

August 5, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	7,972		7,744	
Sales (Rs. m)	53,417	59,511	54,968	61,154
% Chng.	(2.8)	(2.7)		
EBITDA (Rs. m)	12,500	13,725	12,852	14,315
% Chng.	(2.7)	(4.1)		
EPS (Rs.)	241.0	259.1	237.1	266.2
% Chng.	1.7	(2.7)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	43,070	47,820	53,417	59,511
EBITDA (Rs. m)	8,738	11,410	12,500	13,725
Margin (%)	20.3	23.9	23.4	23.1
PAT (Rs. m)	7,001	9,331	10,136	10,896
EPS (Rs.)	166.5	221.9	241.0	259.1
Gr. (%)	6.6	33.3	8.6	7.5
DPS (Rs.)	75.0	90.0	100.0	115.0
Yield (%)	1.0	1.2	1.3	1.5
RoE (%)	21.2	24.6	23.2	22.0
RoCE (%)	24.5	28.5	26.3	25.6
EV/Sales (x)	6.5	5.7	5.0	4.4
EV/EBITDA (x)	31.9	24.0	21.5	19.1
PE (x)	44.9	33.7	31.0	28.8
P/BV (x)	9.0	7.7	6.8	6.0

Key Data

GLSM.BO | SKB IN

52-W High / Low	Rs.7,948 / Rs.6,310
Sensex / Nifty	36,700 / 10,863
Market Cap	Rs.314bn/ \$ 4,458m
Shares Outstanding	42m
3M Avg. Daily Value	Rs.238.12m

Shareholding Pattern (%)

Promoter's	72.46
Foreign	2.91
Domestic Institution	8.21
Public & Others	16.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.0)	(1.6)	10.0
Relative	3.3	(1.9)	12.6

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Volume push strategy at play

We believe GSK will face near term pressures given 1) just 4% domestic volume growth in 1Q 2) high single digit inflation due to SMP and Barley prices rising by 40% and 30% YoY and 3) reluctance to pass on higher input costs (<1% price increase in July) and next round of increase likely in Jan'20. Though GSK has been aggressive in cost savings in ad-spends and increasing efficiencies, we believe gross margin expansion from the current high base looks unlikely. Moreover, the volume share gain is led by 1) 14% growth in sachets and 2) 13% increase in distribution (2mn outlets now) which has masked the slowdown impact, despite discretionary nature of category. Although GSK has gained 230bps volume market share in 1Q, value share gain has been lower, indicating significant push based strategy.

The sale and integration of GSK business with HUL is likely to be completed by FY20. We tweak our EPS estimates for FY20-21 factoring in IndAS impact, benefits of cost efficiencies in 1Q and one-off higher other income. We estimate 11.6% sales CAGR over FY19-21 and value GSK on the basis of our HUL's target price and swap ratio (4.39 HUL shares of Rs 1 each for each GSK share) and arrive at a target price of Rs7972. Retain "Hold".

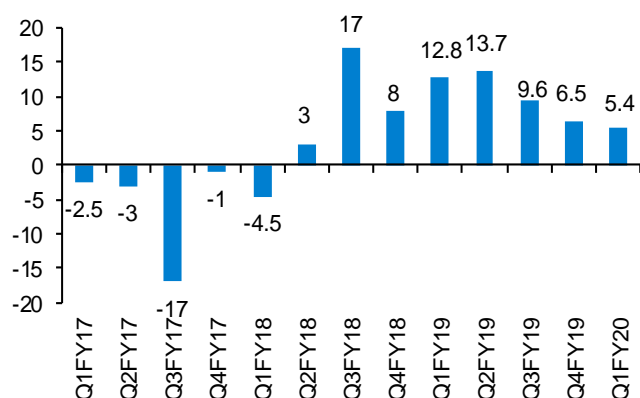
Domestic Volumes up 5.4%, 140bps Horlicks Market share gain; Net sales increased 7.9% to Rs11.9bn. Domestic volumes grew 5.4% on a high base of 13.7%. North and East markets are performing better than South and West markets. Gross margins expanded 40bps to 70%, on benign input costs. EBITDA increased by 21.8% to Rs2.8bn and margins expanded by 270bps led by gross margin expansion and IndAS 116 impact on rental costs. Reported EBITDA was higher by Rs60mn while PBT was lower by Rs0.2mn due to IndAS 116 impact. PBT from operations increased 20.3%. Adj. PAT increased by 23.8% to Rs2.48bn. GSK launched Active Horlicks with Fiber in South and East markets and Boost Bites biscuits in Southern markets. Volume Market share for Horlicks and Boost increased 140bps and 90bps to 50.9% and 14.9% QoQ. Value market share for Horlicks and Boost increased 140bps and 50bps to 44.3% and 11.2% QoQ.

Concall takeaways: 1) Rural growth has remained consistent led by 14% volume growth in Sachets (10.5% of sales). Domestic volume growth was broad-based at 4% 2) Ad-spends (8% of sales) remained flat in absolute terms as GSK contained spends and renegotiated with media partners. 3) Direct reach increased 13% from 1.7mn to 2mn outlets 4) GSK was able to manage 1Q input cost inflation due to cost savings program and forward covers. Dairy inflation is 40% due to poor rains in west and south while Barley has increased 30% YoY. GSK expects high single digit inflation in the next 6-12 months. 5) GSK has taken less than 1% price increase from July in select SKUs. They aim to cover large part of inflation by aggressive cost cutting drive. Next round of price increase shall be in Jan'19 6) Business Auxiliary income grew by 15.5% in 1Q 7) Other income increased 31.2% due to clearance of old vendor balances. Excluding that, Other income grew by 15% growth 8) Market share of protein plus is now 5.5-6% 9) There is one-off in staff costs on long term settlement with a factory with some retention cost 10) Export sales increased 15% in 1Q mainly from Malaysia 11) Boost RTD continues to do well and shall be expanded gradually only in Southern Markets.

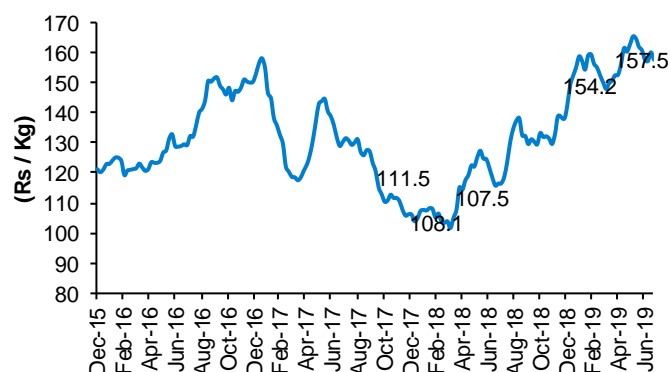
Exhibit 1: Sales up 7.9%, Gross margins expand 40bps on benign input costs

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Revenues	11,943	11,071	7.9	12,861	53,417	47,820	14.9
Gross Profit	8,355	7,703	8.5	8,998	37,122	33,458	14.2
% of NS	70.0	69.6		70.0	69.5	70.0	
Advertising & Promotion	1,427	1,439	(0.8)	1,909	6,570	6,023	15.0
% of NS	11.9	13.0		14.8	12.3	12.6	
Total Expenses	9,139	8,769	4.2	9,676	24,622	36,410	(30.3)
% of NS	76.5	79.2		75.2	46.1	76.1	
EBITDA	2,804	2,303	21.8	3,185	12,500	11,410	12.6
Margins %	23.5	20.8	2.7	24.8	23.4	23.9	
Depreciation	196	147	33.5	149	1,002	605	36.7
Interest	17	2	844.4	2	99	8	15.4
Financial other Income	1,266	965	31.2	1,229	3,943	4,326	(22.1)
PBT	3,857	3,119	23.7	4,263	15,342	15,123	1.7
Tax	1,376	1,114	23.5	1,404	5,205	5,295	2.3
Adjusted PAT	2,481	2,004	23.8	2,858	10,136	9,828	1.4

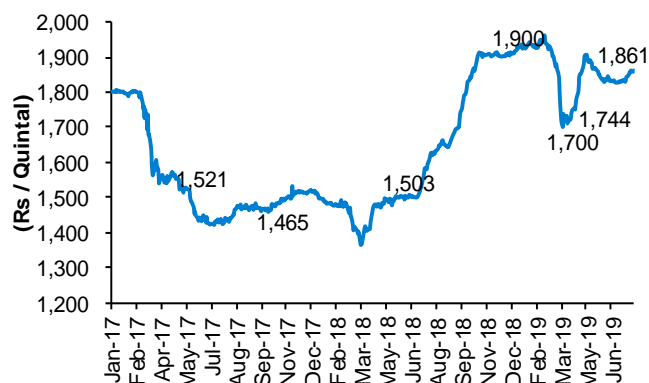
Source: Company, PL

Exhibit 2: Volumes up 5.4%, domestic volumes up 4%


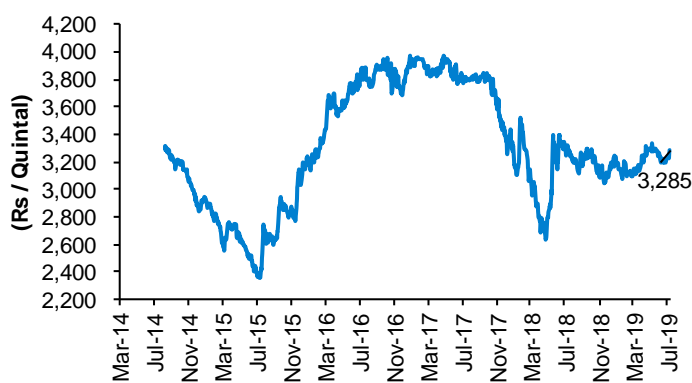
Source: Company, PL

Exhibit 3: Skimmed Milk Powder up 55.2% in past 1 year


Source: Company, PL

Exhibit 4: Barley prices up 32.3% from the bottom in Mar'18


Source: Company, PL

Exhibit 5: Sugar prices up 10.4% YoY and 2.8% QoQ in 1Q20


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	43,070	47,820	53,417	59,511
YoY gr. (%)	8.0	11.0	11.7	11.4
Cost of Goods Sold	14,326	14,362	16,295	18,500
Gross Profit	28,744	33,458	37,122	41,011
Margin (%)	66.7	70.0	69.5	68.9
Employee Cost	5,277	6,446	7,078	7,796
Other Expenses	2,516	-	2,825	3,256
EBITDA	8,738	11,410	12,500	13,725
YoY gr. (%)	4.8	30.6	9.6	9.8
Margin (%)	20.3	23.9	23.4	23.1
Depreciation and Amortization	644	605	1,002	1,081
EBIT	8,094	10,805	11,498	12,644
Margin (%)	18.8	22.6	21.5	21.2
Net Interest	20	8	99	88
Other Income	2,669	3,829	3,943	4,258
Profit Before Tax	10,744	14,626	15,342	16,815
Margin (%)	24.9	30.6	28.7	28.3
Total Tax	3,743	5,295	5,205	5,918
Effective tax rate (%)	34.8	36.2	33.9	35.2
Profit after tax	7,001	9,331	10,136	10,896
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,001	9,331	10,136	10,896
YoY gr. (%)	6.6	33.3	8.6	7.5
Margin (%)	16.3	19.5	19.0	18.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,001	9,331	10,136	10,896
YoY gr. (%)	6.6	33.3	8.6	7.5
Margin (%)	16.3	19.5	19.0	18.3
Other Comprehensive Income	167	71	-	-
Total Comprehensive Income	7,168	9,402	10,136	10,896
Equity Shares O/s (m)	42	42	42	42
EPS (Rs)	166.5	221.9	241.0	259.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	11,045	12,203	14,403	15,653
Tangibles	11,029	12,186	14,386	15,636
Intangibles	17	17	17	17
Acc: Dep / Amortization	6,290	6,901	7,663	8,492
Tangibles	6,275	6,884	7,646	8,475
Intangibles	15	17	17	17
Net fixed assets	4,755	5,302	6,739	7,161
Tangibles	4,754	5,302	6,739	7,161
Intangibles	2	-	-	-
Capital Work In Progress	382	177	750	750
Goodwill	-	-	-	-
Non-Current Investments	380	430	464	514
Net Deferred tax assets	1,155	1,139	1,272	1,424
Other Non-Current Assets	1,834	1,640	1,706	1,797
Current Assets				
Investments	-	-	-	-
Inventories	4,094	4,655	5,336	6,016
Trade receivables	2,787	3,857	3,659	4,076
Cash & Bank Balance	35,852	40,973	45,830	52,238
Other Current Assets	962	949	1,221	1,358
Total Assets	54,127	61,362	69,294	77,912
Equity				
Equity Share Capital	421	421	421	421
Other Equity	34,431	40,526	46,099	51,926
Total Network	34,851	40,947	46,520	52,346
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	1,254	1,019	2,030	2,261
Other non current liabilities	595	575	720	793
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	10,347	9,526	11,136	12,556
Other current liabilities	7,079	8,614	8,887	9,956
Total Equity & Liabilities	54,127	60,681	69,294	77,912

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	10,744	15,123	15,342	16,815
Add. Depreciation	644	605	1,002	1,081
Add. Interest	20	8	99	88
Less Financial Other Income	2,669	3,829	3,943	4,258
Add. Other	(35,382)	(35,170)	(45,081)	(51,544)
Op. profit before WC changes	(23,975)	(19,434)	(28,638)	(33,561)
Net Changes-WC	(3,845)	(1,006)	(7,866)	(5,459)
Direct tax	(3,743)	(5,295)	(5,205)	(5,918)
Net cash from Op. activities	(31,562)	(25,735)	(41,709)	(44,938)
Capital expenditures	(331)	(265)	(3,694)	(1,502)
Interest / Dividend Income	35,549	35,240	45,081	51,544
Others	-	-	-	-
Net Cash from Invst. activities	35,218	34,975	41,388	50,042
Issue of share cap. / premium	-	-	-	-
Debt changes	(84)	-	-	-
Dividend paid	(3,543)	(3,803)	(4,563)	(5,070)
Interest paid	(20)	(8)	(99)	(88)
Others	-	-	-	-
Net cash from Fin. activities	(3,647)	(3,810)	(4,662)	(5,158)
Net change in cash	9	5,430	(4,984)	(55)
Free Cash Flow	(31,893)	(26,000)	(45,403)	(46,440)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	12,720	11,168	12,861	11,943
YoY gr. (%)	14.0	7.9	9.0	7.9
Raw Material Expenses	3,859	3,271	3,863	3,588
Gross Profit	8,861	7,897	8,998	8,355
Margin (%)	69.7	70.7	70.0	70.0
EBITDA	3,537	2,385	3,185	2,804
YoY gr. (%)	35.3	16.9	27.4	21.8
Margin (%)	27.8	21.4	24.8	23.5
Depreciation / Depletion	151	158	149	196
EBIT	3,386	2,227	3,036	2,608
Margin (%)	26.6	19.9	23.6	21.8
Net Interest	2	2	2	17
Other Income	890	1,243	1,229	1,266
Profit before Tax	4,274	3,468	4,263	3,857
Margin (%)	33.6	31.0	33.1	32.3
Total Tax	1,519	1,257	1,404	1,376
Effective tax rate (%)	35.5	36.2	32.9	35.7
Profit after Tax	2,755	2,211	2,858	2,481
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,755	2,211	2,858	2,481
YoY gr. (%)	43.2	35.1	34.9	23.8
Margin (%)	21.7	19.8	22.2	20.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,755	2,211	2,858	2,481
YoY gr. (%)	43.2	35.1	34.9	23.8
Margin (%)	21.7	19.8	22.2	20.8
Other Comprehensive Income	(66)	21	(55)	18
Total Comprehensive Income	2,689	2,232	2,803	2,498
Avg. Shares O/s (m)	42	42	42	42
EPS (Rs)	65.5	52.6	68.0	59.0

Source: Company Data, PL Research

Key Financial Metrics

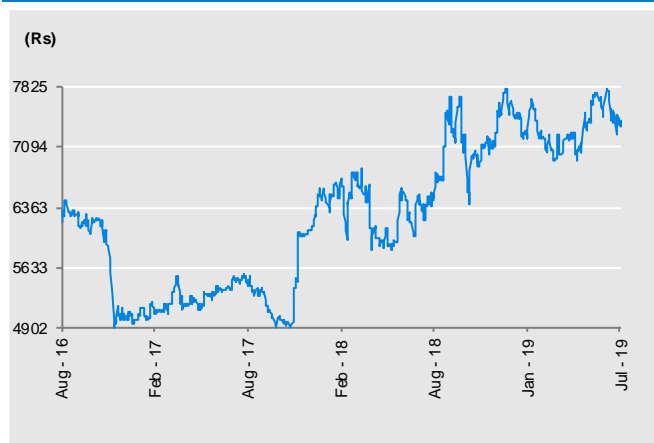
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	166.5	221.9	241.0	259.1
CEPS	181.8	236.3	264.9	284.8
BVPS	828.7	973.6	1,106.2	1,244.7
FCF	(758.4)	(618.2)	(1,079.6)	(1,104.3)
DPS	75.0	90.0	100.0	115.0
Return Ratio(%)				
RoCE	24.5	28.5	26.3	25.6
ROIC	44.3	53.0	49.0	49.2
RoE	21.2	24.6	23.2	22.0
Balance Sheet				
Net Debt : Equity (x)	(1.0)	(1.0)	(1.0)	(1.0)
Net Working Capital (Days)	(29)	(8)	(15)	(15)
Valuation(x)				
PER	44.9	33.7	31.0	28.8
P/B	9.0	7.7	6.8	6.0
P/CEPS	41.1	31.6	28.2	26.2
EV/EBITDA	31.9	24.0	21.5	19.1
EV/Sales	6.5	5.7	5.0	4.4
Dividend Yield (%)	1.0	1.2	1.3	1.5

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Hold	7,744	7,805
2	5-Apr-19	Hold	8,139	6,996
3	15-Feb-19	Hold	8,227	7,400
4	7-Jan-19	Hold	8,520	7,488
5	2-Nov-18	Hold	8,520	7,119
6	5-Oct-18	Hold	7,382	6,552
7	9-Aug-18	Hold	7,382	6,662

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	297	225
6	Dabur India	Hold	437	420
7	Emami	Accumulate	382	301
8	Future Retail	BUY	512	412
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	367	265
12	Jubilant FoodWorks	BUY	1,459	1,153
13	Kansai Nerolac Paints	Accumulate	479	434
14	Marico	Hold	357	363
15	Nestle India	UR	-	11,412
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,057
18	Voltas	Accumulate	584	635

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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