

February 13, 2018

Amnish Aggarwal  
amnishaggarwal@plindia.com  
+91-22-66322233

Nishita Doshi  
nishitadoshi@plindia.com  
+91-22-66322381

Rating	<b>Accumulate</b>
Price	Rs5,980
Target Price	Rs6,797
Implied Upside	13.7%
Sensex	34,300
Nifty	10,540

(Prices as on February 12, 2018)

#### Trading data

Market Cap. (Rs bn)	251.5
Shares o/s (m)	42.1
3M Avg. Daily value (Rs m)	116.1

#### Major shareholders

Promoters	72.46%
Foreign	4.08%
Domestic Inst.	8.71%
Public & Other	14.75%

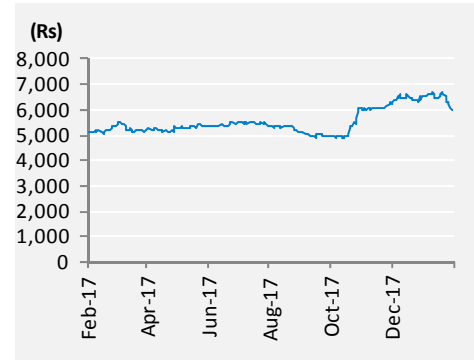
#### Stock Performance

(%)	1M	6M	12M
Absolute	(7.7)	12.2	16.7
Relative	(6.8)	2.3	(4.4)

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	178.0	190.2	-6.4
2020	202.1	217.2	-6.9

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



Source: Bloomberg

**GSK under the new MD (Navneet Saluja) has given cautiously optimistic outlook in demand led by 1) high double digit growth in base Horlicks sachet priced at Rs.5 2) focus on increasing share in high growth protein segment led by Horlicks Growth Plus, Protein and Cardia Plus 3) brand extension of Horlicks in other food products. While GSK has right to win in MFD and high protein categories, we remain sceptical of GSK's renewed effort in foods space given that it has failed to make a dent in categories like Energy Bars, Biscuits and Instant Noodles etc. in the past. We estimate 5% volume CAGR over FY17-20 as against 0.5% decline in FY16 and ~6% decline in FY17. GSK trades at 30.8xDec19 EPS which is at 15% discount our coverage universe. We value the stock at 35xDec19 and arrive at a target price of Rs.6797. Retain "Accumulate"**

■ **Volumes up 17%, Adj PAT up 20%:** Net sales increased 20.3%, with 17% volume growth on a low base (Excluding demon impact, net sales grew ~7.5% led by ~4.5% volume growth). Gross margins expanded 100bps to 68.8%, even as there was 1.6% input cost inflation. EBIDTA increased by 22% to Rs. 2.04bn led by decline of 50bps in staff cost, 10bps in ad spends and 20bps in other expenses. Adj PAT increased by 20% to Rs1.64bn. Horlicks, Horlicks extension and Boost reported a market share of 44.1%, 16.2% and 11.3% respectively. Sachets at Rs.5 price points sustained high double digit growth. Business Auxiliary income grew 22%. Foods sales grew 4%, Toothpaste by 13% and Toothbrush by 15%

■ **Concall key takeaways:** 1) Consumer demand is recovering led by premium segments like proteins 2) Input cost inflation (1.6% in 3Q) is easing with decline in SMP prices and forward contracts 3) GSK is now focusing on improving market share in protein segment with products like Horlicks Growth plus, Protein and Cardia Plus 5) GSK's distribution reach for Eno and Horlicks has reached 3.3mn and 1.6mn respectively with direct reach at 1mn 6) GSK will focus on accelerating innovations, simplification and execution on the ground to increase growth 7) Patanjali has less than 1% share in MFD market with little impact so far 8) Capex is estimated at Rs3bn over the coming 2-3 years

Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	44,211	43,538	48,257	54,263
Growth (%)	(3.1)	(1.5)	10.8	12.4
EBITDA (Rs m)	8,335	8,338	9,450	10,798
PAT (Rs m)	6,566	6,660	7,487	8,501
EPS (Rs)	156.1	158.4	178.0	202.1
Growth (%)	(4.5)	1.4	12.4	13.5
Net DPS (Rs)	70.0	70.0	80.0	90.0

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	18.9	19.2	19.6	19.9
RoE (%)	25.3	22.9	23.2	23.6
RoCE (%)	25.3	22.9	23.1	23.6
EV / sales (x)	5.7	5.8	5.2	4.6
EV / EBITDA (x)	30.1	30.1	26.6	23.3
PE (x)	38.3	37.8	33.6	29.6
P / BV (x)	9.2	8.2	7.4	6.6
Net dividend yield (%)	1.2	1.2	1.3	1.5

Source: Company Data; PL Research

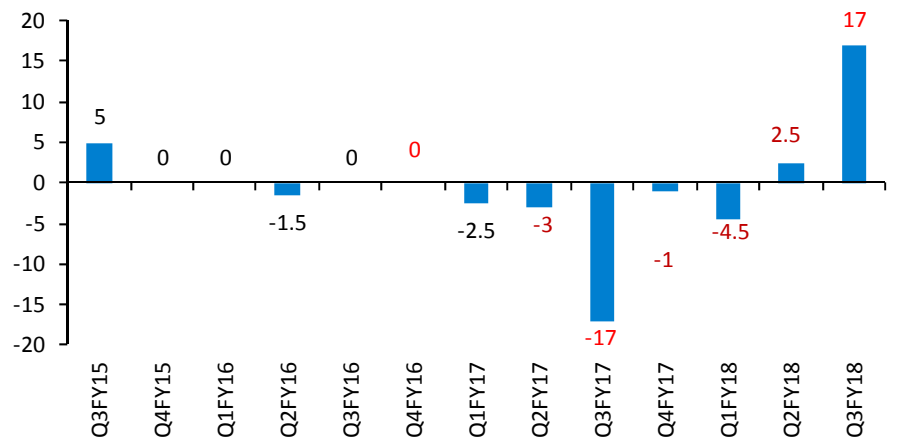


**Exhibit 1: Sales up 20.3%, Adj. PAT up 20% on 20bps EBITDA margin expansion**

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
<b>Net Revenues</b>	<b>10,347</b>	<b>8,604</b>	<b>20.3</b>	<b>11,153</b>	<b>31,353</b>	<b>28,846</b>	<b>8.7</b>
Gross Profit	7,123	5,833	22.1	7,214	20,765	19,641	5.7
<i>% of NS</i>	<i>68.8</i>	<i>67.8</i>	<i>1.1</i>	<i>64.7</i>	<i>66.2</i>	<i>68.1</i>	
Advertising & Promotion	1125	924	21.8	1371	3775	3412	10.6
<i>% of NS</i>	<i>10.9</i>	<i>10.7</i>		<i>12.3</i>	<i>12.0</i>	<i>11.8</i>	
Total Expenses	8,307	6,927	19.9	8,540	25,036	22,682	10.4
<i>% of NS</i>	<i>80.3</i>	<i>80.5</i>		<i>76.6</i>	<i>79.9</i>	<i>78.6</i>	
<b>EBITDA</b>	<b>2,040</b>	<b>1,677</b>	<b>21.7</b>	<b>2,614</b>	<b>6,317</b>	<b>6,164</b>	<b>2.5</b>
<i>Margins %</i>	<i>19.7</i>	<i>19.5</i>	<i>0.2</i>	<i>23.4</i>	<i>20.1</i>	<i>21.4</i>	
Depreciation	151	171	(11.3)	177	498	465	7.2
Interest	2	6	(73.0)	6	13	19	(34.0)
Financial other Income	642	559	14.8	550	1,748	1,729	1.1
<b>PBT</b>	<b>2,529</b>	<b>2,059</b>	<b>22.8</b>	<b>2,981</b>	<b>7,555</b>	<b>7,409</b>	<b>2.0</b>
Tax	892	695	28.4	1,057	2,672	2,602	2.7
<b>Adjusted PAT</b>	<b>1,637</b>	<b>1,364</b>	<b>20.0</b>	<b>1,924</b>	<b>4,883</b>	<b>4,807</b>	<b>1.6</b>

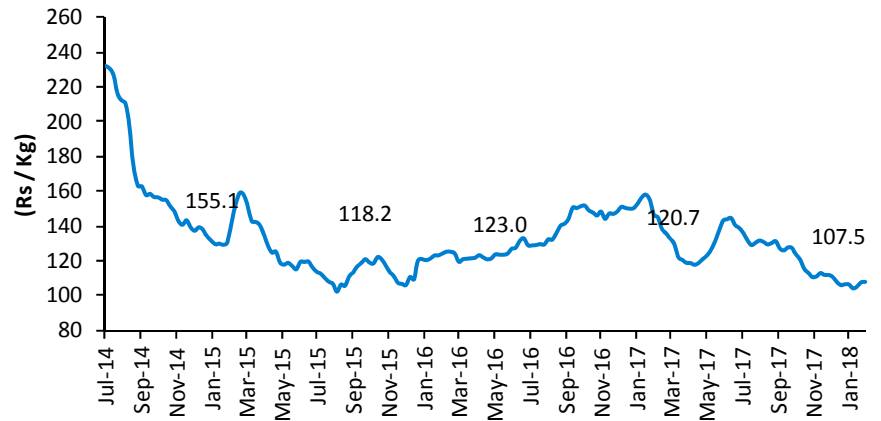
Source: Company Data, PL Research

**Exhibit 2: Volumes up 17% on a low base (Ex demon volume growth of only ~4.5%)**



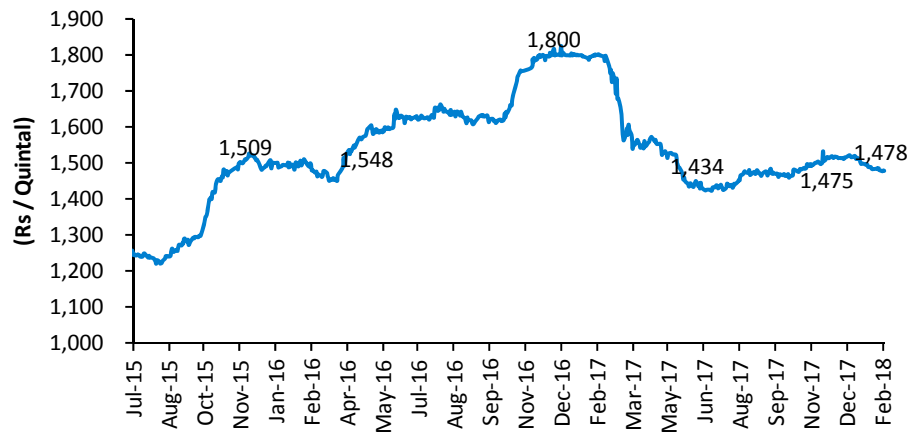
Source: Company Data, PL Research

**Exhibit 3: Skimmed Milk Powder down 24.5% YoY and 13.6% QoQ**



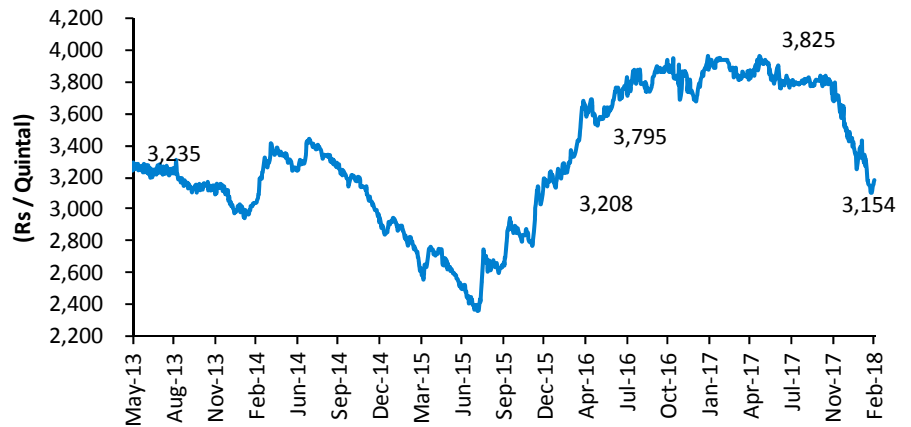
Source: Bloomberg, PL Research

**Exhibit 4: Barley prices remain benign, down 14.1% YoY in 4Q18**



Source: Bloomberg, PL Research

**Exhibit 5: Sugar prices down 4.7% YoY and 4.4% QoQ**



Source: Bloomberg, PL Research

**Income Statement(Rs m)**

Y/e March	2017	2018E	2019E	2020E
<b>Net Revenue</b>	<b>44,211</b>	<b>43,538</b>	<b>48,257</b>	<b>54,263</b>
Raw Material Expenses	17,316	12,105	13,258	14,709
Gross Profit	26,895	31,432	34,999	39,554
Employee Cost	4,672	5,225	5,791	6,512
Other Expenses	13,888	17,870	19,758	22,244
<b>EBITDA</b>	<b>8,335</b>	<b>8,338</b>	<b>9,450</b>	<b>10,798</b>
Depr. & Amortization	642	653	707	761
Net Interest	(2,411)	(2,440)	(2,646)	(2,888)
Other Income	2,439	2,467	2,673	2,914
<b>Profit before Tax</b>	<b>10,104</b>	<b>10,125</b>	<b>11,389</b>	<b>12,924</b>
Total Tax	3,537	3,465	3,902	4,423
<b>Profit after Tax</b>	<b>6,566</b>	<b>6,660</b>	<b>7,487</b>	<b>8,501</b>
Ex-Od items / Min. Int.	432	—	—	—
<b>Adj. PAT</b>	<b>6,566</b>	<b>6,660</b>	<b>7,487</b>	<b>8,501</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>156.1</b>	<b>158.4</b>	<b>178.0</b>	<b>202.1</b>

**Cash Flow Abstract(Rs m)**

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	8,308	6,894	8,731	10,078
C/F from Investing	(685)	(1,100)	(2,000)	(2,500)
C/F from Financing	(3,872)	(3,373)	(3,762)	(4,153)
Inc. / Dec. in Cash	3,751	2,421	2,969	3,425
Opening Cash	27,123	30,874	33,295	36,264
Closing Cash	30,874	33,295	36,264	39,690
FCFF	5,710	7,175	8,199	9,735
FCFE	5,710	7,175	8,199	9,735

**Key Financial Metrics**

Y/e March	2017	2018E	2019E	2020E
<b>Growth</b>				
Revenue (%)	(3.1)	(1.5)	10.8	12.4
EBITDA (%)	(0.6)	—	13.3	14.3
PAT (%)	(4.5)	1.4	12.4	13.5
EPS (%)	(4.5)	1.4	12.4	13.5
<b>Profitability</b>				
EBITDA Margin (%)	18.9	19.2	19.6	19.9
PAT Margin (%)	14.9	15.3	15.5	15.7
RoCE (%)	25.3	22.9	23.1	23.6
RoE (%)	25.3	22.9	23.2	23.6
<b>Balance Sheet</b>				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	(33)	(72)	(66)	(70)
<b>Valuation</b>				
PER (x)	38.3	37.8	33.6	29.6
P / B (x)	9.2	8.2	7.4	6.6
EV / EBITDA (x)	30.1	30.1	26.6	23.3
EV / Sales (x)	5.7	5.8	5.2	4.6
<b>Earnings Quality</b>				
Eff. Tax Rate	35.0	34.2	34.3	34.2
Other Inc / PBT	24.1	24.4	23.5	22.5
Eff. Depr. Rate (%)	5.2	4.9	5.0	5.0
FCFE / PAT	87.0	107.7	109.5	114.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	27,480	30,597	34,035	37,981
Total Debt	—	—	—	—
Other Liabilities	(1,193)	(1,308)	(1,433)	(1,579)
<b>Total Liabilities</b>	<b>26,287</b>	<b>29,289</b>	<b>32,602</b>	<b>36,402</b>
Net Fixed Assets	6,015	6,370	8,663	9,902
Goodwill	—	—	—	—
Investments	28,440	31,809	34,469	38,424
Net Current Assets	(8,168)	(8,890)	(10,530)	(11,924)
Cash & Equivalents	677	817	181	259
Other Current Assets	10,613	11,219	12,571	13,953
Current Liabilities	19,458	20,926	23,282	26,136
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>26,287</b>	<b>29,289</b>	<b>32,602</b>	<b>36,402</b>

**Quarterly Financials (Rs m)**

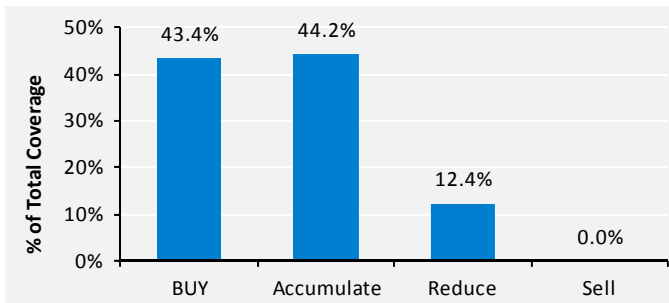
Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Net Revenue</b>	<b>11,019</b>	<b>9,853</b>	<b>11,153</b>	<b>10,347</b>
<b>EBITDA</b>	<b>2,171</b>	<b>1,664</b>	<b>2,614</b>	<b>2,040</b>
% of revenue	19.7	16.9	23.4	19.7
Depr. & Amortization	177	170	177	151
Net Interest	9	5	6	2
Other Income	710	557	550	642
<b>Profit before Tax</b>	<b>2,695</b>	<b>2,045</b>	<b>2,981</b>	<b>2,529</b>
Total Tax	936	723	1,057	892
<b>Profit after Tax</b>	<b>1,732</b>	<b>1,322</b>	<b>1,989</b>	<b>1,637</b>
<b>Adj. PAT</b>	<b>1,759</b>	<b>1,322</b>	<b>1,924</b>	<b>1,637</b>

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

**Rating Distribution of Research Coverage****PL's Recommendation Nomenclature**

<b>BUY</b>	:	Over 15% Outperformance to Sensex over 12-months
<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
<b>Reduce</b>	:	Underperformance to Sensex over 12-months
<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	:	Over 10% absolute upside in 1-month
<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
<b>Under Review (UR)</b>	:	Rating likely to change shortly

**DISCLAIMER/DISCLOSURES****ANALYST CERTIFICATION**

We/I, Mr. Amnish Aggarwal (MBA, CFA), Ms. Nishita Doshi (CA, CFA Level 1, B.Com), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**Terms & conditions and other disclosures:**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution of third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com)

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Amnish Aggarwal (MBA, CFA), Ms. Nishita Doshi (CA, CFA Level 1, B.Com), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

**DISCLAIMER/DISCLOSURES (FOR US CLIENTS)****ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

**Terms & conditions and other disclosures:**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.