

Operational efficiency boosts earnings...

Net revenue for the quarter grew by 9.3% YoY to ₹ 1,286.1 crore on the back of 6.5% volume growth. Benefitted by low input costs, especially milk prices, EBITDA margins increased by 357 bps to 24.8% primarily driven by 164 bps increase in gross margins and 357 bps decline in other overheads to sales, partly offset by 115 bps increase in employee expenses & 49 bps increase in marketing expenses to sales during the quarter. With higher operating profit and other income, PAT for the quarter increased by 35% YoY to ₹ 285.8 crore. The company declared dividend of ₹ 105/share.

Strengthening distribution network

GSK Consumer's distribution network comprises of over 800 distributors and a direct coverage of over 8 lakh retail outlets. Further, the company added 190,000 outlets over last one year, taking its distribution reach to 1.96 million outlets. Moreover, GSK has presence across 24,000 villages through rural sub-distributors and village level entrepreneurs (VLE's) across 9 States. The company has also strengthened its VLE program ensuring its products are now available across 4.5 million outlets. With rural markets continue to outpace urban market growth and deliver double digit growth quarter on quarter for the company, its strategy to focus on increasing penetration level in rural markets is phasing out.

Brand extensions to drive future earnings

GSK Consumer has continuously focused on expanding its product portfolio. With judicious brand extensions for different age groups, the company's product portfolio now caters to a broad range of consumers; Horlicks Junior (for kids and at 25% premium to base Horlicks), Women's Horlicks, Horlicks Lite (for entire family & at 50% premium to base one) and Mother's Horlicks (at 125% premium to base product). The contribution of brand extensions to total Horlicks has increased over the years from ~20% in FY11 to ~30% in FY19, thereby enhancing margins over the years. We expect operating margins to grow to 23.1% by FY20E. Company's recent foray into high science products is panning out well and company has set its revenue target for Horlicks Protein+ (₹ 50 crore) and Horlicks Growth+ (₹ 35 crore) for FY20 and to achieve a sizeable market share of the surging protein segment.

Valuation & Outlook

Led by strong pricing power, competitive advantage, distribution expansion initiatives and expanded product portfolio, GSK Consumer is taking various measures to drive growth (new campaigns, rural expansion, etc.) and we expect volume growth to trend up gradually over FY20. Margins should be well supported by judicious price increases, mix accretive innovation and significant cost-reduction initiatives. We reiterate our **BUY** recommendation on the stock with a target price of ₹ 8,340/share.

Key Financial Summary

Key Financials	FY16	FY17	FY18	FY19	FY20E	CAGR (FY18-20E)
Net Sales	4564.4	4425.9	4377.1	4782.0	5186.7	8.9%
EBITDA	838.2	838.3	883.4	1141.0	1198.2	16.5%
EBITDA Margin %	18.4	18.9	20.2	23.9	23.1	
Net Profit	687.3	656.7	700.1	982.8	1026.6	21.1%
EPS (₹)	163.40	156.13	166.46	233.67	244.07	
P/E	43.7	45.7	42.9	30.6	29.3	
RoNW %	24.6	21.0	20.1	24.0	22.8	
RoCE (%)	35.5	30.8	29.8	36.1	33.4	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	30,027.6
Total Debt (FY19)	0.0
Cash and Investments (FY19)	4,097.3
EV	25,930.3
52 week H/L (₹)	7934 / 5850
Equity capital	42.1
Face value (₹)	10.0

Key Highlights

- Maintain BUY with a target price of ₹ 8340/per share
- Volume market share of Horlicks was 49.5% with value market share of 42.9% (decline 10 bps QoQ)
- Volume market share of Boost was 14% with value market share of 10.7% (decline of 10 bps QoQ)
- Auxiliary income increased by 20% YoY on the back of improvement in OTC products

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Operating Income	1,286.1	1,295.4	1,179.6	9.0	1,116.8	15.2	Net revenue increased by 9% largely led by domestic volume growth of 6.5%
Raw Material Expenses	386.3	390.1	373.7	3.4	327.1	18.1	Gross margins improved by 164 bps to 70% supported by lower input prices, especially milk prices
Employee Expenses	164.8	162.3	137.6	19.8	156.7	5.2	
SG&A Expenses	190.9	140.4	169.3	12.8	134.9	41.5	
Other operating Expenses	225.6	321.1	249.0	-9.4	259.5	-13.1	Other expenses decreased by 9% mainly due to one-offs in the base quarter (provisioning to the tune of ₹ 20 crore in Q4FY18)
EBITDA	318.5	281.4	250.0	27.4	238.5	33.5	Operating margins increased by 357 bps on the back of robust gross margins and saving in other overheads, which was partly offset by higher employee expenses and marketing expenses during the quarter
EBITDA Margin (%)	24.8	21.7	21.2	357 bps	21.4	341 bps	
Depreciation	14.9	14.5	14.5	2.6	15.8	-5.6	
Interest	0.2	0.2	0.8	-74.0	0.2	-4.8	
Other Income	122.9	89.3	84.2	46.0	124.3	-1.1	Other income increased by 46% on account of ~20% increase in auxillary income and one-off item (tax credit) to the tune of ₹ 46 crore
PBT	426.3	356.0	318.9	33.7	346.8	22.9	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
Tax Outgo	140.4	122.9	107.1	31.2	125.7	11.7	
PAT	285.8	233.1	211.8	34.9	221.1	29.3	Led by higher operating profit and other income, net profit increased by 34.9%
Key Metrics (%)							
Horlicks market share	42.9		44.3		43.0		Horlicks value market share has declined by 10 bps QoQ
Boost market share	10.7		11.2		10.8		Boost value market share has declined by 10 bps QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			Comments
	Old	New	% change	
Sales	5,186.7	5,186.7	0.0	We have slightly tweaked our estimates
EBITDA	1,187.1	1,198.2	0.9	
EBITDA Margin (%)	22.9	23.1	21 bps	
PAT	1,019.1	1,026.6	0.7	
EPS (₹)	242.3	244.1	0.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Particulars (₹ crore)	Current				Earlier	Comments
	FY17	FY18	FY19E	FY20E	FY20E	
Malt based foods (₹ crore)	4,019.8	3,994.1	4,569.2	4,941.6	4,941.6	Minor change in estimates
Malt based food vol. gr (%)	-9.0	3.5	10.0	5.0	5.0	
RM/Sales (%)	29.3	32.7	30.0	35.7	35.8	
Marketing exp/Sales (%)	12.2	11.0	11.0	11.2	11.2	
Auxiliary income (₹ crore)	194.0	201.8	225.2	352.7	352.7	

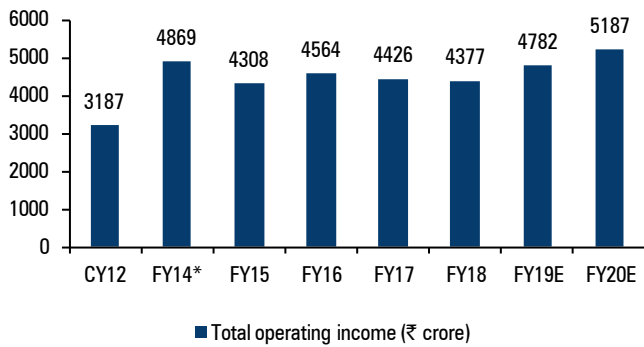
Source: Company, ICICI Direct Research

Conference Call Highlights

- Net revenues grew by 9% YoY to ₹ 1,286.1 crore led by 6.5% YoY volume growth. HFD category volume growth came in at 6%
- Exports markets also grew strongly on the back of strong volume during the quarter. For FY19, exports market grew by 24% driven by 21% volume growth which included addition of Malaysia to the portfolio
- Horlicks maintained its leadership position with volume market share of 49.5% and value market share of 42.9% (declined 10 bps QoQ). Volume market share for Boost was 14% with value market share of 10.7% (decline by 10 bps QoQ)
- The company expects its high science portfolio (Protein+ and Growth+) to grow well from here thereby helping it in restricting its value market share decline over the last few years. The company expects Protein+ to end with ₹ 50 crore turnover with market share of 5-6% by end of FY20E. Similarly, it expects Growth+ to achieve revenue target of ₹ 35 cr by FY20E end
- Business auxiliary income increased by ~20% on the back of robust OTC products
- Sachets continued to witness double digit volume growth on the back of strong distribution initiatives. Sachets contribute 10% to overall revenues
- Foods business, which contributes less than 5% of sales, declined by 16% during the quarter on account of discontinuance of Marie biscuits in the portfolio
- Gross margins expanded 164 bps to 70.7% supported by lower input prices, especially milk prices
- After witnessing deflationary cost trends over the past year, the management expects inflationary trends in milk and barley for FY20E as these input cost prices have risen by 40% and 30% respectively from lows. The company had taken price hike of 2.5-3% in product portfolio in January and would be resorting to further price hikes to mitigate the impact of rising input costs
- Operating margins increased by 357 bps to 24.8% driven by strong gross margins expansion and 357 bps decline in other overheads to sales, partly offset by 115 bps increase in employee expenses to sales & 49 bps increase in marketing expenses to sales
- Other income witnessed a sharp jump (₹ 122.9 crore vs ₹ 84.2 crore in Q4FY18) on account of ~20% increase in auxiliary income and one-off item (tax credit) to the tune of ₹ 46 crore
- Other expenses declined by 9% during the quarter on account of one-offs in the base quarter (which included provisioning of ₹ 20 crore)
- The company increased its distribution network by 10.6% to 1.96 million outlets during the quarter. Direct reach for the company stands marginally below 1 million outlets
- Rural segment continued to grow in double digit

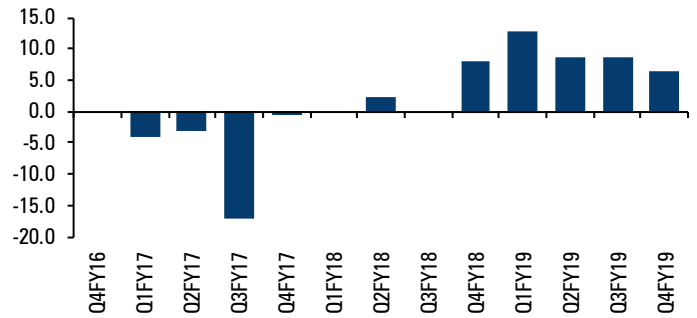
Key Metrics

Exhibit 4: Sales growth trend



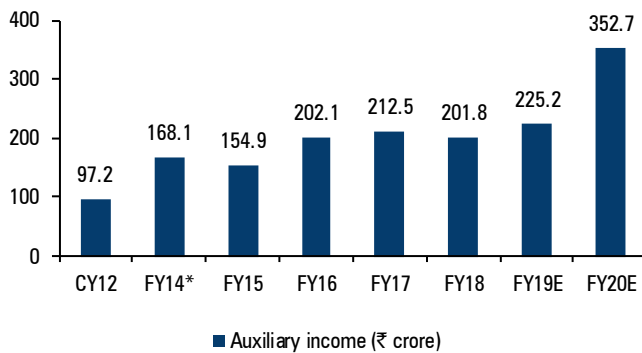
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 5: Domestic volume growth (%) trend



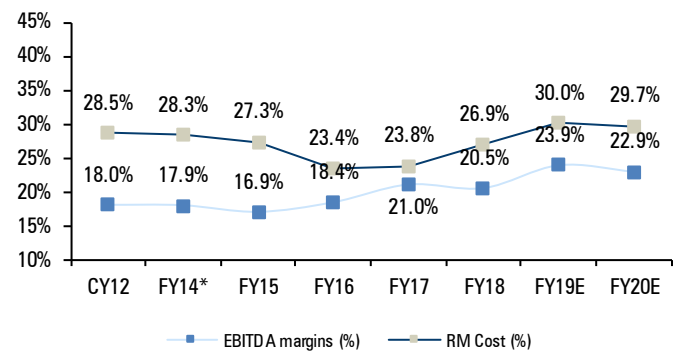
Source: Company, ICICI Direct Research

Exhibit 6: Auxiliary income augurs well for growth



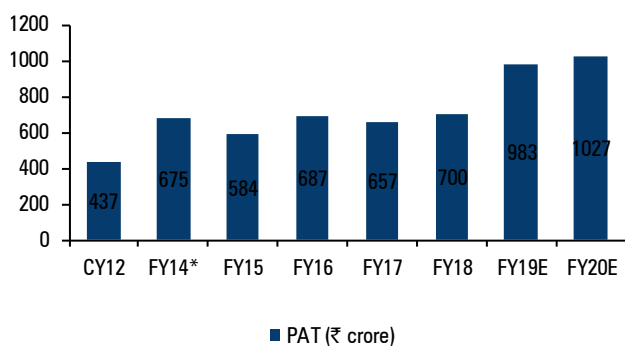
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 7: EBITDA margin trend (%)



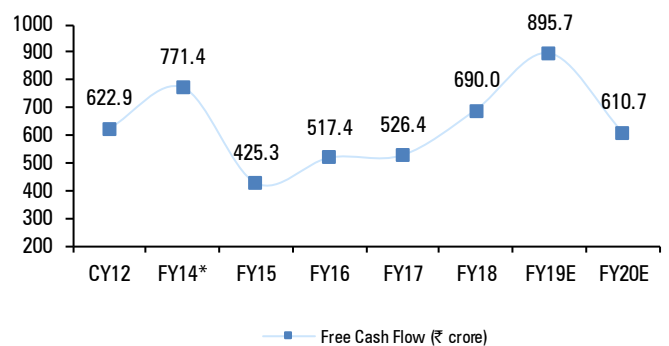
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 8: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 9: FCF generation trend



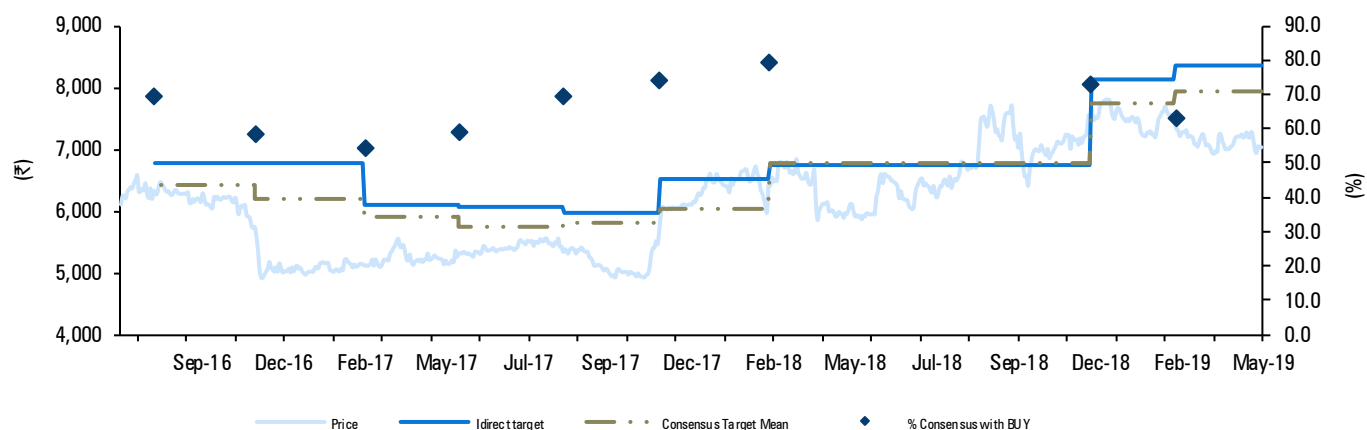
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	4425.9	2.7	156.1	12.5	45.7	32.1	21.0	30.8
FY18	4377.1	-1.1	166.5	6.6	42.9	29.9	20.1	29.8
FY19E	4782.0	9.3	233.7	40.4	30.6	22.7	24.0	36.1
FY20E	5186.7	8.5	244.1	4.5	29.3	21.5	22.8	33.4

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	GlaxoSmithKline PLC	31-Mar-19	72.46	30.5M	0.0M
2	LIC Mutual Fund Asset Management Company Ltd.	31-Mar-19	2.67	1.1M	0.0M
3	Life Insurance Corporation of India	31-Dec-18	2.67	1.1M	1.1M
4	The Vanguard Group, Inc.	31-Mar-19	0.86	0.4M	0.0M
5	UTI Asset Management Co. Ltd.	31-Mar-19	0.75	0.3M	0.0M
6	Tata Asset Management Limited	30-Apr-19	0.66	0.3M	0.0M
7	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.59	0.2M	0.0M
8	IDFC Asset Management Company Private Limited	31-Mar-19	0.58	0.2M	0.0M
9	Franklin Templeton Asset Management (India) Pvt.	31-Mar-19	0.45	0.2M	0.0M
10	Goldman Sachs Asset Management International	31-Mar-19	0.44	0.2M	0.0M

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	123.22M	1.12M	Amundi Hong Kong Limited	-13.47M	-0.13M
Norges Bank Investment Management (NBIM)	8.03M	0.07M	HDFC Asset Management Co., Ltd.	-6.71M	-0.06M
Columbia Threadneedle Investments (US)	2.01M	0.02M	UTI Asset Management Co. Ltd.	-2.23M	-0.02M
Union Investment Luxembourg S.A.	1.73M	0.02M	India Infoline Asset Management Company Limited	-1.24M	-0.01M
IDFC Asset Management Company Private Limited	0.81M	0.01M	ICICI Prudential Asset Management Co. Ltd.	-1.10M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	72.5	72.5	72.5	72.5	72.5
FII	4.5	4.0	4.0	4.7	4.3
DII	8.2	8.4	8.3	7.3	7.2
Others	14.8	15.2	15.3	15.5	16.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement					₹ crore
	FY17	FY18	FY19	FY20E	
Total operating Income	4,425.9	4,377.1	4,782.0	5,186.7	
Growth (%)		-1.1	9.3	8.5	
Raw Material Expenses	1,296.9	1,432.6	1,436.2	1,850.3	
Employee Expenses	450.9	527.7	644.6	692.4	
Marketing Expenses	514.7	546.7	602.3	620.4	
Administrative Expenses	448.0	472.7	958.0	299.1	
Other expenses	442.4	453.4	0.0	526.2	
Total Operating Expenditure	3,587.6	3,493.7	3,641.0	3,988.5	
EBITDA	838.3	883.4	1,141.0	1,198.2	
Growth (%)		5.4	29.2	5.0	
Depreciation	64.2	64.4	60.5	76.1	
Interest	2.8	2.0	0.8	0.9	
Other Income	239.1	257.4	432.6	410.9	
PBT	1,010.4	1,074.4	1,512.3	1,532.2	
Others	0	0	0	0	
Total Tax	353.7	374.3	529.5	505.6	
PAT	656.7	700.1	982.8	1,026.6	
Growth (%)		6.6	40.4	4.5	
EPS (₹)	156.1	166.5	233.7	244.1	

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement					₹ crore
(Year-end March)	FY17	FY18	FY19	FY20E	
Profit After Tax	590.3	607.4	982.8	1,026.6	
Add: Depreciation	64.2	64.4	60.5	76.1	
(Inc)/dec in Current Assets	-47.0	103.3	-192.5	-93.8	
Inc/(dec) in CL and Provisions	173.8	158.9	71.4	189.6	
CF from operating activities	603.0	723.0	922.2	1,198.5	
(Inc)/dec in Investments	0.0	0.0	1.6	10.0	
(Inc)/dec in LT loans & advances	0.0	0.0	-5.0	0.0	
(Inc)/dec in Fixed Assets	-65.7	-49.4	-26.5	-587.8	
Others	0.0	0.0	-23.5	-20.0	
CF from investing activities	-602.4	-446.4	-36.1	-433.8	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-354.2	-353.0	-471.5	-521.1	
Others	-2.8	-2.0	-0.8	-0.9	
CF from financing activities	-361.3	-363.4	-472.3	-522.0	
Net Cash flow	-360.8	-86.8	413.9	242.8	
Opening Cash	1,061.7	700.9	614.1	1,028.0	
Cash with Bank	2,386.5	2,971.1	3,069.4	2,971.1	
Closing Cash	3,087.4	3,585.2	4,097.3	4,241.8	

*calculated, Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					₹ crore
(Year-end March)	FY17	FY18	FY19	FY20E	
Liabilities					
Equity Capital	42.1	42.1	42.1	42.1	
Reserve and Surplus	3,080.6	3,443.1	4,052.7	4,459.8	
Total Shareholders funds	3,122.7	3,485.1	4,094.7	4,501.9	
LT Borrowings & Provisions	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Others Non-current Liabilities	0.0	0.0	0.0	0.0	
Total Liabilities	3,359.1	3,670.1	4,254.1	4,641.3	
Assets					
Gross Block	629.4	650.9	850.9	1,050.9	
Less: Acc Depreciation	133.4	172.8	233.3	309.3	
Net Block	495.9	478.1	467.2	741.5	
Capital WIP	49.2	35.7	12.6	250.0	
Net Intangible Assets					
Non-current Investments	52.3	38.0	43.0	43.0	
LT loans & advances	11.7	14.8	17.6	14.2	
Current Assets					
Inventory	461.2	409.4	465.5	582.6	
Debtors	321.0	278.7	385.7	383.7	
Loans and Advances	11.7	14.8	17.6	14.2	
Other Current Assets	257.9	273.9	301.4	284.2	
Cash	3,087.4	3,585.2	4,097.3	4,241.8	
Deferred Tax Assests	127.8	115.5	113.9	103.9	
Current Liabilities					
Creditors	875.7	1,034.7	952.6	937.9	
Provisions	264.2	277.6	275.6	426.3	
Short term debt & other CL	455.8	430.3	585.8	639.5	
Application of Funds	3,359.1	3,670.1	4,254.1	4,641.3	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					₹ crore
(Year-end March)	FY17	FY18	FY19	FY20E	
Per share data (₹)					
EPS	156.1	166.5	233.7	244.1	
Cash EPS	171.4	181.8	248.1	262.2	
BV	742.4	828.6	973.5	1,070.3	
DPS	70.0	95.0	105.0	115.0	
Cash Per Share	734.0	852.4	974.2	1,008.5	
Operating Ratios (%)					
EBITDA Margin	21.0	20.5	23.9	23.1	
PBT / Total Operating income	22.8	24.5	31.6	29.5	
PAT Margin	14.8	16.0	20.6	19.8	
Inventory days	38.0	34.1	35.5	41.0	
Debtor days	26.5	23.2	29.4	27.0	
Creditor days	72.2	86.3	72.7	66.0	
Return Ratios (%)					
RoE	21.0	20.1	24.0	22.8	
RoCE	30.8	29.8	36.1	33.4	
Valuation Ratios (x)					
P/E	45.7	42.9	30.6	29.3	
EV / EBITDA	32.1	29.9	22.7	21.5	
EV / Net Sales	6.1	6.0	5.4	5.0	
Market Cap / Sales	6.8	6.9	6.3	5.8	
Price to Book Value	9.6	8.6	7.3	6.7	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.7	0.6	0.6	0.6	
Quick Ratio	0.4	0.3	0.4	0.3	

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,130	1,350	Hold	34,950	28.9	31.9	35.8	39.2	35.4	31.6	7.8	7.1	6.5	62.1	59.2	55.4	43.3	41.7	38.8
Dabur India (DABIND)	370	450	Buy	66,747	8.2	9.2	10.2	45.2	40.4	36.4	7.8	7.0	6.3	29.6	28.1	28.4	25.7	24.0	24.3
GSK CH (GLACON)	7,140	8,340	Buy	30,028	166.5	233.7	244.1	42.9	30.6	29.3	6.9	6.3	5.8	29.8	36.1	33.4	20.1	24.0	22.8
Hindustan Unilever (HINLEV)	1,715	1,900	Hold	378,000	28.5	32.9	37.9	60.1	52.2	45.2	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	300	340	Buy	340,127	10.3	11.3	12.4	29.0	26.5	24.1	7.6	6.9	6.4	35.8	35.7	37.5	24.9	24.7	26.0
Jyothy Lab (JYOLAB)	152	220	Buy	6,181	5.3	5.9	6.7	28.6	25.6	22.7	3.5	3.1	2.8	28.6	37.5	38.9	22.6	28.2	29.2
Marico (MARLIM)	355	425	Buy	46,963	8.8	8.7	9.8	40.4	40.9	36.4	6.4	5.5	4.9	38.0	42.6	41.7	31.6	35.8	34.6
Nestle (NESIND)	10,400	12,000	Buy	99,795	166.7	203.4	243.5	62.4	51.1	42.7	8.9	7.8	6.9	41.4	42.6	44.3	44.5	43.0	42.1
Tata Global Bev (TATGLO)	204	240	Buy	12,938	7.2	7.9	8.7	28.2	25.8	23.4	1.8	1.7	1.6	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,440	3,900	Buy	5,348	146.9	164.4	178.8	23.4	20.9	19.2	4.9	4.4	4.0	51.4	51.1	50.3	34.2	34.4	33.9
Varun Beverage (VARBEV)	900	1,040	Hold	17,530	11.7	16.4	18.6	76.8	54.8	48.3	4.4	3.4	2.5	12.7	14.2	13.3	12.1	15.0	11.0

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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