

GSK Consumers Ltd.

Industry	Packaged foods
Bloomberg	SKB IN
BSE CODE	500676

Numbers better than expectation, witnessed broad based growth.

RATING	NEUTRAL
CMP	7428
Price Target	7852
Potential Upside	6%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	7935/5725
Mkt Capital (Rs Cr)	31239
Free float (%)	28%
Avg. Vol 1M (,000)	17
No. of Shares (Crs)	4
Promoters Pledged %	NA

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3QFY19 Result update

- ❑ GSKCON's numbers remained better than our expectations, sales for the quarter grew by 7.9% YoY to Rs 1117 Cr (vs. expect. of Rs 1096 Cr) led by broad based volume of 8.7% YoY.
- ❑ Overall HFD category's volume in Q3FY19 grew by 9.6% YoY while domestic HFD recorded volume growth of 8%. The company's overall volume for this quarter grew by 8.7%, lower than total HFD growth of 9.6%, due to of discontinuation of few SKUs (Marie biscuits) in food business. Overall revenue growth remained 7.5%, lower than volume growth due to adverse pricing mix within country export mix.
- ❑ Sachet continued to grow high double digit and contributed to the extent of 10% of total sales value while the company's OTC product business which contains Sensodyne, Iodex and Otrivin grew by 39%, 29% and 33% respectively.
- ❑ Gross margin improved by 186 bps to 70.7% YoY (vs. expectation of 68.8% YoY) led by reduction in major input prices, better overhead absorption and cost saving initiatives taken by the company while EBITDA margin expanded by 164 bps YoY to 21.4% (vs. expect. of 20.1% YoY), lower than gross margin due to increased investment on Ad (up by 114 bps YoY) and employee(136 bps YoY).
- ❑ The company has posted a PAT growth of 35.1% YoY to Rs 221 while PAT margin improved by 398 bps to 19.8% YoY led by higher other income of Rs 124 cr(vs Rs 64 cr in Q3FY18).

View and Valuation

Gskcons has reported numbers better than our expectations, sales were up by 8% to Rs 1117 cr(expectation of Rs 1096 cr) with domestic HFD volume growth of 8% while PAT grew by handsome 35% YoY to Rs 221 cr(expectation of Rs 174 cr). Ebitda margin expanded by 164 bps YoY to 21.4% on the back of improvement in gross margin (186 bps YoY) and cost efficiency measures. Going forward, we expect better volume growth for Gskcons to continue led by company's distribution expansion initiatives, thrust on LUP and new launches in RTD segment. Innovation in high science portfolio will pave the way for newer growth opportunities for the company going ahead. While the company may witness lower margin in FY20 due to inflation in key inputs like barley and dairy prices although management has taken price hike in the range of 2.5-3%. Inflation in key input prices and pricing action taken by the company would be key monitorable going ahead. Considering strong growth in Q3FY18, we have raised our PAT estimates for FY19/FY20 by 8%/2% respectively while maintaining our previous target price of Rs 7852(33x FY20e eps) with Neutral rating.

Key Risks to our rating and target

- ❑ Overall volume growth
- ❑ Movement of prices of key inputs i.e. milk, SMP and barley.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4136	3986	4377	4830	5519
EBITDA	838	833	883	1114	1219
EBIT	781	769	819	1052	1156
PAT	687	657	700	944	991
EPS (Rs)	163	156	166	224	236
EPS growth (%)	18%	-4%	7%	35%	5%
ROE (%)	25%	21%	20%	24%	23%
ROCE (%)	28%	25%	23%	27%	26%
BV	665	743	829	932	1040
P/B (X)	8.6	7.7	6.9	8.0	7.1
P/E (x)	34.9	36.5	34.3	33.1	31.5

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3QFY19 Results

Better than expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,035	1,180	1,107	1,272	1,117	7.9%	-12.2%	3,986	4,377	9.8%
Other Income	64	84	96	89	124	93.6%	39.6%	244	257	5.5%
COGS	322	374	337	386	327	1.5%	-15.2%	1,297	1,493	15.1%
Gross Margin	69%	68%	70%	70%	71%	1.9%	1.0%	67%	66%	-1.6%
Empl. Cost	134	138	168	155	157	17.3%	1.0%	458	528	15.2%
Other Exp.	262	249	228	245	260	-1.0%	6.1%	1,398	1,473	5.4%
EBITDA	204	250	230	354	239	16.9%	-32.6%	833	883	6.0%
EBITDA Mar.	20%	21%	21%	28%	21%	1.6%	-6.4%	21%	20%	-0.7%
Depreciation	15	15	15	15	16	4.4%	4.9%	64	64	0.3%
EBIT	189	235	216	339	223	17.9%	-34.2%	769	819	6.5%
Interest	0	1	0	0	0	23.5%	10.5%	3	2	-26.9%
PBT	253	319	312	427	347	37.1%	-18.9%	1,010	1,074	6.3%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	89	107	111	152	126	40.9%	-17.3%	354	374	5.8%
PAT	164	212	200	275	221	35.1%	-19.8%	657	700	6.6%
PAT Margin	16%	18%	18%	22%	20%	4.0%	-1.9%	16%	16%	0%

Witnessed strong growth in health food drink category

GSKCONS witnessed broad based volume led profitable growth with an overall volume growth of 8.7% YoY with HFD volume growth of 9.6% YoY. Thus the overall volume growth remained impacted on account of discontinuation of few SKUs (Marie biscuits) in food business and Adverse Country Export mix. The Company's HFD volume and value market share stood at 63.7% and 54% for 3QFY19. Horlicks continued to be the market leader with volume and value market share of 49.5% and 43% while boost volume and value market share stood at 13.9% and 10.8%. Other products in this category like Horlicks Protein+, Growth + and women's horlicks continued to gain market share. Thus the Company is confident of strengthening the leadership in HFD category with focus on high science innovation, sharp consumer insights and distribution expansion.

Gross margin improvement on account of better absorption of overheads

GSKCON's gross margin improved by 186 bps to 70.7% YoY led by reduction in major input prices, better overhead absorption and cost saving initiatives by the company while EBITDA margin improved by 164 bps to 21.4% YoY. The company's continuous thrust on brand building activities has led to increase in Ad & Promotion expense by 120 bps while other expense reduced by 211 bps. However, the company expects the prices of commodities like milk and barley to increase led by government intervention in coming quarters.

Concall Highlights

- Rural channel continues to grow at an accelerated pace of high double digit.
- With the Upcoming general elections, consumer sentiment and demand remains the key watch out for the company while expect rural growth to continue at an accelerated pace.
- Digital and e-commerce continues to be high priority and growth area for the company.
- The Company has taken a price hike in a range of 2.5%-3% in January 2019 and has guided the price hike will remain less than the inflation prevailing in India.
- Dividend payout is expected to be in line with the past.
- The company will extend the launch of RTD beverage in 3 other southern states which are Kerela, Karnataka and Andhra Pradesh.
- E-commerce activation like big billion day by flipkart and great india sale by amazon helped the company to drive new trial for high science portfolio of protein+, growth + and women's horlicks.
- The Company has expanded its distribution by 200000 outlets over the last 12 month in total HFD category across portfolio (distribution universe for HFD stood at 2.5 mn outlets).
- Horlicks protein plus which targets the age group of 30+ is available at 85000 outlets out of total 400000 outlets across the country.
- The Company has a market share of 5% in the protein segment.
- The Company's OTC products which are Sensodyne, Iodex and Otrivin grew by 39%, 29% and 33% respectively.
- Pricing mix has changed within the export sales which impacted the revenue by 1%.
- Other operating income grew by 18% in 3QFY19 it corresponds with OTC growth at 19% during the quarter.

Exhibit: Domestic HFD volume growth

The company witnessed broad based growth in this quarter driven by rural, sachets and expansion of distribution reach.

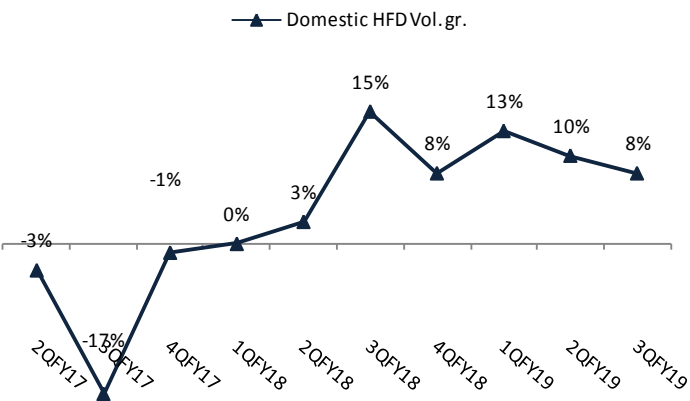


Exhibit: Sales and Sales Growth

Sales for this quarter grew by 8% while overall volume growth remained 8.7%.

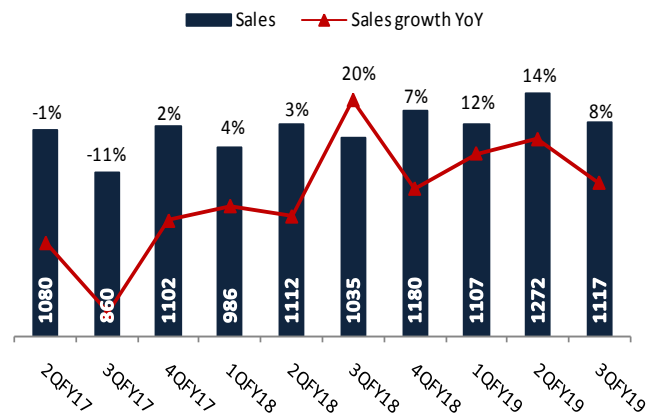


Exhibit: Gross and EBITDA Margin

Gross margin improved led by favourable input prices, better overhead absorption and cost saving initiatives.

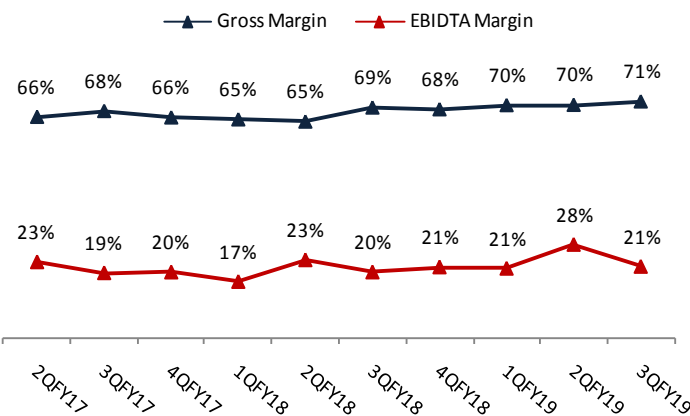


Exhibit: COGS and Employee expense

COGS improved backed by benign input prices while employee benefit expense increased by 113 bps YoY.

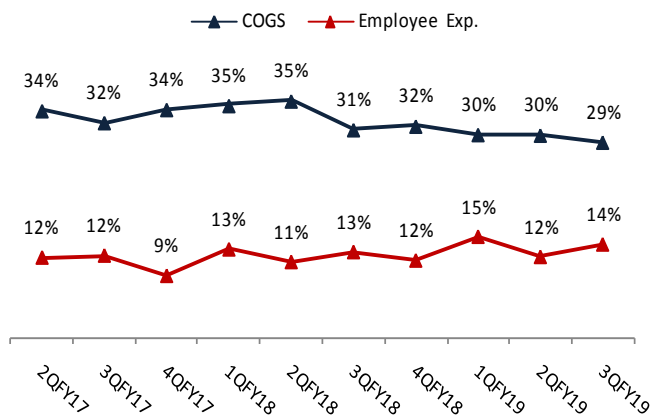


Exhibit: Ad and other expenses

Ad expense increased by 120 bps led by higher thrust in brand building activities.

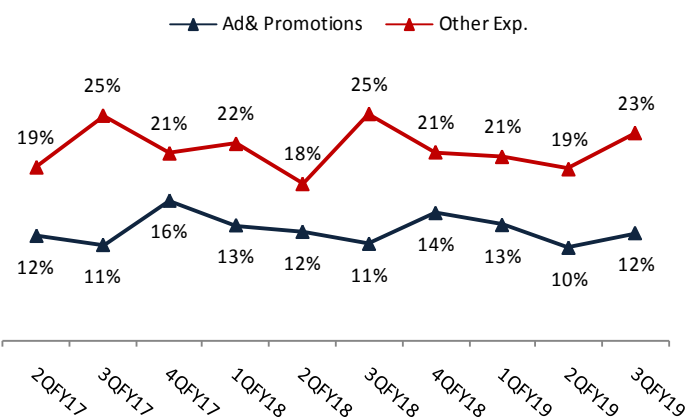
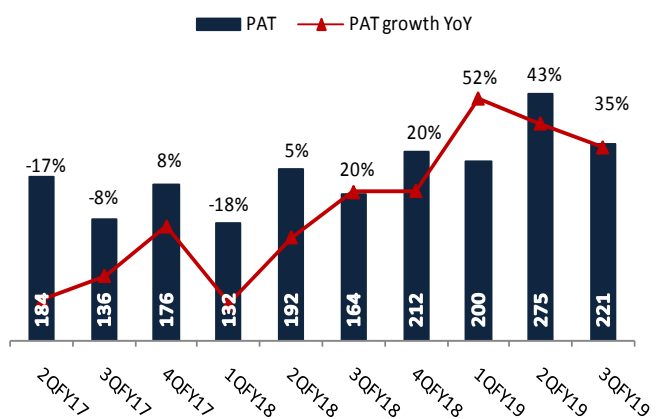


Exhibit: PAT and PAT Growth

PAT grew by 35.1% YoY to Rs 221 while PAT margin improved by 398 bps to 19.8% YoY.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital		42	42	42	42	42	42	42
Reserves		1,771	2,071	2,757	3,081	3,443	3,876	4,331
Networth		1,813	2,113	2,799	3,123	3,485	3,918	4,373
Debt		-	-	2	-	-	-	-
Other Non Current Liab		167	218	238	236	185	185	185
Total Capital Employed		1,813	2,113	2,801	3,123	3,485	3,918	4,373
Net Fixed Assets (incl CWIP)		378	534	532	545	514	507	534
Non Current Investments		-	-	-	-	-	-	-
Other Non Current Assets		279	180	205	270	337	337	337
Non Current Assets		658	714	737	816	851	844	870
Inventory		407	466	462	461	409	452	516
Debtors		299	313	354	321	279	308	351
Cash & Bank		1,839	2,297	2,712	3,087	3,585	4,105	4,653
Other Current Assets		208	229	230	270	289	319	364
Current Assets		2,754	3,305	3,758	4,139	4,562	5,182	5,885
Creditors		672	760	785	876	1,035	1,142	1,305
Provisions		297	395	237	264	278	306	350
Other Current Liabilities		463	534	434	456	431	475	543
Curr Liabilities		1,432	1,689	1,456	1,596	1,743	1,923	2,198
Net Current Assets		1,322	1,616	2,302	2,544	2,819	3,259	3,687
Total Assets		3,411	4,020	4,495	4,955	5,413	6,026	6,755

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation		3,893	4,308	4,136	3,986	4,377	4,830	5,519
Change (%)		17%	11%	-4%	-4%	10%	10%	14%
EBITDA		666	730	838	833	883	1,114	1,219
Change (%)		0	0	15%	-1%	6%	26%	9%
Margin (%)		17%	17%	20%	21%	20%	23%	22%
Depr & Amor.		52	62	57	64	64	61	63
EBIT		615	668	781	769	819	1,052	1,156
Int. & other fin. Cost		1	1	2	3	2	1	1
Other Income		174	222	278	244	257	406	366
EBT		788	889	1,056	1,010	1,074	1,458	1,521
Exp Item		-	-	-	-	-	-	-
Tax		270	306	369	354	374	514	531
Minority Int & P/L share of Ass.		-	-	-	-	-	-	-
Reported PAT		518	584	687	657	700	944	991
Adjusted PAT		518	584	687	657	700	944	991
Change (%)		0	0	18%	-4%	7%	35%	5%
Margin(%)		13%	14%	17%	16%	16%	20%	18%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE		29%	28%	25%	21%	20%	24%	23%
ROCE		34%	32%	28%	25%	23%	27%	26%
Asset Turnover		1	1	1	1	1	1	1
Debtor Days		28	27	31	29	23	23	23
Inv Days		38	40	41	42	34	34	34
Payable Days		63	64	69	80	86	86	86
Int Coverage		675	902	342	277	403	1,332	1,376
P/E		42	44	35	36	34	33	32
Price / Book Value		12	12	9	8	7	8	7
EV/EBITDA		30	32	25	25	23	24	22
FCF per Share		113	120	123	132	160	245	258
Div Yield		0.9%	0.9%	1.0%	1.2%	1.2%	1.4%	1.4%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT		1,016	889	1,056	1,010	700	1,458	1,521
(inc)/Dec in Working Capital		63	120	53	104	260	79	121
Non Cash Op Exp		79	82	11	79	45	61	63
Int Paid (+)		1	1	2	3	2	1	1
Tax Paid		(333)	(296)	(352)	(362)	(467)	(514)	(531)
others		(182)	(185)	(197)	(211)	(202)	-	-
CF from Op. Activities		645	611	573	622	723	1,085	1,175
(inc)/Dec in FA & CWIP		(169)	(107)	(55)	(68)	(51)	(54)	(90)
Free Cashflow		476	504	519	554	672	1,031	1,085
(Pur)/Sale of Inv		(224)	263	(280)	(736)	(583)	-	-
others		121	175	183	182	188	-	-
CF from Inv. Activities		(271)	331	(152)	(622)	(446)	(54)	(90)
inc/(dec) in NW								
inc/(dec) in Debt								
Int. Paid		(1)	(1)	(2)	(3)	(2)	(1)	(1)
Div Paid (inc tax)		(221)	(221)	(278)	(354)	(353)	(511)	(536)
others		-	-	(5)	(4)	(8)	-	-
CF from Fin. Activities		(223)	(222)	(286)	(361)	(363)	(512)	(537)
Inc(Dec) in Cash		150	720	136	(361)	(87)	519	548
Add: Opening Balance		55	205	925	1,062	701	3,585	4,105
Closing Balance		205	925	1,062	701	614	4,105	4,653

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