

Industry
Bloomberg
BSE CODE

Consumer staples
SKB IN
500676

Pricing action, forward covers and cost saving programs led to margin expansion

RATING	NEUTRAL
CMP	7646
Price Target	7976
Potential Upside	4%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	7935/6340
Mkt Capital (Rs Cr)	32154
Free float (%)	28%
Avg. Vol 1M (,000)	14
No. of Shares (Crs)	4
Promoters Pledged %	NA

1QFY20 Result Update

- GSKCON's posted numbers better than our expectation, Revenue grew by 7.87% YoY to Rs. 1194 cr. (vs. expect. of Rs. 1219 cr.) led by domestic HFD volume growth of 4% YoY (with overall volume growth remained 5.4% YoY) backed by Sachets, distribution expansion and brand building initiatives taken by the company.
- Sachets contribution to HFD sales remained at 10.5% with volume growth of 14% led by distribution expansion whereas company's business Auxiliary growth stood at 15.5% in 1QFY20.
- Gross margin improved by 38 bps to 69.96% YoY (vs. expect. of 69.5% YoY) driven by pricing and forward covers taken by the company.
- EBITDA margin expanded by 268 bps to 23.5% YoY (vs. expect. of 22.5% YoY) led by reduction in other expenses and A & P expense by 150 bps and 105 bps. However employee expense increased by 26 bps due to wage settlement cost at NABHA plant and retention cost due to merger. Change in lease accounting has also helped in lower oth. expenses.
- PAT posted the growth of 24% YoY to Rs. 248 cr. (vs. expect of Rs. 220 cr.) while PAT margin improved by 267 bps to 21% led by Gross and EBITDA margin expansion.
- The Equity share holders and unsecured creditors have approved the scheme of amalgamation. The company has now filed petition with NCLT for approval. The merger process is progressing as per expected time.
- Other Income has grown by 41% on account of clearance of old vendor balances. Other income growth ex-one off stood at 15% in 1QFY20.

View and Valuation

GSKCONS has reported numbers better than our expectation, sales grew by 8% YoY to Rs 1194 cr (vs expec. Rs 1219 cr) while posted strong PAT growth 24% YoY to Rs 248 cr (vs expec. Rs 220 cr). The company's pricing action with forward cover on key input helped in gross margin expansion by 38 bps while cost efficiency measures and better allocation has helped in EBITDA margin expansion by 268 bps. Going forward, better traction from new launched products, distribution expansion and lower unit packs to drive sales growth. While pricing action taken by the company and cost efficiency measures will help in maintenance of margin. We continue to value the company at 33x of FY20e eps and maintain our previous target price of Rs 7976. As there is very limited upside from here for the company, we maintain Neutral rating on it.

Key Risks to our rating and target

- Slowdown in demand across market.
- Higher prices of key inputs i.e. milk, SMP, barley and wheat.

Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3986	4377	4782	5225	5847
EBITDA	833	883	1141	1271	1398
EBIT	769	819	1080	1197	1321
PAT	657	700	983	1012	1123
EPS (Rs)	156	166	234	241	267
EPS growth (%)	-4%	7%	40%	3%	11%
ROE (%)	21%	20%	24%	22%	22%
ROCE (%)	25%	23%	26%	26%	26%
BV	743	829	974	1080	1199
P/B (X)	7.7	6.9	7.2	7.1	6.4
P/E (x)	36.5	34.3	30.2	31.8	28.6

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1QFY19 Results

Better than our expectation

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,107	1,272	1,117	1,286	1,194	7.9%	-7.1%	4,377	4,782	9.3%
Other Income	96	89	124	123	127	31.2%	3.0%	257	433	68.1%
COGS	337	386	327	386	359	6.5%	-7.1%	1,493	1,436	-3.8%
Gross Margin	70%	70%	71%	70%	70%	0.4%	0.0%	66%	70%	4.1%
Employee Cost	168	155	157	165	184	9.7%	11.8%	528	645	22.1%
Other Expenses	228	245	260	226	228	0.0%	1.1%	1,473	1,560	5.9%
EBITDA	230	354	239	318	280	21.8%	-12.0%	883	1,141	29.2%
EBITDA Mar.	21%	28%	21%	25%	23%	2.7%	-1.3%	20%	24%	3.7%
Depreciation	15	15	16	15	20	33.5%	31.5%	64	61	-6.0%
EBIT	216	339	223	304	261	21.0%	-14.1%	819	1,080	31.9%
Interest	0	0	0	0	2	844.4%	750.0%	2	1	-61.6%
PBT	312	427	347	426	386	23.7%	-9.5%	1,074	1,512	40.8%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	111	152	126	140	138	23.5%	-2.0%	374	529	41.5%
PAT	200	275	221	286	248	23.8%	-13.2%	700	983	40.4%
PAT Margin	18%	22%	20%	22%	21%	2.7%	-1.5%	16%	21%	5%

Growth led by higher penetration of sachets, innovation and Market share gain

In 1QFY20, GSKCONS witnessed a growth largely driven by volume where overall volume growth remained 5.40% YoY with domestic HFD volume growth of 4% YoY led by sachets driven by higher penetration. Sachets contribution to HFD sales remained 10.5% with volume growth of 14% led by distribution expansion in 1QFY20. The company will keep focusing on driving distribution through sachets going ahead. Horlicks continued to be market leader with volume and value market share gains to 50.9% and 44.30% respectively, while boost volume and value market share stood at 14.9% and 11.2%. Protein+ is doing extremely well and the company's target of achieving the revenue of Rs. 50 cr. in FY20 is on track and has already captured a market share of 5.5-6%. Thus, the Company will continue investing in High science portfolio and has also come up with Active Horlicks and Boost bites.

Margin expansions led by pricing action and better over head absorption

The Company's Gross margin improved by 38 bps to 69.96% YoY was driven by pricing action and forward covers taken by the company. On raw material front, the company is now witnessing Inflation in commodity prices with steep inflation of 40% in Dairy led by reduction in milk supply in West & South due to poor monsoon and are also witnessing 30% YoY inflation in Barley. Going forward, the company will handle the situation through price increase (slightly lower than the inflation) and aggressive cost saving programs in remaining quarters of FY20. EBITDA margin improved by 268 bps to 23.5% YoY led by reduction in other expense and Ad & Promotion expenses by 150 bps and 105 bps YoY. Change in lease accounting has also helped in lower oth. expenses. However employee expense increased by 26 bps due to wage settlement cost at NABHA plant and partially due to retention cost due to merger which in turn restricted EBITDA margin expansion.

Concall Highlights

- Sachets contribution to HFD sales remained 10.5% with volume growth of 14% led by distribution expansion in 1QFY20.
- HFD volume and value market share stood at 64.6% and 54.5% for 4QFY19. (As per MAT June 19).
- Protein+ is on track of achieving revenue of Rs. 50 cr. in FY20 with market share of 5.5-6%.
- The Company has already taken a price hike of less than 1% on weighted average basis in July 2019 in selected SKU's and will take another round of price hike in Jan-2020.

Management Guidance

- The management, expects high single digit inflation in key Agriculture commodities (constitute 1/3rd of RM cost) to hit the company in remaining quarters.
- The Company will overcome input inflation with the pricing actions (already taken) and aggressive cost saving programs.
- The Company will continue focusing on driving Boost portfolio with right mix and relevance in non HFD category.
- As per the pricing trends, the company will keep the price increase below the CPI (Forecasted CPI for FY20 is 4%).
- The company will continue to invest on brand building activity, Science based innovation and consumer connects activities to drive growth in HFD category.

Exhibit: Domestic HFD volume growth

Volume growth largely led by sachets across the product portfolio led by higher penetration.

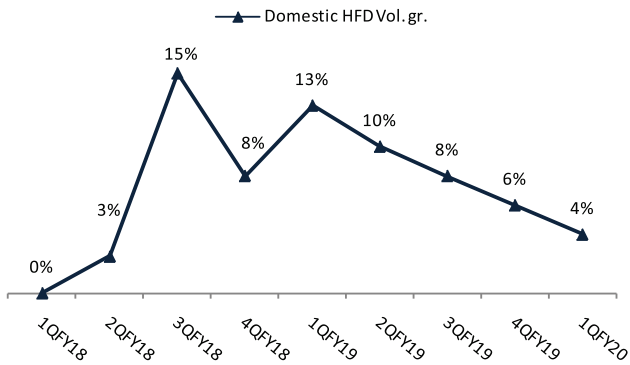


Exhibit: Sales and Sales Growth

Sales grew by 8% YoY on the back of broad based growth across portfolio and channels.

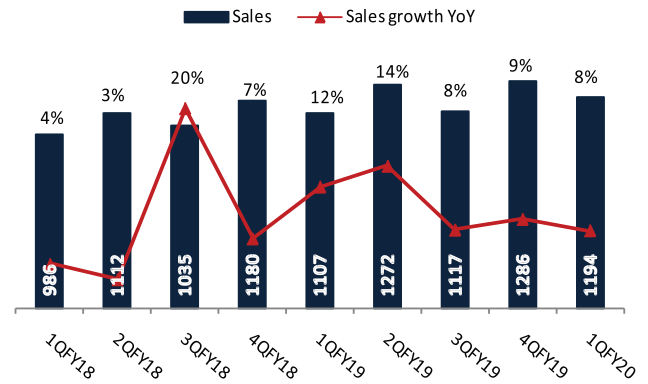


Exhibit: Gross and EBITDA Margin

Gross margin improved by 38 bps led by pricing and forward covers taken by the company.

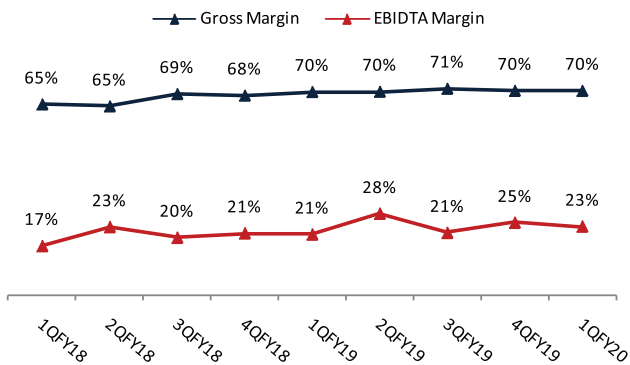


Exhibit: COGS and Employee expenses

COGS declined by 38 bps YoY on account of forward covers taken by the company on its key inputs.

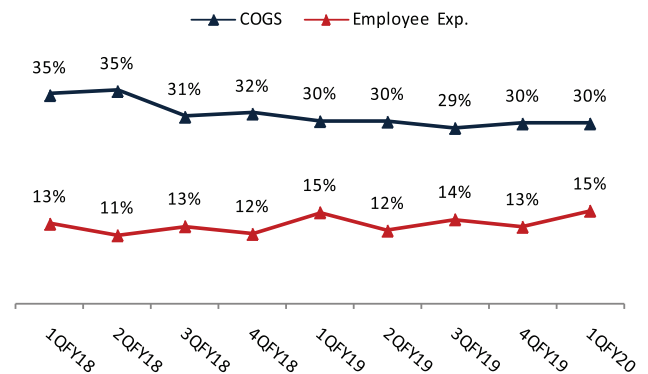


Exhibit: Ad & Promotion other expenses

Ad & Promotion expense declined by 105 bps while other expenses declined by 150 bps YoY in 1QFY20.

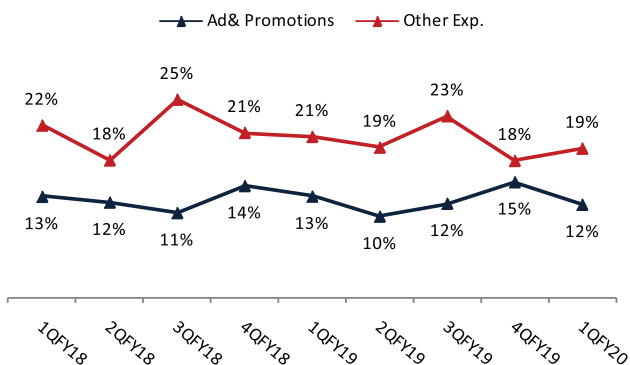
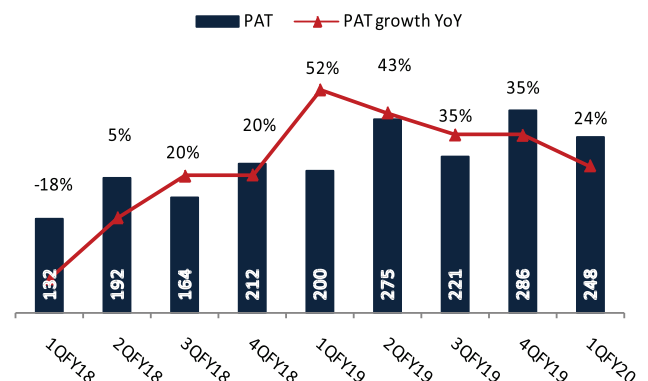


Exhibit: PAT and PAT Growth

PAT posted the growth of 24% YoY to Rs. 248 cr led by higher EBITDA margin due to lower Ad and other exp.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	42	42	42	42	42	42	42	42
Reserves	1,771	2,071	2,757	3,081	3,443	4,053	4,502	5,000
Networth	1,813	2,113	2,799	3,123	3,485	4,095	4,544	5,042
Debt	-	-	2	-	-	-	-	-
Other Non Current Liab	167	218	238	236	185	159	159	159
Total Capital Employed	1,813	2,113	2,801	3,123	3,485	4,095	4,544	5,042
Net Fixed Assets (incl CWIP)	378	534	532	545	514	480	491	511
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	279	180	205	270	337	321	321	321
Non Current Assets	658	714	737	816	851	801	812	832
Inventory	407	466	462	461	409	465	509	569
Debtors	299	313	354	321	279	386	421	472
Cash & Bank	1,839	2,297	2,712	3,087	3,585	4,097	4,584	5,145
Other Current Assets	208	229	230	270	289	319	348	390
Current Assets	2,754	3,305	3,758	4,139	4,562	5,267	5,862	6,575
Creditors	672	760	785	876	1,035	953	1,041	1,165
Provisions	297	395	237	264	278	276	301	337
Other Current Liabilities	463	534	434	456	431	576	629	704
Curr Liabilities	1,432	1,689	1,456	1,596	1,743	1,814	1,971	2,205
Net Current Assets	1,322	1,616	2,302	2,544	2,819	3,453	3,891	4,370
Total Assets	3,411	4,020	4,495	4,955	5,413	6,068	6,674	7,407

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3,893	4,308	4,136	3,986	4,377	4,782	5,225	5,847
Change (%)	0	0	(0)	-4%	10%	9%	9%	12%
EBITDA	666	730	838	833	883	1,141	1,271	1,398
Change (%)	0	0	0	-1%	6%	29%	11%	10%
Margin (%)	17%	17%	20%	21%	20%	24%	24%	24%
Depr & Amor.	52	62	57	64	64	61	74	78
EBIT	615	668	781	769	819	1,080	1,197	7
Int. & other fin. Cost	1	1	2	3	2	1	7	7
Other Income	174	222	278	244	257	433	367	412
EBT	788	889	1,056	1,010	1,074	1,512	1,557	1,725
Exp Item	-	-	-	-	-	-	-	-
Tax	270	306	369	354	374	529	544	602
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	518	584	687	657	700	983	1,012	1,123
Adjusted PAT	518	584	687	657	700	983	1,012	1,123
Change (%)	0	0	0	-4%	7%	40%	3%	11%
Margin(%)	13%	14%	17%	16%	16%	21%	19%	19%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	0	28%	25%	21%	20%	24%	22%	22%
ROCE	0	32%	28%	25%	23%	26%	26%	26%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	28	27	31	29	23	29	29	29
Inv Days	38	40	41	42	34	36	36	36
Payable Days	63	64	69	80	86	73	73	73
Int Coverage	675	902	342	277	403	1,385	176	1
P/E	42	44	35	36	34	30	32	29
Price / Book Value	12	12	9	8	7	7	7	6
EV/EBITDA	30	32	25	25	23	22	22	19
FCF per Share	113	120	123	132	160	151	251	284
Div Yield	0	0	0	0	0	1%	1%	2%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,016	889	1,056	1,010	700	983	1,557	1,725
(inc)/Dec in Working Capital	63	120	53	104	260	1	49	82
Non Cash Op Exp	79	82	11	79	45	(81)	74	78
Int Paid (+)	1	1	2	3	2	1	7	7
Tax Paid	(333)	(296)	(352)	(362)	(467)	(500)	(544)	(602)
others	(182)	(185)	(197)	(211)	(202)	(264)	-	-
CF from Op. Activities	645	611	573	622	723	671	1,141	1,290
(inc)/Dec in FA & CWIP	(169)	(107)	(55)	(68)	(51)	(34)	(86)	(97)
Free Cashflow	476	504	519	554	672	637	1,056	1,193
(Pur)/Sale of Inv	(224)	263	(280)	(736)	(583)	(549)	-	-
others	121	175	183	182	188	248	-	-
CF from Inv. Activities	(271)	331	(152)	(622)	(446)	(335)	(86)	(97)
inc/(dec) in NW								
inc/(dec) in Debt								
Int. Paid	(1)	(1)	(2)	(3)	(2)	(1)	(7)	(7)
Div Paid (inc tax)	(221)	(221)	(278)	(354)	(353)	(376)	(563)	(625)
others	-	-	(5)	(4)	(8)	-	-	-
CF from Fin. Activities	(223)	(222)	(286)	(361)	(363)	(377)	(570)	(632)
Inc(Dec) in Cash	150	720	136	(361)	(87)	(41)	486	561
Add: Opening Balance	55	205	925	1,062	701	614	4,097	4,584
Closing Balance	205	925	1,062	701	614	573	4,583	5,145

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