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**Glaxosmithkline Consumer
Healthcare**

CMP:RS 6550

TRGT:RS 7350

TIME HORIZON: 1 YEAR

Glaxosmithkline Consumer Healthcare, having excellent portfolio of wide range of consumer products, including Boost, Horlicks, ENO, Maltova, Crocin, Iodex, Ostoacalcium, Otrivin, Seonsodyne, etc., is looking a good buy, with dominant position in the MFD (malted food drinks) category, led by the company's strong pricing power, competitive advantage, distribution expansion initiatives, expanded product portfolio, cash rich balance-sheet and more than 30% valuation discount to peers like Nestle, Britannia etc. In Q1FY19, GSK reported PBT of Rs 312 cr against Rs 204 cr YoY, a growth of 53% YoY, leading to an EPS of Rs 47.66 for Q1FY19. Strong growth was led by 12.8% YoY volume growth. Company has started to benefit from various strategic initiatives taken in recent past, like Go To Market Strategy (GTM), High innovation/renovation intensity, distribution/rural enhancement, higher brand spends, and enhanced doctor advocacy etc. In Q1FY19 itself, recently launched Rs 5 sachet, growth of which was in high double digit while recent launches of refreshed versions of Horlicks Growth+ and Protein+ will see further investments and scale up. GSK entered RTD (Ready To Drink) beverages (under Boost brand priced at Rs 30) with a pilot run in Tamil Nadu which has had good consumer acceptance (1% share in flavored drinks in TN in two months) and will be scaled up in more Southern states. Company continues to have Value market share for Hodicks/Boost, at 44.2%/11.2% respectively in MFD category. GSK is taking various measures to drive growth (new campaigns, rural expansion, etc.) and we expect volume growth to trend up gradually over FY19. Recent GST rate cut for MFD bodes well for improving the penetration/consumption growth for the category. Margins should be supported by judicious price increases, mix accretive innovation and significant cost-reduction initiatives. Company had ended FY18 with an EPS of Rs 166.46 and on an estimated EPS of Rs 195 for FY19, stock is trading at PE of 33.5x, with RoE of over 21%, PAT margin of 18% and cash rich balance-sheet with **Cash Eqv of Rs 3,580 cr or Rs 850 per share**. Further, GSK Consumers, having annual PAT of over Rs 800 cr is available at an EV/Sales of 5.3x, which is also attractive, against EV/Sales of 9.5x for Nestle and 7x for Britannia. Interestingly, In March 2018, company's parent GlaxoSmithkline Plc stated that it will initiate a strategic review of Horlicks and other consumer nutrition products, which will include an assessment of the group's shareholding in the Indian subsidiary GSK Consumer Healthcare (GSK owns 72.5% stake). According to GSK, the decision is expected by end of 2018. GSK noted that India remains a priority market for them and they will continue to invest in Consumer Healthcare business opportunities for OTC and Oral health brands. Share ruling at Rs 6,550 can move to Rs 6,740 in 1 month and Rs6,940 in the next 3 months. Buy as an investor only in this extreme volatility and pessimism now seen prevailing.

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