

Industry Consumer staples  
Bloomberg SKB IN  
BSE CODE 500676

## Margin expansion led by pricing & better overhead absorption

RATING	ACCUMULATE
CMP	8962
Price Target	9944
Potential Upside	11%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	9388/6842
Mkt Capital (Rs Cr)	37766
Free float (%)	28%
Avg. Vol 1M (,000)	4
No. of Shares (Crs)	4
Promoters Pledged %	NA

### 2QFY20 Result Update

- GSKCON's posted mixed set of numbers wherein revenue remained in-line with our expectation and grew by 5.7% YoY to Rs. 1345 cr. (vs. expect. of Rs. 1349 cr.) driven by domestic HFD volume growth of 3.6% YoY while overall volume growth remained 3.2% YoY driven by Sachets, distribution expansion and brand building initiatives taken by the company.
- The Company's exports declined by 16% YoY due demand slowdown in Middle East & Bangladesh and political tensions with Pakistan.
- Sachets continued to grow by ~22% contributing to the extent of 12% of the business while company's Auxiliary business grew by 13% YoY driven by better traction from Sensodyne and Otrivin.
- Gross margin expanded by 101 bps to 70.67% YoY (vs. expect. of 69.3% YoY) driven by pricing and better overhead absorption undertaken by the company.
- EBITDA margin expanded by 162 bps to 29.4% YoY (vs. expect. of 27.8% YoY) led by reduction in other expenses, A & P expense and employee expense by 22 bps, 4 bps and 35 bps to 19.02%/10.38%/11.8% YoY respectively with expansion of gross margin.
- PAT posted the growth of 25.3% YoY to Rs. 345 cr. (vs. expect. of Rs. 391 cr.) driven by corporate tax rate cut (24% as % of PBT vs 36% in 2QFY19) while PAT margin improved by 401 bps to 25.7% YoY.
- Horlicks continued to be market leader with volume and value market share gains to 50.4%/43.7%, while boost volume and value market share stood at 15.2%/11.4% respectively.

### View and Valuation

GSKCONS has reported mixed set of numbers; overall volume growth impacted by unfavourable macroeconomic scenario in domestic market. Domestic HFD volumes grew by 3.6% YoY with overall volume growth of 3.2% YoY. Going forward, gradual improvement in demand on the back of government initiatives, better traction from the products launched in protein category and increasing salience of sachets with distribution expansion to drive sales growth of the company. While the company's judicious pricing action along with better overhead absorption and cost saving measures will help in margin improvement. We continue to remain positive on Gskcons and maintain our ACCUMULATE rating with the target price of Rs 9944.

### Key Risks to our rating and target

- Further slowdown in demand across domestic and International market.
- Steep increase in 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	5206	5829
EBITDA	833	883	1141	1319	1446
EBIT	769	819	1080	1245	1369
PAT	657	700	983	1208	1379
EPS (Rs)	156	166	234	287	328
EPS growth (%)	-4%	7%	40%	23%	14%
ROE (%)	21%	20%	24%	26%	26%
ROCE (%)	25%	23%	26%	27%	26%
BV	743	829	974	1101	1246
P/B (X)	7.7	6.9	7.2	8.1	7.2
P/E (x)	36.5	34.3	30.2	31.2	27.3

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## 2QFY19 Results

### Mixed Numbers

Fig in Rs Cr

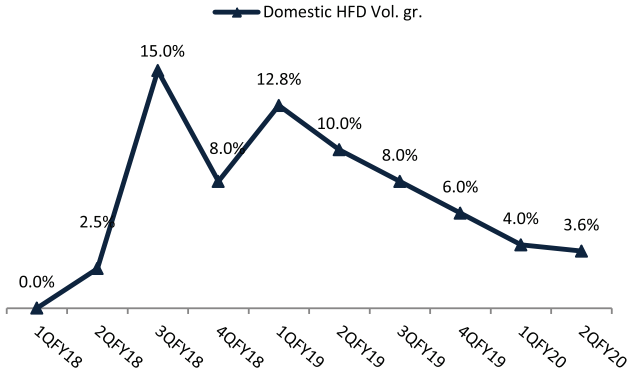
FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,272	1,117	1,286	1,194	1,345	5.7%	12.6%	4,377	4,782	9.3%
Other Income	89	124	123	127	78	-12.2%	-38.3%	257	433	68.1%
COGS	386	327	386	359	395	2.2%	10.0%	1,493	1,436	-3.8%
Gross Margin	70%	71%	70%	70%	71%	1.0%	0.7%	66%	70%	4.1%
Empl ex.	155	157	165	184	159	2.7%	-13.5%	528	645	22.1%
Other Expenses	245	260	226	228	256	4.5%	12.1%	1,473	1,560	5.9%
EBITDA	354	239	318	280	396	11.9%	41.2%	883	1,141	29.2%
EBITDA Mar.	28%	21%	25%	23%	29%	1.6%	5.9%	20%	24%	3.7%
Depreciation	15	16	15	20	20	34.9%	3.6%	64	61	-6.0%
EBIT	339	223	304	261	375	10.9%	44.0%	819	1,080	31.9%
Interest	0	0	0	2	2	836.8%	4.7%	2	1	-61.6%
PBT	427	347	426	386	452	5.7%	17.2%	1,074	1,512	40.8%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	152	126	140	138	107	-29.9%	-22.6%	374	529	41.5%
PAT	275	221	286	248	345	25.3%	39.2%	700	983	40.4%
PAT Margin	22%	20%	22%	21%	26%	4.0%	4.9%	16%	21%	5%

### Concall Highlights

- Macroeconomic environment will remain key watch out for the company. However, the government measures to boost economy are expected to augur well for FMCG sector in coming quarters.
- **2QFY20 Result Update**
  - The Company is witnessing Inflation in commodity prices since last quarter and expected to remain higher input prices for next few quarters also.
  - Pat increased by 25% to Rs. 345 cr. on account of change in corporate tax rate from 35% (Earlier) to 27% for CY19 because of the restatement of opening deferred tax assets. However, on an ongoing basis the effective tax rate will be 25% for the company.
  - The Company is investing competitively behind its brands with increased focus on TV and Digital media.
  - HFD volume and value market share stood at 65.7% and 55.4% for 2QFY20.
  - Horlicks and Boost gained markets share to the extent of 130 bps/100 bps in volume terms while 120 bps/50 bps in value terms. (As per Nielsen)
  - The Company's HFD distribution stood at 2.05 mn outlets in CY19 vs. 1.81 million outlets in previous corresponding year. (As per Nielsen India)
  - Active Horlicks is doing well and has achieved volume market share of 1.6% in East and 0.8% in South within 3 months of launch.
  - The Company undertook price increase in Jan-19 in a range of 1.5%-2%.
  - Sachets continued to grow by ~22% contributing to the extent of 12% to the business.
  - The Company's Auxiliary business which consist of Sensodyne, Otrivin and some other products are witnessing good growth and grew by 13% YoY in 2QFY20.
  - Protein Plus continued to witness good traction and grew by ~10% in 2QFY20.
  - The Company's market share in protein category stood at 4.4% in 2QFY20.
  - For the company, North and west markets are growing faster at 9.4% than south and east markets at 7% in 2QFY20.
- **Management Guidance**
  - The company will continue to invest on brand building activity, Science based innovation and consumer connects activities to drive growth in both volumes and value of HFD category.
  - The Company is currently witnessing Inflation in commodity prices (double digit inflation in SMP and Barley) and expects it to prevail in coming quarters also because forward cover taken in SMP and Barley are already consumed in 2QFY20.
  - The Management is expected to manage input inflation through pricing and cost saving initiatives.
- **Merger Update**
  - The Company is in process of taking the approvals for the mergers and will continue to work as a separate legal entity until all the prerequisites are cleared.

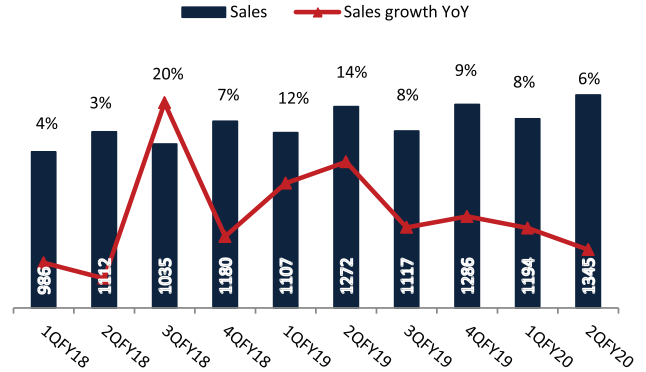
## Exhibit: Domestic HFD volume growth

Volume growth largely driven by sachets (grew by ~22%) across the product portfolio led by higher penetration.



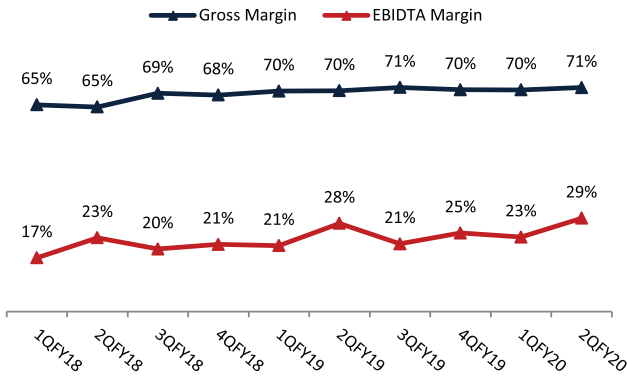
## Exhibit: Sales and Sales Growth

Sales grew by 5.7% YoY on the back of growth in domestic markets across portfolio.



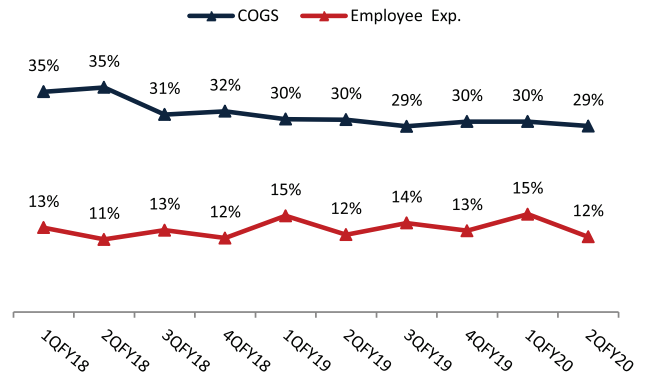
## Exhibit: Gross and EBITDA Margin

Gross margin expansion led by pricing and better overhead absorption.



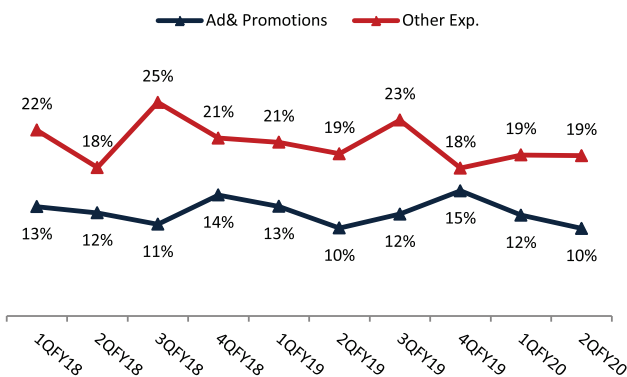
## Exhibit: COGS and Employee expenses

COGS reduction led by forward covers on key inputs along with cost saving measures.



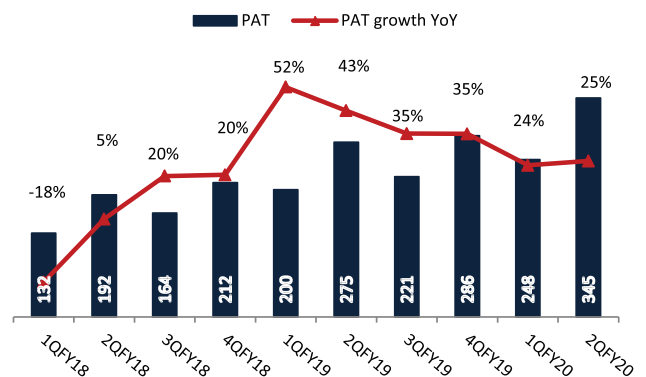
## Exhibit: Ad & other expenses

Ad expense declined by 4 bps YoY while other expenses declined by 22 bps YoY in 2QFY20.



## Exhibit: PAT and PAT Growth

PAT grew by 25.3% YoY to Rs. 345 cr. led by decline in corporate tax rate cut.



## 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	4,588	5,200
<b>Networth</b>	<b>1,813</b>	<b>2,113</b>	<b>2,799</b>	<b>3,123</b>	<b>3,485</b>	<b>4,095</b>	<b>4,630</b>	<b>5,242</b>
Debt	-	-	2	-	-	-	-	-
Other Non Current Liab	167	218	238	236	185	159	159	159
<b>Total Capital Employed</b>	<b>1,813</b>	<b>2,113</b>	<b>2,801</b>	<b>3,123</b>	<b>3,485</b>	<b>4,095</b>	<b>4,630</b>	<b>5,242</b>
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
<b>Non Current Assets</b>	<b>658</b>	<b>714</b>	<b>737</b>	<b>816</b>	<b>851</b>	<b>801</b>	<b>812</b>	<b>832</b>
Inventory	407	466	462	461	409	465	507	567
Debtors	299	313	354	321	279	386	420	470
Cash & Bank	1,839	2,297	2,712	3,087	3,585	4,097	4,668	5,342
Other Current Assets	208	229	230	270	289	319	347	389
<b>Current Assets</b>	<b>2,754</b>	<b>3,305</b>	<b>3,758</b>	<b>4,139</b>	<b>4,562</b>	<b>5,267</b>	<b>5,941</b>	<b>6,769</b>
Creditors	672	760	785	876	1,035	953	1,037	1,161
Provisions	297	395	237	264	278	276	300	336
Other Current Liabilities	463	534	434	456	431	576	627	702
<b>Curr Liabilities</b>	<b>1,432</b>	<b>1,689</b>	<b>1,456</b>	<b>1,596</b>	<b>1,743</b>	<b>1,814</b>	<b>1,964</b>	<b>2,199</b>
<b>Net Current Assets</b>	<b>1,322</b>	<b>1,616</b>	<b>2,302</b>	<b>2,544</b>	<b>2,819</b>	<b>3,453</b>	<b>3,978</b>	<b>4,570</b>
<b>Total Assets</b>	<b>3,411</b>	<b>4,020</b>	<b>4,495</b>	<b>4,955</b>	<b>5,413</b>	<b>6,068</b>	<b>6,754</b>	<b>7,600</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>3,893</b>	<b>4,308</b>	<b>4,136</b>	<b>3,986</b>	<b>4,377</b>	<b>4,782</b>	<b>5,206</b>	<b>5,829</b>
Change (%)	0	0	(0)	-4%	10%	9%	9%	12%
<b>EBITDA</b>	<b>666</b>	<b>730</b>	<b>838</b>	<b>833</b>	<b>883</b>	<b>1,141</b>	<b>1,319</b>	<b>1,446</b>
Change (%)	0	0	0	-1%	6%	29%	16%	10%
Margin (%)	17%	17%	20%	21%	20%	24%	25%	25%
Depr & Amor.	52	62	57	64	64	61	74	78
<b>EBIT</b>	<b>615</b>	<b>668</b>	<b>781</b>	<b>769</b>	<b>819</b>	<b>1,080</b>	<b>1,245</b>	<b>1,369</b>
Int. & other fin. Cost	1	1	2	3	2	1	7	7
Other Income	174	222	278	244	257	433	420	481
<b>EBT</b>	<b>788</b>	<b>889</b>	<b>1,056</b>	<b>1,010</b>	<b>1,074</b>	<b>1,512</b>	<b>1,658</b>	<b>1,842</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	270	306	369	354	374	529	450	464
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	518	584	687	657	700	983	1,208	1,379
<b>Adjusted PAT</b>	<b>518</b>	<b>584</b>	<b>687</b>	<b>657</b>	<b>700</b>	<b>983</b>	<b>1,208</b>	<b>1,379</b>
Change (%)	0	0	0	-4%	7%	40%	23%	14%
Margin(%)	13%	14%	17%	16%	16%	21%	23%	24%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	29%	28%	25%	21%	20%	24%	26%	26%
ROCE	34%	32%	28%	25%	23%	26%	27%	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	177	192
P/E	42	44	35	36	34	30	31	27
Price / Book Value	12	12	9	8	7	7	8	7
EV/EBITDA	30	32	25	25	23	22	25	22
FCF per Share	113	120	123	132	160	151	297	345
Div Yield	1%	1%	1%	1%	1%	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	1,658	1,842
(inc)/Dec in Working Capital	63	120	53	104	260	1	46	83
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)	(450)	(464)
others	(182)	(185)	(197)	(211)	(202)	(264)	-	-
<b>CF from Op. Activities</b>	<b>645</b>	<b>611</b>	<b>573</b>	<b>622</b>	<b>723</b>	<b>671</b>	<b>1,335</b>	<b>1,546</b>
(inc)/Dec in FA & CWIP	(169)	(107)	(55)	(68)	(51)	(34)	(86)	(97)
Free Cashflow	476	504	519	554	672	637	1,249	1,449
(Pur)/Sale of Inv	(224)	263	(280)	(736)	(583)	(549)	-	-
others	121	175	183	182	188	248	-	-
<b>CF from Inv. Activities</b>	<b>(271)</b>	<b>331</b>	<b>(152)</b>	<b>(622)</b>	<b>(446)</b>	<b>(335)</b>	<b>(86)</b>	<b>(97)</b>
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)	(672)	(767)
others	-	-	(5)	(4)	(8)	-	-	-
<b>CF from Fin. Activities</b>	<b>(223)</b>	<b>(222)</b>	<b>(286)</b>	<b>(361)</b>	<b>(363)</b>	<b>(377)</b>	<b>(679)</b>	<b>(774)</b>
Inc(Dec) in Cash	150	720	136	(361)	(87)	(41)	570	675
<b>Add: Opening Balance</b>	<b>55</b>	<b>205</b>	<b>925</b>	<b>1,062</b>	<b>701</b>	<b>614</b>	<b>4,097</b>	<b>4,668</b>
Closing Balance	205	925	1,062	701	614	573	4,668	5,342

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