

Volume growth recedes; input costs to rise...

Net revenue for the quarter grew 7.9% YoY to ₹ 1,194.3 crore on the back of 5.4% volume growth. However, domestic volume growth was slower at 4% YoY with export region growing 15% during the quarter (due to inclusion of Malaysian territory). The growth is largely led by increasing contribution of sachets. Other income increased by ~40% on account of clearance of old vender balances. Adjusting for one off, it has grown by 15%. EBITDA increased 21.8% to ₹ 280.4 crore and EBITDA margins increased 268 bps to 23.5% on the back of 150 bps savings on overhead expenses, 110 bps lower advertisement spend to sales and 40 bps gross margins expansion. PAT witnessed growth of 23.8% YoY to ₹ 248.1 crore aided by higher other income and higher operating profit.

Efforts in place to reduce concentration risk

GSK Consumer (GSKCH) derives more than 80% of its revenues from eastern, southern regions. States like Karnataka and West Bengal together constitute more than 22% of sales in the HFD category in these regions. However, the company is slowly increasing its presence in other regions and is working on a strategy wherein the focus has shifted to Chocolate Horlicks to drive growth in western and northern regions as consumers in these regions prefer brown malt drink to white malt drink. The company also launched Boost Bites in chocolate flavour biscuit category to capture less tapped territories. We believe GSK Consumer's focus on premiumisation and penetration in these regions will result in better market expansion, going forward. We expect operating margins to grow to 23.1% by FY20E.

Strengthening its foray into science based innovations

GSKCH continued to focus on new product innovations last year with three new launches starting with RTD beverages (under *Boost* brand priced at ₹30) with a pilot run in Tamil Nadu which has had good consumer acceptance and enter "On the Go / Out of Home consumption" through a new format. The company also re-launched Junior Horlicks with added nutrition's and reduced sugar in a bid to attract healthy consumers. GSKCH's another launch last year was Mother's Horlicks in two flavours i.e. Vanilla and Kesar, which was to bring more options under the brand to target audience. The company has a clear strategy of launching specialized high-science products which is driving category growth and would help revenue growth of 8.9% in FY20E.

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). 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. The stock has run up in the last three months. We maintain our target price of ₹ 8340/share on the stock with **HOLD** recommendation.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	31,331.3
Total Debt (FY19)	0.0
Cash and Investments (FY19)	4,097.3
EV	27,234.0
52 week H/L (₹)	7934 / 6340
Equity capital	42.1
Face value (₹)	10.0

Key Highlights

- Volume & value market share of Horlicks increased 140 bps each to 50.9% & 44.3%, respectively
- Volume & value market share of Boost increased 90 bps & 50 bps to 14.9% & 11.2%, respectively
- Auxiliary income increased 15.5% YoY on the back of improvement in OTC products
- Change recommendation from BUY to HOLD with target price of ₹ 8340/per share

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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	45.6	47.7	44.8	31.9	30.5	
RoNW %	24.6	21.0	20.1	24.0	22.8	
RoCE (%)	35.5	30.8	29.8	36.1	33.4	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	1,194.3	1,208.5	1,107.1	7.9	1,286.1	-7.1	Net revenue increased by 7.9% YoY led by volume growth of 5.4%
Raw Material Expenses	358.8	369.6	336.9	6.5	386.3	-7.1	
Employee Expenses	184.3	173.1	168.0	9.7	164.8	11.8	Employee expenses increased by 9.7% YoY due to long term wage settlement in Nabha factory and some one-off retention costs
SG&A Expenses	142.7	155.1	143.9	-0.8	190.9	-25.2	
Other operating Expenses	228.2	249.8	228.1	0.0	225.6	1.1	
EBITDA	280.4	260.8	230.3	21.8	318.5	-12.0	Operating margins increased by 268 bps on the back of on the back of 150 bps savings on overhead expenses, 105 bps lower advertisement spend to sales and 38 bps gross margins expansion
EBITDA Margin (%)	23.5	21.6	20.8	268 bps	24.8	-129 bps	
Depreciation	19.6	17.5	14.7	33.5	14.9	31.5	
Interest	1.7	0.2	0.2	844.4	0.2	750.0	
Other Income	126.6	115.1	96.5	31.2	122.9	3.0	Other income increased by 31.2% on account of clearance of old vendor balances. Business auxiliary income increased by 15.5%
PBT	385.7	358.2	311.9	23.7	426.3	-9.5	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
Tax Outgo	137.6	126.4	111.4	23.5	140.4	-2.0	
PAT	248.1	231.8	200.4	23.8	285.8	-13.2	Led by higher operating profit and other income, net profit increased by 23.8%
Key Metrics (%)							
Horlicks market share	44.3		44.2		42.9		Horlicks value market share increased by 140 bps QoQ
Boost market share	11.2		11.2		10.7		Boost value market share increased by 50 bps QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			
(₹ Crore)	Old	New	% change	Comments
Sales	5,186.7	5,186.7	0.0	No change in estimates
EBITDA	1,198.2	1,198.2	0.0	
EBITDA Margin (%)	23.1	23.1	0 bps	
PAT	1,026.6	1,026.6	0.0	
EPS (₹)	244.1	244.1	0.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier	Comments	
Particulars (₹ crore)	FY17	FY18	FY19	FY20E	FY20E	
Malt based foods (₹ crore)	4,019.8	3,994.1	4,569.2	4,941.6	4,941.6	No 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	35.7	
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	

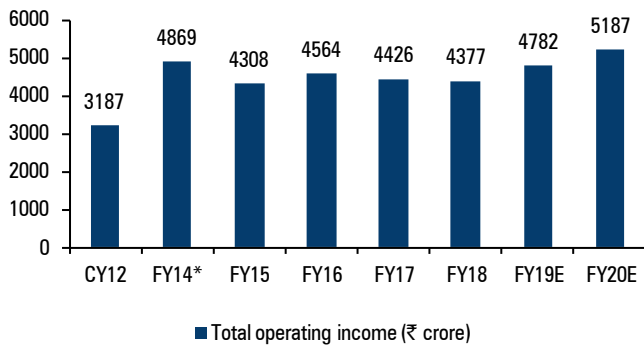
Source: Company, ICICI Direct Research

Conference Call Highlights

- Net revenues grew by 7.9% YoY to ₹ 1,194.3 crore led by 5.4% YoY volume growth. Domestic volume growth has been at a moderate pace of 4% whereas exports has grown at 15% mainly led by sales to Malaysia
- Horlicks maintained its leadership position with increase in volume market share by 140 bps to 50.9% and value market share of 44.2% (rose by 140 bps QoQ). Volume market share for Boost increased by 90 bps to 14.9% with value market share of 11.2% (rose by 50 bps QoQ)
- The company launched Active Horlicks in beverage category & Boost bites in biscuits category along with the 'Chill Out' Campaign positioning Horlicks to drive cold consumption of chocolate Horlicks. Health Food drinks consumption generally decline during summer. However by new launches, the company is strengthening its summer portfolio
- During the quarter, South & East India contributed 42% & 41% of revenue respectively whereas North & West India contributed 7% & 3% respectively whereas Exports contributed 7% to the sales
- The company has witnessed a broad based sales growth in Horlicks variants and expects Protein+ to reach ₹ 50 crore this year. It has achieved market share of ~5.5-6%
- Other income includes (grown by 40%). Clearance of old vendor balances. However adjusting for one off, it has grown by 15%. Business Auxiliary income grew by 15.5% during the quarter
- Sachets continued to witness double digit volume growth (14% in Q1FY20) on the back of strong distribution initiatives. Sachets contribute 10.5% to overall revenues
- The company has been witnessing cost inflation in dairy production which are higher by 40% YoY and barley prices which are up 30% YoY. Though, it has taken price hike of less than 1% in July to partially cover this cost. However, gross margins would be under pressure for the rest of the year. It is contemplating another price hike in January. GSKCH has taken cost saving program which has led to the saving of 150 bps overhead expenses to sales
- Operating margins increased by 268 bps to 23.5% on the back of 150 bps savings on overhead expenses, 110 bps lower advertisement spend to sales and 38 bps gross margins expansion
- Advertisement & promotion spend has been flat in absolute amount and has been down by 110 bps to 13%.The company has been changing its media spend strategy towards new age digital advertisement
- Employee cost increased by 9.7% mainly due to long term wage settlement in Nabha factory. Moreover, there is some retention cost before the merger

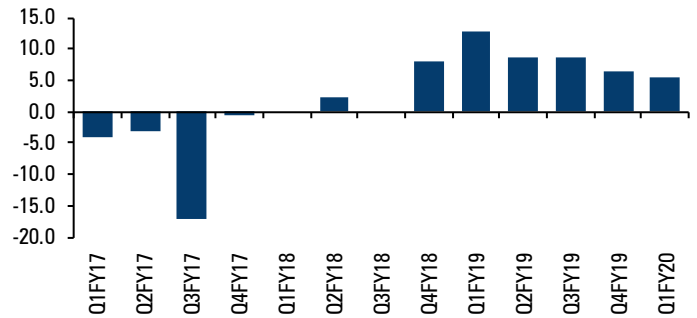
Key Metrics

Exhibit 4: Sales growth trend



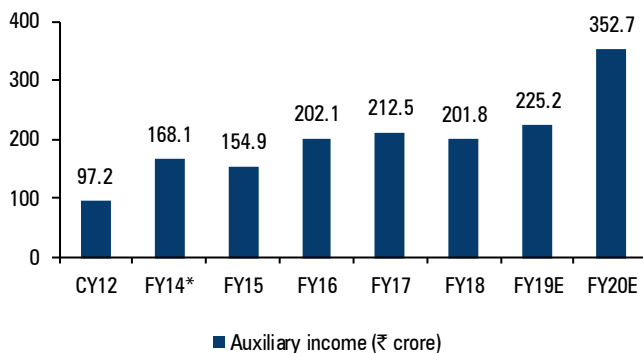
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 5: Domestic volume growth (%) trend



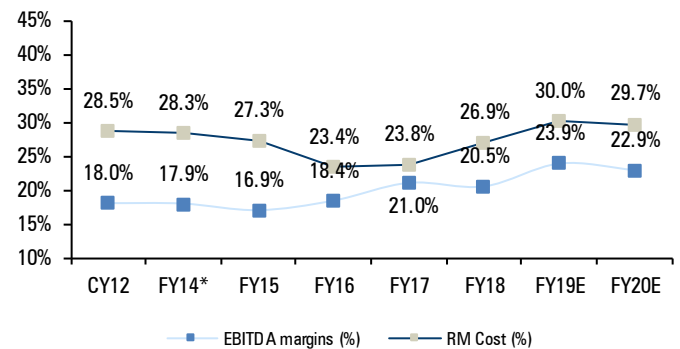
Source: Company, ICICI Direct Research

Exhibit 6: Auxiliary income augurs well for growth



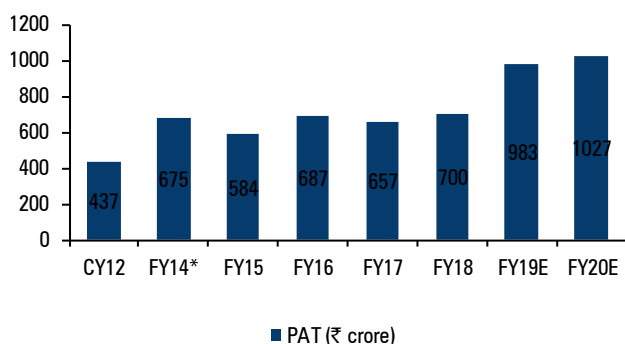
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 7: EBITDA margin trend (%)



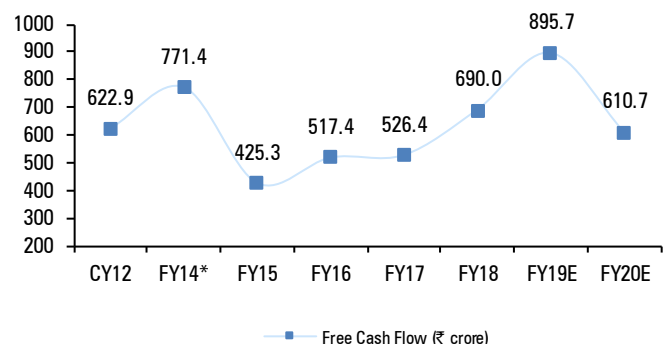
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

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



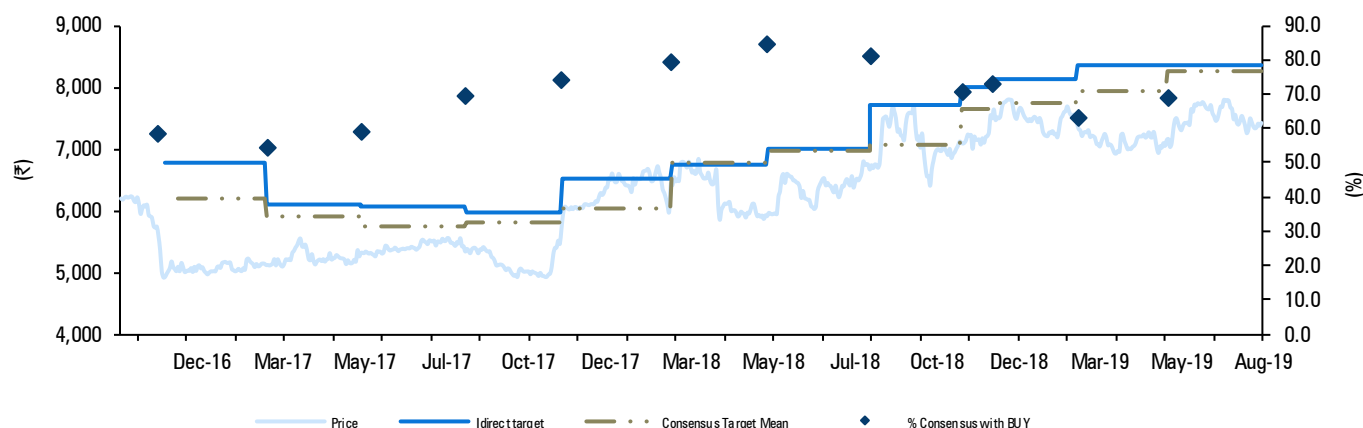
Source: Company, ICICI Direct Research
* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	4425.9	2.7	156.1	12.5	47.7	33.7	21.0	30.8
FY18	4377.1	-1.1	166.5	6.6	44.8	31.4	20.1	29.8
FY19	4782.0	9.3	233.7	40.4	31.9	23.9	24.0	36.1
FY20E	5186.7	8.5	244.1	4.5	30.5	22.6	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	30-Jun-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	30-Jun-19	2.67	1.1M	0.0M
4	The Vanguard Group, Inc.	30-Jun-19	0.85	0.4M	0.0M
5	UTI Asset Management Co. Ltd.	30-Jun-19	0.75	0.3M	0.0M
6	Tata Asset Management Limited	30-Jun-19	0.66	0.3M	0.0M
7	IDFC Asset Management Company Private Limited	30-Jun-19	0.61	0.3M	0.0M
8	SBI Funds Management Pvt. Ltd.	30-Jun-19	0.59	0.2M	0.0M
9	Goldman Sachs Asset Management International	31-May-19	0.44	0.2M	0.0M
10	Franklin Templeton Asset Management (India) Pvt.	30-Jun-19	0.36	0.2M	0.0M

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Norges Bank Investment Management (NBIM)	8.03M	0.07M	Amundi Hong Kong Limited	-13.47M	-0.13M
Columbia Threadneedle Investments (US)	2.07M	0.02M	HDFC Asset Management Co., Ltd.	-6.71M	-0.06M
PGGM Vermogensbeheer B.V.	1.98M	0.02M	Franklin Templeton Asset Management (India) Pvt. Lt	-3.47M	-0.03M
Edelweiss Asset Management Ltd.	1.45M	0.01M	ICICI Prudential Asset Management Co. Ltd.	-2.13M	-0.02M
IDFC Asset Management Company Private Limited	1.08M	0.01M	India Infoline Asset Management Company Limited	-1.24M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	72.5	72.5	72.5	72.5	72.5
FII	4.0	4.0	4.7	4.3	4.2
DII	8.4	8.3	7.3	7.2	6.9
Others	15.2	15.3	15.5	16.1	16.4

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 Assets	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	47.7	44.8	31.9	30.5	
EV / EBITDA	33.7	31.4	23.9	22.6	
EV / Net Sales	6.4	6.3	5.7	5.2	
Market Cap / Sales	7.1	7.2	6.6	6.0	
Price to Book Value	10.0	9.0	7.7	7.0	
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	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	FY19E	FY20E	FY21E	Y19E	FY20E	Y21E	Y19E	FY20E	FY21E	Y19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,180	1,250	Hold	32,502	28.5	30.9	33.8	41.4	38.2	34.9	7.3	6.7	6.2	70.7	71.6	71.0	52.2	50.7	50.1
Dabur India (DABIND)	425	500	Buy	74,651	8.2	9.0	9.9	51.9	47.4	42.8	8.7	7.9	7.1	29.6	27.6	28.1	25.7	23.6	24.0
GSK CH (GLACON)	7,450	8,340	Hold	31,331	233.7	244.1	N.A.	31.9	30.5	N.A.	6.6	6.0	N.A.	36.1	33.4	N.A.	24.0	22.8	N.A.
Hindustan Unilever (HINLEV)	1,740	1,900	Hold	378,000	28.5	32.9	37.9	61.0	53.0	45.9	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	260	315	Buy	315,832	10.3	11.3	12.6	25.3	23.1	20.6	7.1	6.4	5.9	30.8	32.7	33.3	21.5	22.2	22.6
Jyothy Lab (JYOLAB)	155	180	Hold	5,817	5.3	5.9	6.4	29.2	26.4	24.1	3.3	3.1	2.8	28.6	29.3	30.7	22.6	22.3	23.3
Marico (MARLIM)	370	425	Buy	47,479	8.8	8.8	9.9	42.1	42.0	37.3	6.5	5.8	5.2	38.0	42.4	44.6	31.6	35.0	36.7
Nestle (NESIND)	11,700	13,000	Hold	112,811	166.7	199.7	238.9	70.2	58.6	49.0	10.1	9.0	7.9	42.9	44.5	47.6	45.6	45.9	47.0
Tata Global Bev (TATGLO)	260	300	Buy	16,409	7.2	7.9	8.7	35.9	32.9	29.8	2.3	2.1	2.0	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,325	4,200	Buy	5,250	146.9	174.9	190.2	22.6	19.0	17.5	4.8	4.2	3.9	51.4	53.2	52.5	34.2	35.8	35.4
Varun Beverage (VARBEV)	600	693	Hold	17,691	11.7	16.4	15.0	51.2	36.5	39.9	4.4	3.5	2.4	12.7	14.2	14.6	12.1	15.0	12.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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