

August 11, 2017

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Rating	<b>Accumulate</b>
Price	Rs5,328
Target Price	Rs5,797
Implied Upside	8.8%
Sensex	31,214
Nifty	9,711

(Prices as on August 11, 2017)

### Trading data

Market Cap. (Rs bn)	224.1
Shares o/s (m)	42.1
3M Avg. Daily value (Rs m)	63.1

### Major shareholders

Promoters	72.46%
Foreign	4.13%
Domestic Inst.	8.66%
Public & Other	14.75%

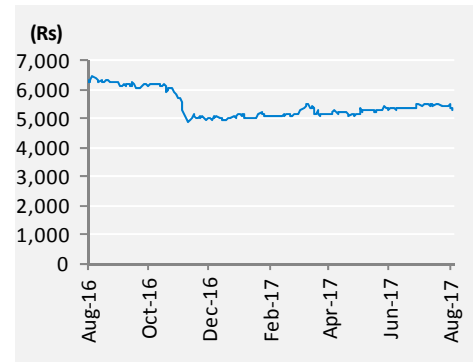
### Stock Performance

(%)	1M	6M	12M
Absolute	(2.1)	4.0	(16.1)
Relative	(0.4)	(6.2)	(28.1)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	165.6	174.3	-5.0
2019	187.2	194.9	-3.9

### Price Performance (RIC: GLSM.BO, BB: SKB IN)



Source: Bloomberg

**GSK reported 1.3% decline in sales and 4.5% decline in volumes due to GST led destocking and no procurement from CSD channel, excluding onetime impacts also volumes would have been flat. Category growth rates in MFD remain depressed as the category is slowly losing consumer relevance. GSK is trying to drive growth by 1) increasing rural and small town penetration with Rs5 sachet 2) launch of "Horlicks Growth Plus" to compete with premium brands like Pediasure and Protinex and 3) Context based campaign with Virat Kohli as brand ambassador to increase urban growth. We are factoring in MFD volume growth of 4% in FY18 as the base in 2H is favourable. We expect growth pressures to sustain and estimate 9.5% CAGR in PAT over FY17-19. GSK trades at 28.5x JuneFY19 EPS of Rs193 which is at 20% discount to coverage universe. We don't expect any near term triggers, however low PE multiples limit the downside. Retain "Accumulate"**

■ **GST impacts profitability, Adj. PAT down 17.7%:** Net sales declined 1.3% (adjusted for GST up 3%). Volumes declined ~4.5% (Adj. volumes flat YoY). Gross margins declined 160bps due to inflation in milk and SMP prices and one off expenses of Rs230mn on sales promotions and GST compensation adjustment to dealers. EBITDA margins declined by 330bps due to 90bps higher staff cost and 70bps higher other expenditure. PBT declined by 17.3% on 41.7% on 6% lower other income. Adj. PAT declined by 17.7% at Rs1.32bn on 20bps higher tax rate. OTC marketing income declined 7% on GST led destocking as against 10% growth in FY17, growth is expected to bounce back.

■ **Sachet packs and Growth Plus drives sales:** GSK aims to drive sales based on 1) increasing penetration 2) driving relevance for consumers 3) focused marketing initiatives and 4) increasing distribution. Marie biscuit launched in East India continues to show good traction and growth in the foods business. GSK has taken a price increase of ~3-4% to counter 8% inflation in commodity prices. GSK is expecting demand recovery led by various marketing initiatives which can improve volume growth to mid-single digits. GSK is confident of improving margins on Premiumisation and various cost saving initiatives.

### Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	45,645	44,211	46,522	51,579
Growth (%)	6.0	(3.1)	5.2	10.9
EBITDA (Rs m)	8,383	8,335	8,543	9,767
PAT (Rs m)	6,875	6,566	6,963	7,874
EPS (Rs)	163.5	156.1	165.6	187.2
Growth (%)	17.8	(4.5)	6.1	13.1
Net DPS (Rs)	70.0	70.0	80.0	90.0

### Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	18.4	18.9	18.4	18.9
RoE (%)	30.2	25.4	24.3	24.8
RoCE (%)	30.1	25.4	24.2	24.7
EV / sales (x)	4.9	5.1	4.8	4.3
EV / EBITDA (x)	26.7	26.8	26.1	22.9
PE (x)	32.6	34.1	32.2	28.5
P / BV (x)	9.2	8.2	7.4	6.7
Net dividend yield (%)	1.3	1.3	1.5	1.7

Source: Company Data; PL Research

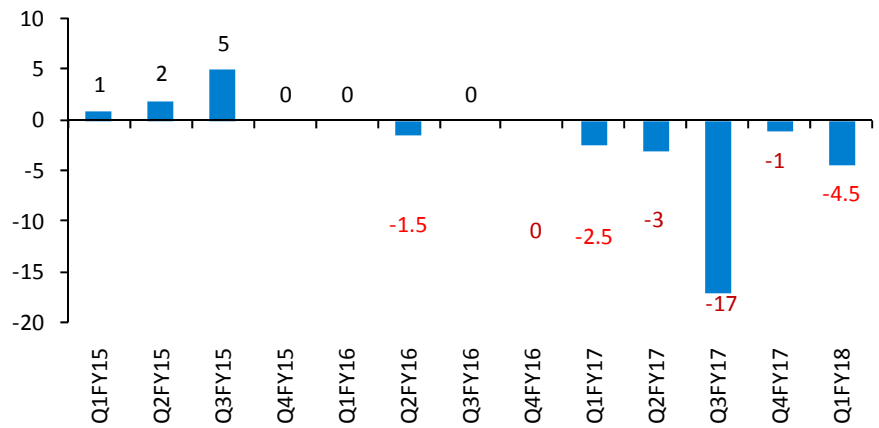


**Exhibit 1: Sales declined 1.3%, PBT down 17.3% (12% impact due to GST)**

Y/e March	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17	FY18E	FY17	YoY gr. (%)
<b>Net Revenues</b>	<b>10,459</b>	<b>10,594</b>	<b>(1.3)</b>	<b>12,088</b>	<b>46,522</b>	<b>44,211</b>	<b>5.2</b>
Gross Profit	6,427	6,677	(3.7)	7,254	31,141	26,895	15.8
<i>% of NS</i>	<i>61.5</i>	<i>63.0</i>	<i>(1.6)</i>	<i>60.0</i>	<i>66.9</i>	<i>60.8</i>	
Advertising & Promotion	1278	1216	5.2	1735	7350	5147	42.8
<i>% of NS</i>	<i>12.2</i>	<i>11.5</i>		<i>14.4</i>	<i>15.8</i>	<i>11.6</i>	
Total Expenses	8,795	8,559	2.8	9,917	37,979	35,876	5.9
<i>% of NS</i>	<i>84.1</i>	<i>80.8</i>		<i>82.0</i>	<i>81.6</i>	<i>81.1</i>	
<b>EBITDA</b>	<b>1,664</b>	<b>2,035</b>	<b>(18.3)</b>	<b>2,171</b>	<b>8,543</b>	<b>8,335</b>	<b>2.5</b>
<i>Margins %</i>	<i>15.9</i>	<i>19.2</i>	<i>(3.3)</i>	<i>18.0</i>	<i>18.4</i>	<i>18.9</i>	
Depreciation	170	147	16.0	177	653	642	1.7
Interest	5	6	(15.6)	9	12	28	(56.8)
Financial other Income	557	592	(5.9)	710	2,708	2,439	11.1
<b>PBT</b>	<b>2,045</b>	<b>2,474</b>	<b>(17.3)</b>	<b>2,695</b>	<b>10,586</b>	<b>10,104</b>	<b>4.8</b>
Tax	723	868	(16.7)	936	3,623	3,537	2.4
<b>Adjusted PAT</b>	<b>1,322</b>	<b>1,606</b>	<b>(17.7)</b>	<b>1,759</b>	<b>6,963</b>	<b>6,566</b>	<b>6.1</b>

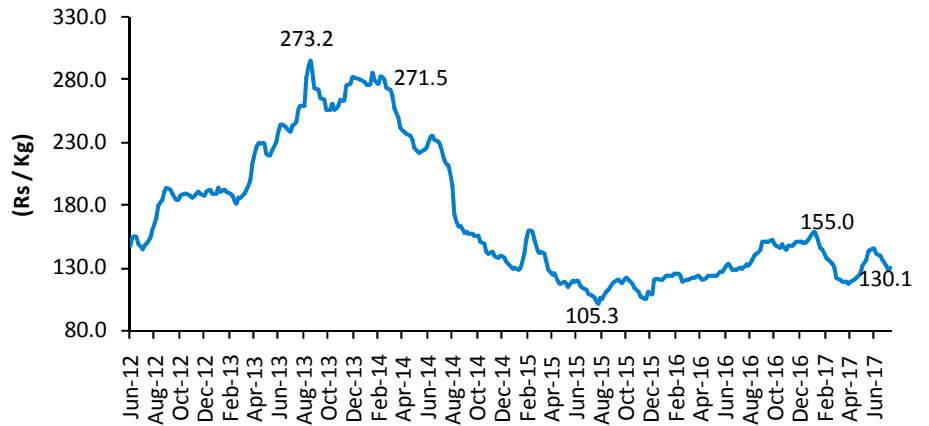
Source: Company Data, PL Research

**Exhibit 2: Adjusted for GST destocking volumes growth were flat**



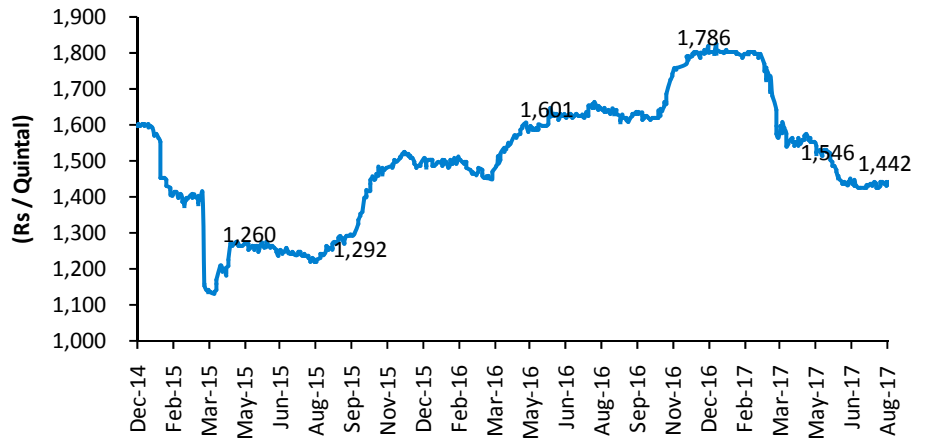
Source: Company Data, PL Research

**Exhibit 3: Skimmed Milk Powder up 4.3% YoY and down 6.5% QoQ**



Source: Bloomberg, PL Research

**Exhibit 4: Barley prices down 5.4% YoY and 13.4% QoQ in Q1FY18**



Source: Bloomberg, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
<b>Net Revenue</b>	<b>45,645</b>	<b>44,211</b>	<b>46,522</b>	<b>51,579</b>
Raw Material Expenses	17,716	17,316	12,124	13,316
Gross Profit	27,929	26,895	34,398	38,262
Employee Cost	5,050	4,672	5,583	6,060
Other Expenses	14,496	13,888	20,272	22,435
<b>EBITDA</b>	<b>8,383</b>	<b>8,335</b>	<b>8,543</b>	<b>9,767</b>
Depr. & Amortization	574	642	653	707
Net Interest	(2,752)	(2,411)	(2,696)	(2,917)
Other Income	2,775	2,439	2,708	2,929
<b>Profit before Tax</b>	<b>10,561</b>	<b>10,104</b>	<b>10,586</b>	<b>11,977</b>
Total Tax	3,687	3,537	3,623	4,103
<b>Profit after Tax</b>	<b>6,875</b>	<b>6,566</b>	<b>6,963</b>	<b>7,874</b>
Ex-Od items / Min. Int.	(78)	432	—	—
<b>Adj. PAT</b>	<b>6,875</b>	<b>6,566</b>	<b>6,963</b>	<b>7,874</b>
<b>Avg. Shares O/S (m)</b>	<b>42.1</b>	<b>42.1</b>	<b>42.1</b>	<b>42.1</b>
<b>EPS (Rs.)</b>	<b>163.5</b>	<b>156.1</b>	<b>165.6</b>	<b>187.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
C/F from Operations	8,316	6,759	8,546	9,558
C/F from Investing	(4,846)	(2,721)	(4,377)	(5,661)
C/F from Financing	(3,665)	(3,511)	(4,028)	(4,532)
Inc. / Dec. in Cash	(195)	527	141	(635)
Opening Cash	359	164	691	832
Closing Cash	164	691	832	197
FCFF	8,008	5,925	7,693	8,719
FCFE	8,008	5,925	7,693	8,719

**Key Financial Metrics**

Y/e March	2016	2017	2018E	2019E
<b>Growth</b>				
Revenue (%)	6.0	(3.1)	5.2	10.9
EBITDA (%)	14.8	(0.6)	2.5	14.3
PAT (%)	17.8	(4.5)	6.1	13.1
EPS (%)	17.8	(4.5)	6.1	13.1
<b>Profitability</b>				
EBITDA Margin (%)	18.4	18.9	18.4	18.9
PAT Margin (%)	15.1	14.9	15.0	15.3
RoCE (%)	30.1	25.4	24.2	24.7
RoE (%)	30.2	25.4	24.3	24.8
<b>Balance Sheet</b>				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	(38)	(43)	(81)	(75)
<b>Valuation</b>				
PER (x)	32.6	34.1	32.2	28.5
P / B (x)	9.2	8.2	7.4	6.7
EV / EBITDA (x)	26.7	26.8	26.1	22.9
EV / Sales (x)	4.9	5.1	4.8	4.3
<b>Earnings Quality</b>				
Eff. Tax Rate	34.9	35.0	34.2	34.3
Other Inc / PBT	26.3	24.1	25.6	24.5
Eff. Depr. Rate (%)	5.2	5.2	4.9	5.0
FCFE / PAT	116.5	90.2	110.5	110.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	24,456	27,239	30,149	33,462
Total Debt	—	—	—	—
Other Liabilities	(1,041)	(1,154)	(1,275)	(1,407)
<b>Total Liabilities</b>	<b>23,416</b>	<b>26,086</b>	<b>28,874</b>	<b>32,055</b>
Net Fixed Assets	5,374	6,015	6,370	8,663
Goodwill	—	—	—	—
Investments	26,959	28,440	31,809	34,469
Net Current Assets	(8,917)	(8,369)	(9,305)	(11,077)
Cash & Equivalents	164	691	832	197
Other Current Assets	11,367	11,439	12,414	13,747
Current Liabilities	20,448	20,499	22,550	25,021
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>23,416</b>	<b>26,086</b>	<b>28,874</b>	<b>32,055</b>

**Quarterly Financials (Rs m)**

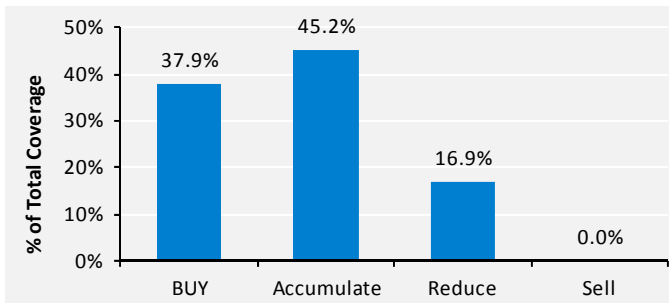
Y/e March	Q2FY17	Q3FY17	Q4FY17	Q1FY18
<b>Net Revenue</b>	<b>10,803</b>	<b>8,604</b>	<b>11,019</b>	<b>9,853</b>
<b>EBITDA</b>	<b>2,452</b>	<b>1,677</b>	<b>2,171</b>	<b>1,664</b>
% of revenue	22.7	19.5	19.7	16.9
Depr. & Amortization	148	171	177	170
Net Interest	6	6	9	5
Other Income	578	559	710	557
<b>Profit before Tax</b>	<b>2,876</b>	<b>2,059</b>	<b>2,695</b>	<b>2,045</b>
Total Tax	1,039	695	936	723
<b>Profit after Tax</b>	<b>1,921</b>	<b>1,245</b>	<b>1,732</b>	<b>1,322</b>
<b>Adj. PAT</b>	<b>1,837</b>	<b>1,364</b>	<b>1,759</b>	<b>1,322</b>

Source: Company Data, PL Research.

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<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
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