) | 70.0 | 69.6 | 38 | 70.0 | - |
| OPM (%) | 23.5 | 20.8 | 268 | 24.8 | -129 |

Source: Company; Sharekhan Research

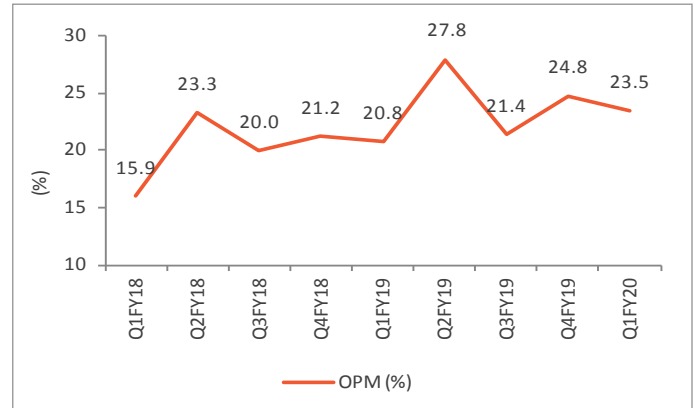
Financials in charts

Volume growth stood at 5.4%



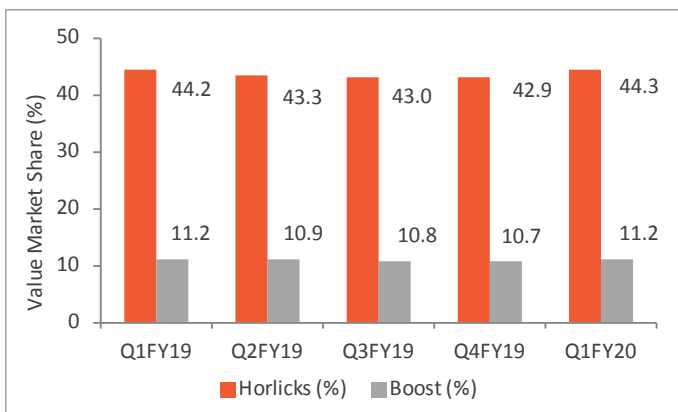
Source: Company, Sharekhan Research

OPM came in at 23.5%



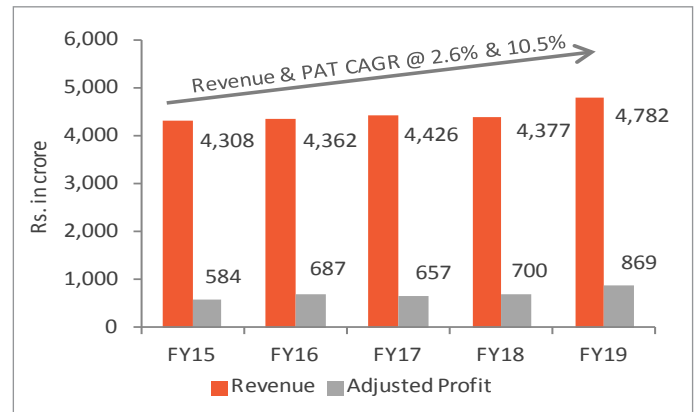
Source: Company, Sharekhan Research

Value market share of Horlicks and Boost stood at 44.3% & 11.2%



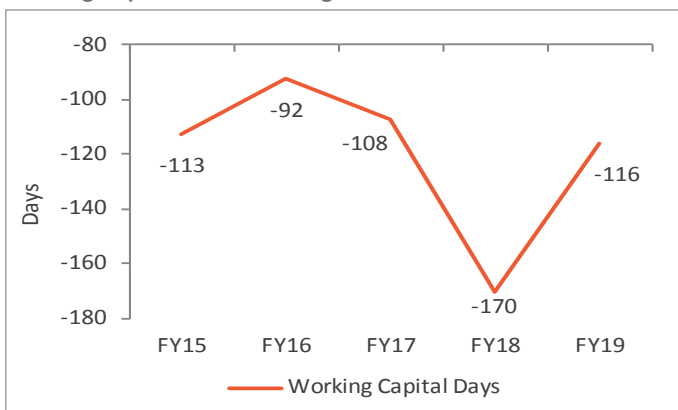
Source: Company, Sharekhan Research

Revenue and PAT grew @CAGR 2.6% and 10.5%



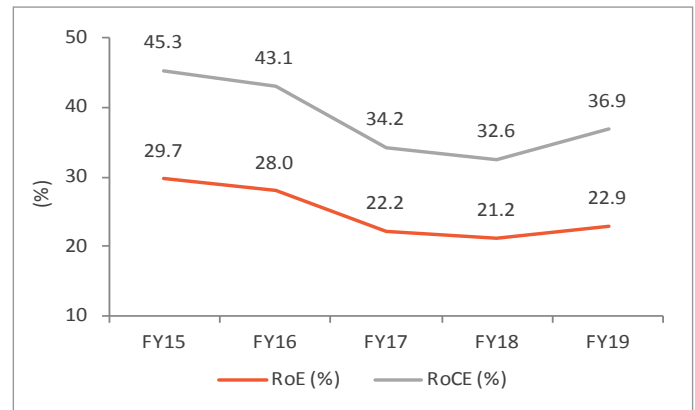
Source: Company, Sharekhan Research

Working capital remained negative



Source: Company, Sharekhan Research

Return ratios improved



Source: Company, Sharekhan Research

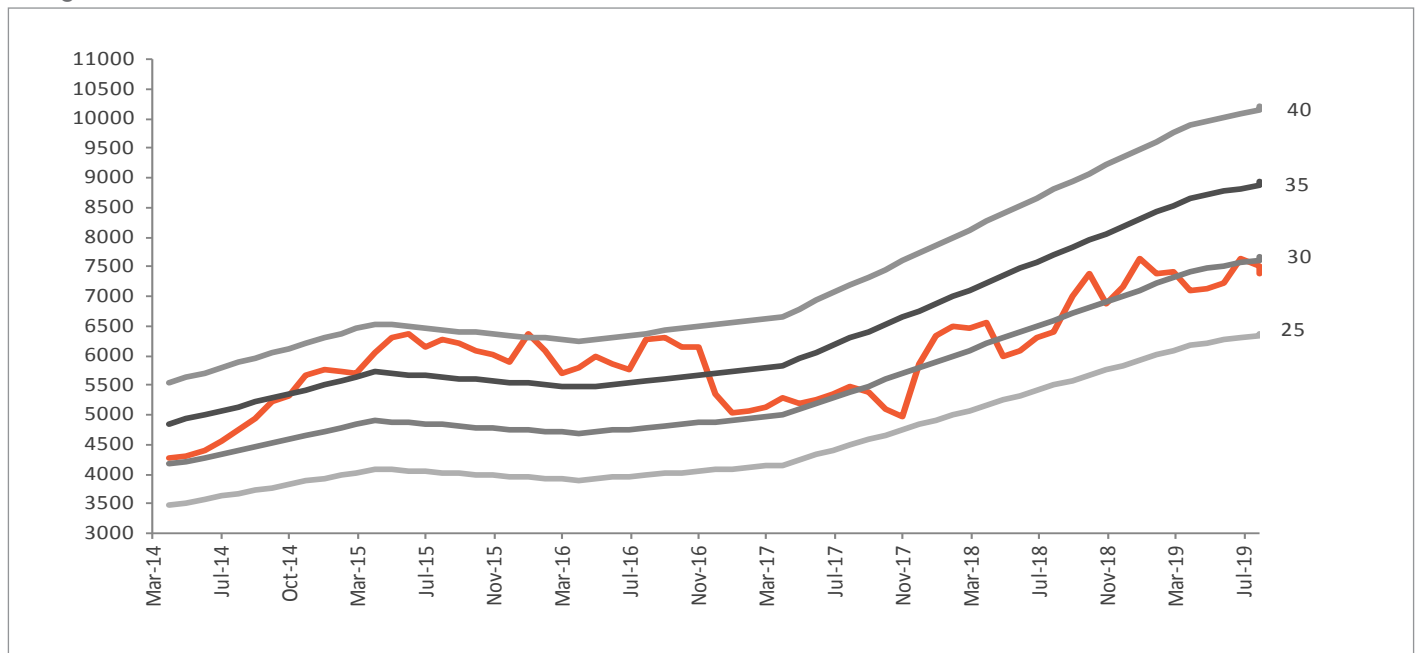
Outlook - Volume growth to sustain at ~5%; gross margin pressure to set in H2

We expect GSK Consumer's volume growth to sustain at 5% in the coming quarters as allied products and new launches are gaining good traction in the domestic market. Also, sachets are growing in double digits adding to overall revenue growth. Further, the company is focusing on enhancing its distribution reach in the domestic market. On the margin front, we expect gross margins to remain lower y-o-y as some of the key input prices have seen significant jump in the recent past. The company is expecting input cost inflation of 8% for the rest of the year. Thus, we expect OPM to remain slightly lower than the previous year.

Valuation

We have broadly maintained our earnings estimates for FY2020 and FY2021. The integration of HUL and GSK Consumer will take place by the end of the current fiscal. We expect GSK Consumer's growth prospects to improve post integration with the mound of HUL's strong distribution reach. This will help in improving the growth prospects in the domestic market. We maintain our Hold recommendation on the stock with an unchanged price target of Rs. 7931.

One year forward P/E band



Source: Sharekhan Research

Peer Comparison

| Particulars | P/E (x) | | | EV/EBIDTA (x) | | | RoCE (%) | | |
|--------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
| | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E |
| Hindustan Unilever | 60.6 | 51.0 | 43.7 | 42.8 | 37.1 | 32.4 | 113.2 | 109.0 | 96.8 |
| Nestle | 68.6 | 58.5 | 50.8 | 41.8 | 36.2 | 31.8 | 49.1 | 51.2 | 49.7 |
| GSK Consumer | 36.1 | 30.1 | 27.9 | 18.6 | 17.1 | 15.5 | 36.9 | 35.5 | 33.9 |

Source: Company, Sharekhan estimates

About company

GSK Consumer is one of the leading players in the domestic HFD category with close to 65% market share. Its flagship product Horlicks is a market leader, while Boost is among the top three HFD brands preferred in India. The company also markets and distributes a range of everyday health products such as Eno, Crocin, Iodex, Sensodyne, T-minic, Sendocal and Ostocal. The company has a strong presence in the southern and eastern parts of the HFD market. HUL had acquired controlling stake in GSK Consumer from its parent company in FY2019 to become a strong player in the domestic foods market.

Investment theme

GSK Consumer has maintained its leadership position in the domestic HFD market with strong brands in its kitty. The company has negative working capital and strong cash flows. It is a cheery dividend payer as compared to its peers with an average dividend payout of 43.5% in the last four years. The integration of GSK Consumer with HUL will take place at the end of the current fiscal. GSK Consumer's portfolio is expected to perform well once it comes under the mould of HUL's current distribution system.

Key Risks

- ♦ Any significant increase in key input prices (including dairy prices) would act as a key risk to the earnings estimates in the near term.
- ♦ South India contributes about 60% to overall HFD market; any slowdown in the overall south Indian market would threaten the revenue and earnings growth in the near term.

Additional Data

Key management personnel

| | |
|----------------|-------------------|
| P Dwarakanth | Chairman |
| Navneet Saluja | Managing Director |
| Shanu Saksena | Company Secretary |

Source: Company

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|------------------------------|-------------|
| 1 | Horlicks Ltd | 43.2 |
| 2 | GlaxoSmithKline PLC | 29.3 |
| 3 | Life Insurance Corp of India | 2.7 |
| 4 | Vanguard Group Inc | 0.9 |
| 5 | UTI Asset Management Co Ltd | 0.8 |
| 6 | Tata Asset Management Ltd | 0.6 |
| 7 | IDFC Mutual Fund/India | 0.6 |
| 8 | SBI Funds Management Pvt Ltd | 0.6 |
| 9 | FundRock Management Co SA | 0.6 |
| 10 | Nomura Holdings Inc | 0.5 |

Source: Bloomberg

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