

HEB


Hindustan Unilever's Acquisition of Glaxo Smith Kline–Valuation of the Merger and Emerging Strategies

CASS

*Ameeta Vora***Email ID-editorcasstudies@gmail.com****ABSTRACT**

Hindustan Unilever Ltd (HUL) is set to become the country's largest listed food company, empowered by an all-stock acquisition of GlaxoSmith Kline Consumer Healthcare Ltd. (GSK CH) that will add the range of products with popular food & refreshment brands such as Horlicks, Boost and Viva. The issue of new HUL shares will lead to dilution of its parent **Unilever Plc**'s holding from 67.2% to 61.9%. The move would also help HUL make its most ambitious foray into the health and wellness space. The market for health food drinks in India is estimated at Rs.7, 000Crore, with Horlicks accounting for around 60% of volume. This transaction values GSK Consumer at Rs.31, 700Crore. HUL will issue 4.39 of its own shares for every share of GSK CH. After the merger, the combined revenue of HUL's food and refreshments business is expected to cross Rs.10,000 Crore, which would take HUL slightly ahead of Britannia Industries and Nestle, which reported revenues of Rs.9,830 Crore and Rs.9,952 Crore in 2017-18, respectively. HUL's move to market and distribute GSK Consumer's products is in line with its own focus on Beauty and Personal Care (BPC) products. HUL will further increase penetration with a focus on rural market and emerging channels while expanding its offerings in the fast-growing premium segment.

Keywords: Acquisition, Health and Wellness, Rural market, Valuation, Market Penetration

Access this Article Online	Quick Response Code: 
Website: http://heb-nic.in/view-latest-issue	
Received on 22/12/2018	
Accepted on 25/12/2018 © HEB All rights reserved	

I. INTRODUCTION

(a) Profiles of HUL & GSK

Hindustan Unilever Ltd(HUL) is the Indian subsidiary of the parent company Unilever Co.having total assets of Rs. 17,677 Crore and Net Worth of Rs. 7,004 Crore as on September 30,2018 .It is listed both on BSE and NSE. HUL is *inter alia* engaged in the business of manufacturing, marketing, distribution and or /sales of soaps , detergents , personal care products, processed foods in domestic and export markets. HUL is a leader in the Fast Moving Consumer Goods (FMCG) in the country having a consistent performance registering annual growth, which is competitive, profitable and sustainable track record of sales and profits. Its business has delivered growth of 10% Cumulative Annualized Growth Rate (CAGR) in the past ten years since 1997-98 with Earnings Before Interest and Profits (EBIT) of 530 base points.

Glaxo, Smith & Kline Consumer Health Care Ltd (GSKCH) has total assets of Rs. 5583 Crores and Net worth of Rs. 3591 Crore as on September 30,2018 . It is listed both on BSE &NSE. GSK CH is *inter alia* engaged in manufacturing, marketing, distribution and or sales of consumer health products such as malt foods, protein rich foods, and cereal based beverages and nutritional food powders. GSKCH is one of the key players in the Food &Refreshment (F&R) category with iconic brands of “Horlicks”, “Boost “and other wide product portfolio of consumer health care products.

(b) Motives of the Merger:

- (i) Through this merger, HUL is set to become the country’s largest foods company, empowered by an all-stock acquisition of Glaxo Smith Kline (GSK) Consumer Healthcare Ltd. that will add the popular food &refreshment brands such as Horlicks, Boost and Viva.
- (ii) This merger will derive significant cost synergies from a combination of supply chain efficiencies and operational improvements, go-to-market and distribution network optimisation, scale in a number of cost areas such as marketing and streamlining of overlapping infrastructure.
- (iii) The market for health beverages in India is estimated at Rs.7, 000 Crore , with Horlicks accounting for around 60 %of the volume. With the kind of nutritional properties of the above mentioned brand HUL would make determined market development efforts by which HUL is set to become the market leader in FMCG sector.
- (iv) HUL would take over the distribution of all the products under food & beverages category of GSKCH. HUL would also market and distribute some Pharmaceutical drugs and related brands such as Sensodync, Otrivin, Crocin & Eno . This move would gain entry into pharmacy channel for HUL, which is an uncharted market. GSK Consumer Products meets and enhances the focus of HUL on beauty & personal care products. Many GSK brands are sold through chemists and by this channel a strong tone of credibility would be made to the combined brand image.



(v) HUL's products are available at more than 8 million outlets in India. After the merger, the combined revenue of HUL's food & refreshment is expected to cross Rs.10,000 Crore, which would place HUL slightly ahead of Britannia and Nestle, which reported Rs.9830 Crore and Rs.9,952 Crore revenues in 2017-18 respectively. The annual revenue for ITC, another FMCG giant stood at Rs. 11,339 Crore during the same financial year. The figures for ITC's food business on a stand-alone basis were not available.

II .The Merger Deal between HUL & GSKCH

(i) **The Merger Deal:** HUL would spend about Rs.3.1 billion for acquiring Horlicks and other related health food products in over 20 markets. The transaction has 3 parts, including GSK picking up a 5.7 % stake in HUL, valued at Pound Sterling 2.6 billion (or Rs.230 million). The other two parts include GSK's in its Bangladesh unit, which will be paid in cash (Pound Sterling 150 million) and sale of brand rights and operations in other countries for Pound Sterling 416 million also in cash. The importance of Indian arm is evident from the deal that Unilever is paying nearly 84 % of the total deal value for it. The transaction is an all equity merger with 4.39 shares of HUL being allotted for every share of Rs.10 each in GSK CH India. Being an all stock deal, this transaction would save liquidity for HUL and at the same time prove competitively advantageous to HUL in the food & refreshments markets. The amalgamation would result in consolidation of the businesses of two companies resulting in expansion of the markets and adding greater value to shareholders /stakeholders. The deal also includes the acquisition of certain other commercial operations and assets outside of India. The benchmark BSE & NSE indices ended largely flat on December 3, 2018. The S&P BSE Sensex ended at 36,241, up 47 points or 0.13 per cent, while the broader Nifty50 index settled at 10,884, up 7 points or 0.06 per cent. Share prices of HUL rose 4.1 percent in BSE & NSE to a record level than the previous date than a year ago, while GSK CH added 2.8 percent to its highest level since September 21, 2018 in NSE. In London, GSK CH slumped 7.6 percent, the most in a decade, while Unilever NV was little

changed in Amsterdam. Shares of HUL and GSK CH moved higher on the BSE, after their respective Boards approved their merger, subject to obtaining requisite approvals from statutory authorities and shareholders. HUL settled at Rs 1835, up 4.6 per cent, while the GSKCH ended 3.6 per cent at Rs 7,531 on the BSE. Multinational consumer goods major Unilever confirmed it was acquiring Horlicks and other health food products in an all-equity merger.



Source : BSE / NSE

Valuation gap

Hindustan Unilever is paying for the acquisition of GlaxoSmithKline Consumer Healthcare with its highly priced shares, which are trading at a significant premium.



Source: Bloomberg

One-year forward price-earnings multiple (in times)



(ii) Valuation & Comments

The buyout “is accretive from both an EPS and margin perspective” and “may lead to ~800-1000 basis points synergy on margins in a phased manner once the merger happens in 12 months time,” Jefferies analysts Varun Lohchab and Tanmay Sharma wrote in a report cited. Here it is instructive to look at the comments of other stock market analysts on the merger deal between HUL & GSKCH:

Credit Suisse (Arnab Mitra)

“Merger will make HUL’s food and refreshment business 1.6 times larger and give it a strong nutrition brand which can be leveraged in more categories raises the financial year 2018-19 earnings by 6.5 percent.”

Citigroup (Jamshed Dadabhoy)

“Deal may take a year to complete given regulatory/shareholder approvals but it should be Earnings Per Share (EPS) accretive from day one even without synergy benefits, the merger is EPS accretive for HUL to the extent of ~3.7% on Financial year 2020-21 earnings estimates HUL may have to pay parent a royalty from Horlicks brand sales” .

Jefferies (Varun Lohchab)

“HUL’s distribution footprint is ~3times GSK’s, so it has potential to improve sales growth Valuations of Hindustan Unilever leave no room for error”.

Prabhudas Lilladher (Amnish Aggarwal)

“Synergy benefits will start accruing from Financial year 2020-21, expects one-time dividend in Financial Year 2020- 21, given that GSK CH has cash of 38 billion rupees (\$539 million) on its books and Hindustan Unilever has 80 percent dividend payout in the same year.

Mahesh Singhi (Singhi Advisors)

“The deal structure shows that all-stock mergers are emerging as the preferred route for high-value and high-multiple M&A transactions in India, given the fact that most buyers are unwilling to raise debt and leverage themselves more at a time when credit environment is tight and to also insulate them for mismatch in earning cycle, where payback periods would be very high!”

From the above sample reports, it is observed that it is a beneficial merger to HUL in the near long term bearing fruitful directions of growth and increase in profits.

CONCLUSION: Emerging Strategies

- ❖ The amalgamation of Unilever & GSK CH would be favourable to both companies and create value addition through increased sales revenue and expansion of consumers from vast segments of the FMCG markets.
- ❖ The value creation logic of the amalgamation of both companies would lead to revenue enhancement through access to new and vast segments of the market and exploit the opportunity to cross sell in the FMCG sector through overarching distribution channels.
- ❖ Motivation to the synergistic Research and development (R&D) is another dimension of the amalgamation of the two Giants – HUL & GSK CH. Reduction in the costs of R& D would through acquisition of GSK CH for HUL.

ACKNOWLEDGEMENTS

Author expresses gratitude to Dr.A.A.Attarwala , Director and Prof.C.S.Balasubramaniam of Kohinoor Business School , Mumbai for their valuable comments and guidance in the preparation of the research paper.

REFERENCES

- 1) Sudi Sudarsanam (2016) : Creating Value from Mergers and Acquisitions, Pearson India, NOIDA , India , ISBN 978-93-325-5866-3
- 2) Aswath Damodaran (2006) : Damodaran on Valuation, Wiley India, Second Edition , ISBN 978- 81-265 -1885 -2
- 3) Dr.I.M.Pandey (2015) : Financial Management , Vikas Publishing House , Eleventh Edition, New Delhi, ISBN :978 -93259-8229-1
- 4) Fred R.David (2012) : Strategic Management, Prentice Hall India Learning, New Delhi, ISBN 978-81-203-4338 -2
- 5) Hindustan Unilever Ltd (2018) : Merger documents filed with NSE & BSE for amalgamation of HUL & GSK
- 6) Newspaper clippings from Economic Times, Business Standard, Business Line , Financial Express and other major news dailies.