

Industry  
Bloomberg  
BSE CODE

Consumer staples  
SKB IN  
500676

## Trade and conversion negotiation helped in EBITDA margin expansion

RATING	HOLD
CMP	9245
Price Target	9923
Potential Upside	7%
Rating Change	↓
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	9465/6868
Mkt Capital (Rs Cr)	38849
Free float (%)	28%
Avg. Vol 1M (,000)	2
No. of Shares (Crs)	4
Promoters Pledged %	NA

### 3QFY20 Result Update

- GSKCON's posted mixed set of numbers wherein revenue grew by 3.8% YoY to Rs. 1159 cr. (vs. expect. of Rs. 1216 cr.) with domestic HFD volume and value growth of 3% YoY each.
- Overall Sales impacted by decline in food category by 13% on account of discontinuation of unprofitable variants & SKU's while exports declined by 17% on account of changing business model and destocking in Sri Lanka and Malaysia respectively in 3QFY20.
- Sachets contribution to the overall business stood at ~12% and is growing well while company's Auxiliary business which consists of Sensodyne, Iodex, Otrivin and ENO grew in high double digits in 3QFY20.
- Gross margin declined by 126 bps to 69.44% YoY (vs. expect. of 69.8% YoY) driven by commodity inflation (especially milk & SMP) witnessed by the company while EBITDA margin expanded by 212 bps to 23.5% YoY (vs. expect. of 23% YoY) despite gross margin deterioration led by reduction in other expenses and employee expense by 270 bps and 94 bps to 20.54%/13.1% YoY respectively. Trade and conversion negotiations helped in EBITDA margin expansion.
- PAT remained in line with our expectation and grew by 25.1% YoY to Rs. 277 cr. driven by reduction in corporate tax rate while PAT margin improved by 408 bps to 23.9% YoY.

### View and Valuation

GSKCONS has reported mixed set of numbers; overall volume was impacted by unfavourable macroeconomic scenario in domestic market, lower exports & discontinuation of unprofitable variants in food category. Going forward, gradual improvement in demand led by government initiatives, better traction from products launched in HFD category, improved salience of sachets backed increased penetration and distribution expansion will drive volumes while Exports are expected to stabilize in the near to medium term post change in business model in Sri Lanka and better traction from Middle east, Nepal & Bangladesh. Gross margin will continue to be impacted by rise in input prices especially SMP & milk while judicious pricing and premiumization will cushion gross margin deterioration. Better overhead absorption, cost saving measures are expected to help in stable EBITDA margin going ahead. We continue to remain positive on GSKCONS. But considering recent surge in Stock price, we have changed our rating from ACCUMULATE to HOLD with the previous target price of Rs. 9923.

### 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.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3986	4377	4782	5073	5688
EBITDA	833	883	1141	1286	1438
EBIT	769	819	1080	1212	1360
PAT	657	700	983	1204	1376
EPS (Rs)	156	166	234	286	327
EPS growth (%)	-4%	7%	40%	22%	14%
ROE (%)	21%	20%	24%	26%	26%
ROCE (%)	25%	23%	26%	26%	26%
BV	743	829	974	1101	1246
P/B (X)	7.7	6.9	7.2	8.4	7.4
P/E (x)	36.5	34.3	30.2	32.3	28.2

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## 3QFY20 Results

### Mixed Numbers

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,117	1,286	1,194	1,345	1,159	3.8%	-13.8%	4,377	4,782	9.3%
Other Income	124	123	127	78	116	-6.6%	48.5%	257	433	68.1%
COGS	327	386	359	395	354	8.2%	-10.2%	1,493	1,436	-3.8%
Gross Margin	71%	70%	70%	71%	69%	-1.3%	-1.2%	66%	70%	4.1%
Empl ex.	157	165	184	159	152	-3.2%	-4.8%	528	645	22.1%
Other Expenses	260	226	228	256	238	-8.3%	-6.9%	1,473	1,560	5.9%
EBITDA	239	318	280	396	272	14.1%	-31.3%	883	1,141	29.2%
EBITDA Mar.	21%	25%	23%	29%	23%	2.1%	-5.9%	20%	24%	3.7%
Depreciation	16	15	20	20	19	21.3%	-5.7%	64	61	-6.0%
EBIT	223	304	261	375	253	13.6%	-32.6%	819	1,080	31.9%
Interest	0	0	2	2	1	609.5%	-16.3%	2	1	-61.6%
PBT	347	426	386	452	367	6.0%	-18.7%	1,074	1,512	40.8%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	126	140	138	107	91	-27.7%	-14.7%	374	529	41.5%
PAT	221	286	248	345	277	25.1%	-19.9%	700	983	40.4%
PAT Margin	20%	22%	21%	26%	24%	4.1%	-1.8%	16%	21%	5%

### Concall Highlights

- Macroeconomic environment will remain key watch out for the company on the wake of demand slowdown and inflation. However, the government measures to revive demand are expected to augur well in near to medium term.

### 3QFY20 Result Update

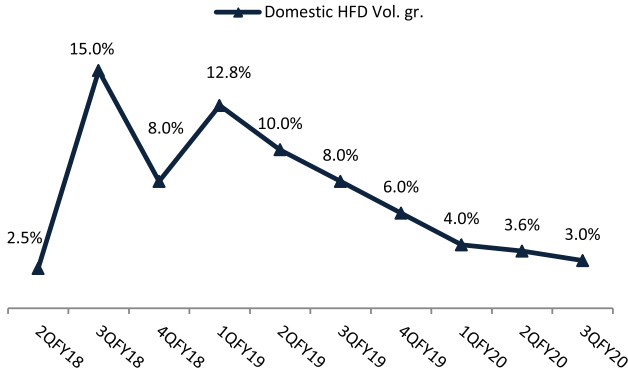
- The Company's HFD volumes and value growth stood at 3% each for 3QFY20.
- The Company's food category declined by 13% on account of discontinuation of unprofitable variants while exports declined by 17% due to changing business model and destocking in Sri Lanka and Malaysia due in 3QFY20 which in turn impacted overall sales.
- The revenue from company's exports, foods and business auxiliary stood at Rs. 75/45/64 cr. for 3QFY20.
- Business auxiliary income continued to be a key contributor with high double digit growth; ENO continued to grow at an accelerated pace.
- Horlicks and Boost gained markets share to the extent of 120 bps/80 bps each in volume/value terms in last 12 weeks. (As per Nielsen)
- HFD volume and value market share for last 12 weeks stood at 67% and 56%.
- The Company's HFD distribution stood at 2.1 mn outlets as of 3QFY20 vs. 1.88 mn in previous corresponding year. (As per Nielsen India)
- The Company witnessed Inflation in commodity prices to the extent of 6.5% in 3QFY20 quarter (inflation in milk and SMP collectively at ~40%) and the same is expected to remain higher for next few quarters. However, the margin deterioration is expected to be mitigated led by cost saving measures undertaken by the company across expense line.
- The value market share of the new launches in HFD category made by the company stood at ~1%/0.6%/0.3% for Boost RTD/Protein+ (Rs. 40 cr. brand as of 3QFY20) /Horlicks Growth+ (expecting Rs. 30-40 cr. annual turnover). All the above brands are doing well for the company.
- Active Horlicks which was launched in 2QFY20 has a market share of 1.4%/0.7% in East/South till date and targets a turnover of Rs. 30 cr. from this brand while Boost bite is also doing well with a turnover of Rs. 7 cr. in half year.
- North and west is growing faster (both are posting double digit volume) than south and east for the company and are also gaining Market share in both the region.

### Management Guidance

- The Company is investing competitively behind its brands with increased focus on TV and Digital media.
- 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 (led by higher penetration and Premiumization) of HFD category.

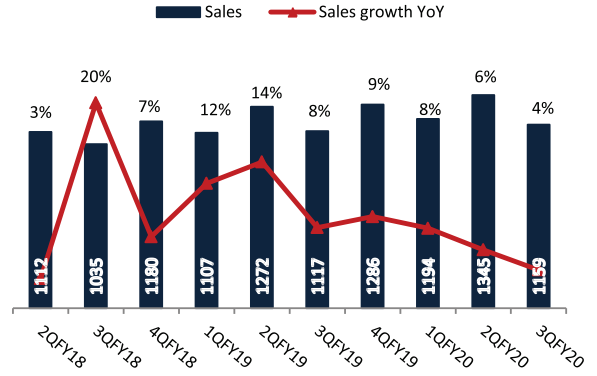
## Exhibit: Domestic HFD volume growth

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



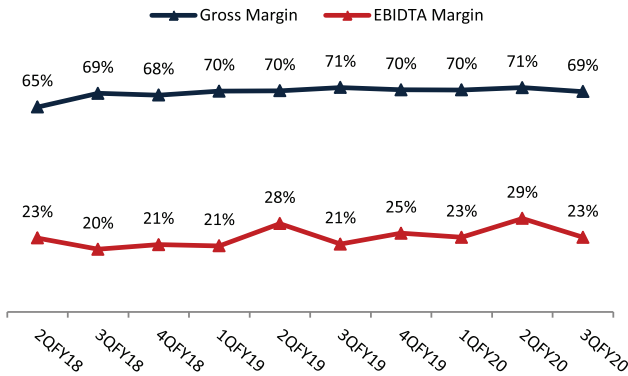
## Exhibit: Sales and Sales Growth

Sales gr. impacted due to subdued exports & discontinue of unprofitable variants in foods category.



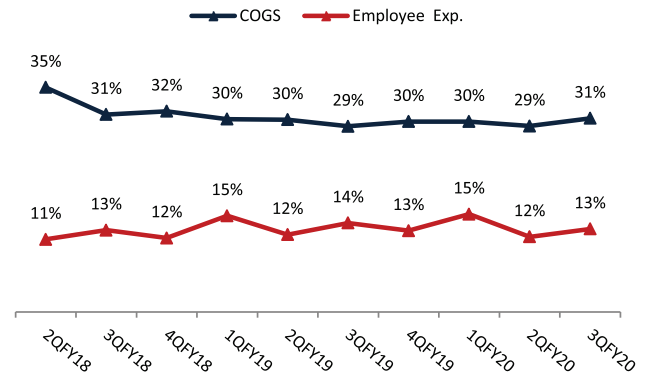
## Exhibit: Gross and EBITDA Margin

Gross margin deterioration led by commodity inflation especially SMP.



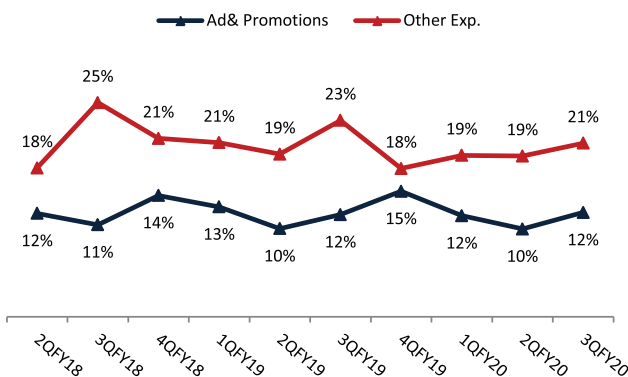
## Exhibit: COGS and Employee expenses

COGS increase led by input inflation while employee expense reduced by 94 bps.



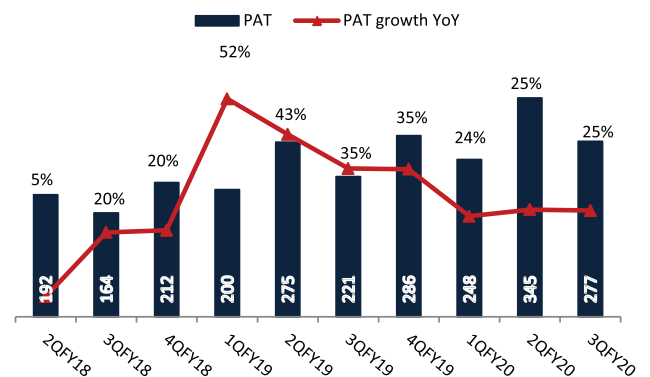
## Exhibit: Ad & other expenses

Ad expense increased by 25 bps YoY while other expenses declined by 270 bps YoY in 3QFY20.



## Exhibit: PAT and PAT Growth

PAT grew by 25.1% YoY to Rs. 277 cr. led by decline in corporate tax rate.



## 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	4,587	5,197
<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>4,629</b>	<b>5,239</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>4,629</b>	<b>5,239</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	494	554
Debtors	299	313	354	321	279	386	409	459
Cash & Bank	1,839	2,297	2,712	3,087	3,585	4,097	4,648	5,321
Other Current Assets	208	229	230	270	289	319	338	379
<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>5,889</b>	<b>6,713</b>
Creditors	672	760	785	876	1,035	953	1,010	1,133
Provisions	297	395	237	264	278	276	292	328
Other Current Liabilities	463	534	434	456	431	576	611	685
<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>1,913</b>	<b>2,146</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>3,976</b>	<b>4,567</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>6,701</b>	<b>7,544</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>5,073</b>	<b>5,688</b>
Change (%)	0	0	(0)	-4%	10%	9%	6%	12%
<b>EBITDA</b>	<b>666</b>	<b>730</b>	<b>838</b>	<b>833</b>	<b>883</b>	<b>1,141</b>	<b>1,286</b>	<b>1,438</b>
Change (%)	0	0	0	-1%	6%	29%	13%	12%
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>1,212</b>	<b>1,360</b>
Int. & other fin. Cost	1	1	2	3	2	1	6	6
Other Income	174	222	278	244	257	433	445	485
<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>1,651</b>	<b>1,839</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	270	306	369	354	374	529	447	463
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	518	584	687	657	700	983	1,204	1,376
<b>Adjusted PAT</b>	<b>518</b>	<b>584</b>	<b>687</b>	<b>657</b>	<b>700</b>	<b>983</b>	<b>1,204</b>	<b>1,376</b>
Change (%)	0	0	0	-4%	7%	40%	22%	14%
Margin(%)	13%	14%	17%	16%	16%	21%	24%	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%	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	188	228
P/E	42	44	35	36	34	30	32	28
Price / Book Value	12	12	9	8	7	7	8	7
EV/EBITDA	30	32	25	25	23	22	27	23
FCF per Share	113	120	123	132	160	151	292	343
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	1,651	1,839
(inc)/Dec in Working Capital	63	120	53	104	260	1	28	82
Non Cash Op Exp	79	82	11	79	45	(81)	74	78
Int Paid (+)	1	1	2	3	2	1	6	6
Tax Paid	(333)	(296)	(352)	(362)	(467)	(500)	(447)	(463)
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>1,312</b>	<b>1,542</b>
(inc)/Dec in FA & CWIP	(169)	(107)	(55)	(68)	(51)	(34)	(86)	(97)
Free Cashflow	476	504	519	554	672	637	1,227	1,445
(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)	(6)	(6)
Div Paid (inc tax)	(221)	(221)	(278)	(354)	(353)	(376)	(670)	(766)
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>(676)</b>	<b>(772)</b>
Inc(Dec) in Cash	150	720	136	(361)	(87)	(41)	551	673
<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>4,648</b>
Closing Balance	205	925	1,062	701	614	573	4,648	5,321

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.: 033-40541700.

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